



REQUEST FOR COUNCIL ACTION

Title: Refinancing of existing City Debt for Wastewater and Water Treatment Systems

Preferred Agenda: January 12, 2021

Submitted By: Brandon Neish, Finance Director

Reviewed By: Ray Towry, City Manager

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

Relevant Code/Policy: Local Contract Review Board Rules of Procedure
Sweet Home Financial Policy
Oregon Revised Statutes §294.468

Towards Council Goal: Goal 1.2(c): Increase community awareness of infrastructure needs and appropriate planning documents
Goal 2.5: Continue to implement strong financial “best” practices

Attachments: - None -

Purpose of this RCA:

To review proposal for purchase of replacement water meters (in line with Capital Improvement Plan) and determine next steps.

Background/Context:

The City has approximately 3,500 water meters providing water service to residences, businesses and other buildings/purposes. The existing water meters are Census meters which contain many moving parts and have an expected lifespan of ten years. Additionally, the City utilizes a private company based out of the Portland-metropolitan area each month to read these meters who then submits a file for import into the Utility Billing software. This contract costs an average of \$2,000 per month.

For the past year and a half, City staff has been slowly transitioning to ultrasonic water meters which will better identify leaks across the City’s water distribution system, logs additional data for customers to enhance customer service and better records low-flow water usage that had not been picked up previously. The new meters also have an extended lifecycle reaching twenty years thereby reducing replacement costs in the long run. Finally, the Kamstrup meters have wireless transmitters that can be read via an antenna attached to a tablet making these meters easier to read by City staff (faster and more efficient) which will reduce the City’s alliance on outside vendors for monthly readings and rereads.

The new meters cost \$175 per unit and there is specific software required for interpreting the data. The City is quickly reaching the point where the software licensing must be upgraded based on number of meters used while continuing to pay for meter readings of the older

Census meters. As the City transitions to the newer meters, which will be read by City staff, we will reach a point where it is not economical for the third-party to come out to Sweet Home. This proposal reviews the options for moving forward with a faster roll out of the new meters to be more economical and reduce operating costs overall in the water fund.

Three options exist for increasing the meters purchased. First, the City could use existing expenditure authority to purchase the meters over time. During two work sessions held in July 2021, the City Council decided to use anticipated American Rescue Plan Act funds to purchase an emergency generator for the Water Treatment Plant and replace small diameter water mains. These mains are undersized and past their expected life and have numerous leaks. This allocation of funds frees up \$200,000 per year that could be repurposed to pay for new water meters. Public Works staff estimate there are 2,595 meters that need replacing with an estimated cost of \$505,500. Under this option, staff could purchase the necessary meters in the 2022 and 2023 budget years as the \$200k in funds were planned for 2023 as part of the Capital Improvement Plan (additional funds would be proposed to take care of the balance in 2023). There are additional costs associated with this option which include \$15,000 to purchase our own equipment to read the existing meters or up to \$36,000 to maintain a third-party to read the meters. Additionally, the City has been informed of a pending price increase on the meters which could result in additional costs to purchase the meters in the second fiscal year.

The second option would be to obtain a short-term loan to be repaid over two fiscal years. This loan would ensure that the meters could be purchased today without concern of pricing increases into the next calendar year and also ensures that staff does not need to either extend its meter reading contract past September 2021 or purchase our own equipment to read the remaining Census meters for 12-18 months. The minimum cost associated with this is \$37,000 in interest expense according to two quotes the City has obtained as short-term loan options.

Finally, the City could chose to purchase the meters in the current fiscal year using an interfund loan. Under ORS 294.468(1), the City can legally loan the water fund ~\$250,000 to complete the change outs. In return, the water fund can provide additional funds in the form of interest, at the direction of Council, either set at the current Local Government Investment Pool rate (currently .3%) or any rate thereby determined by the City Council (including as little as zero). A subsequent resolution would follow if the City Council chose to move forward with this option.

The Challenge/Problem:

What is the best approach for moving forward with replacing the water meters across the City that ensures the “most good, for the most people, for the longest period of time?”

Stakeholders:

- Sweet Home Citizens & Businesses – The new water meters impact utility customers in two ways. On the plus side, residents and businesses can get additional information about their water usage on demand and be notified of potential leaks faster than our current once a month solution. On the other side, the ultrasonic meters will pick up additional consumptions as they read better than the existing meters at low flows.
- Sweet Home City Council – The City Council is charged with making decisions that do the most good, for the most people, for the longest period of time. This decision has lasting impacts on utility fees and long-term implications water and wastewater systems in the City.
- Sweet Home staff – It is the responsibility of staff to ensure that residents and businesses are receiving the best services at the optimum price. Enhancing our customer service options allows for better interactions with utility customers and allows the City to tackle distribution issues sooner, limiting loss of water within the system.

Issues and Financial Impacts:

Regardless of the chosen option, funding to cover the expenditure(s) would come from existing rates and capital funds. There is no financial impact in the current fiscal year as the funds had

already been budgeted. Under either proposal, the meters would be purchased by the end of the 2023 fiscal year and any related responsibilities settled.

Elements of a Stable Solution:

Replacing the existing meters with a longer life alternative is better overall for the City and its finances. Purchasing meters now ensures the City is putting off overall replacements for 15-20 years (other than devices that fail unexpectedly) which would reduce the pressure on existing water rates.

Options:

1. Do Nothing – The City will continue to follow its adopted budget and Capital Improvement Plan and utilize existing resources for the procurement of meters.
2. Move to direct staff to review financing options with a third-party – The terms of financing a short-term loan appear to be between 4-5% which would add anywhere from \$37k to \$60k in additional costs to complete the project.
3. Move to direct staff to purchase needed meters to complete the change-out project and bring an interfund loan forth at the next meeting – The City could complete this project internally, using funds provided from either the General Fund, Wastewater fund or other funding source to be repaid at the beginning of the 2023 fiscal year (July 2022). Any additional costs for interest would be determined by the Council in the interfund loan resolution to be presented during the August 24th City Council meeting.

Recommendation:

Staff recommends option 3, direct staff to purchase needed meters to complete the change-out project and bring an interfund loan forth at the next meeting. Due to the short-term nature of the funding need, interest rates are higher from an outside source to make the deal more palatable. The City could reduce expenditure costs by floating an interfund loan for 12 months even with some sort of interest added on for the repayment.