REQUEST FOR COUNCIL ACTION

Title:	Water Utility Fee Review
Preferred Agenda:	February 23, 2021
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. 5 for 2021 Water Rate Proposal Rates by Consumption

Purpose of this RCA:
To revisit water utility fees after an initial decision to freeze the water rate at 2019 levels.

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. On June 23, 2020, the City Council voted to strike Resolution No. 7 for 2020 due to the ongoing pandemic. During the City Council training sessions held on February 5-7th, 2021, members of the City Council expressed an interest in revisiting the water utility rates and determine whether the rate should be revised.

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." Adopted expenditures for the 2020-2021 fiscal year in the Water Fund were $2.4 million while projected resources with no change to current utility rates totaled $2.3 million. Pursuant to Oregon State Statutes, the City made expenditure reductions throughout the year in order to balance the fund and ensure that expenditures did not exceed anticipated revenues.

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 foot 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 higher than normal and some 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 adopt Resolution No. 5 for 2021*. Water rates for 2021 and beyond 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 before being struck in June.
2. *Do nothing*. 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.
3. *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.

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. Continued freezing of the water utility rate may result in delayed 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.