

STAFF REPORT

For Meeting of January 23, 2017

MAYOR AND MEMBERS OF THE CITY COUNCIL

Agenda Item #

NO. 2017-

SUBJECT:

Resolutions 2049
and 2050

Subject

Consider resolutions 2049 and 2050 adopting sewer and water rate increases for the Utility Fund. Resolution 2049 is for the sewer rates and 2050 is for the water rates.

Summary and Background

The proposed rate increases are 5% on March 1, 2017; 5% on October 1, 2017 and 4.9% on March 1, 2018. The increases are being proposed based on an analysis of the utility system's operating expenses, debt service and capital improvement needs. The analysis was done by John Heberling, the consultant we have used over a number of years to assist us with rate modeling.

2016 City Council Goals

This rate adjustment addresses several City Council Goals from your 2016 Goal Setting Session, including:

- Develop a long range Capital Improvement Plan
- Maintain Existing Infrastructure
- Assess Utility Staffing Levels

Capital Improvement Plan

Creation of a full 5-year Capital Improvement Plan for Water, Sewer, & Streets is still on-going; however, in working with City Staff, Anderson-Perry Engineering, and the Council's Public Infrastructure Committee, two projects were identified which should be addressed immediately. The two projects were selected because they held the greatest promise to lower long-term operational costs, which will help make other capital projects viable in the future. Tackling these two major operational costs will create a much clearer picture in developing a Capital Improvement Plan which is truly capital-focused, rather than operational. The Public Infrastructure Committee will continue to meet in 2017 to fully develop a CIP, with a goal of completion and adoption by Fall.

Remote Read Water Meters

The Water Department currently uses two Full Time Equivalent employees to physically read (and often re-read) the amount of water used by approximately 3,300 customers each month. When accounting for salary and benefits, it currently costs the City of Hermiston approximately \$225,000 per year just to perform the critical task of reading meters. Transitioning to a remotely read meter system will allow the Water Department to effectively increase their staffing levels to perform other duties without actually hiring additional employees. In addition to the financial benefits to the City, there are also staff

safety benefits, and several major benefits to the customers. See Attachment A for a full explanation of this project.

Recycled Water Plant- De-Watering Equipment

This project will allow the city to dispose of the solids coming out of the Recycled Water Treatment Plant in a much more cost efficient manner. The project will purchase and install all of the equipment necessary to remove most of the solids coming out of the RWTP, rather than sending them to the City’s storage lagoon, and instead haul them away at a much lower cost. Total equipment and installation is estimated at approximately \$1.5M, with ongoing disposal costs of the new solids estimated at approximately \$85,000 per year. However, due to the much more efficient RWTP system, which places the city on track to fill its lagoon approximately every three years, the only other alternative is to instead dredge the lagoon every three years. The cost of the most recent dredging in 2016 was approximately \$1.4M, but due to inflation, that cost will likely only rise over time. Additional information about this project can be found on Attachment B.

Fiscal Information

Average Monthly Residential User*				
Date	Water		Sewer	
	Rate	Increase	Rate	Increase
March 1, 2017	\$29.22	\$1.39	\$24.74	\$1.18
October 1, 2017	\$30.68	\$1.46	\$25.97	\$1.24
March 1, 2018	\$32.18	\$1.50	\$27.25	\$1.27

**Assumes average monthly usage as 11,220 gallons per month over the course of a year.*

Analysis conducted by John Heberling, the City’s Financial Consultant, revealed a structural deficit between expenses and revenue for 2016 of approximately 3.2%. Therefore, the Utility Fund will deplete reserves unless rates are adjusted. Due to the need for a rate adjustment to meet current needs, it was deemed an appropriate time to adjust rates to accommodate for several necessary capital projects at the same time, with the goal of creating more cost efficient operations over the long-term.

Existing Cost Efficiency

Raftelis Financial Consultants publishes a report every year which shows an apples to apples comparison of water and sewer rates for various jurisdictions in Oregon and Washington. The 2016 analysis compared the largest 66 water and wastewater agencies in Washington, and the 50 largest Oregon agencies (including Hermiston). The analysis also includes their easily replicable method for determining how rates compare. Based on this report, the new rates in March, 2018 for both water and sewer would still place Hermiston among the lowest-cost providers in either state.

Rank of Hermiston’s Rates at Full Increase (March, 2018)		
	Oregon (out of 50)	Washington (out of 66)
Water	5 th Lowest	8 th Lowest
Sewer	4 th Lowest	6 th Lowest

Alternatives and Recommendation

Alternatives

Adopt either resolution 2049 or 2050, neither resolution or both.

Recommendation

Adopt both resolutions.

Requested Action/Motion

Approve both resolutions.

Reviewed by:

Department Head

Handwritten signature of Amy Palmer in blue ink.Handwritten signature of Mark Morgan in blue ink.

City Manager Approval

Attachment A

Remote Read Water System

Estimated Cost: \$1.3M

This cost would replace all 4,900 meters in the city with cellular-read meters.

Staff Time Saved: \$169,000/yr

It currently costs the City approximately \$225,000 per year just to perform the various functions of reading and re-reading meters, which would now be done by the remote-read system. However, there will always be a need for some human interaction with the meters, but this is likely to be reduced to approximately 0.5 FTE from 2.0 FTE.

Staffing “Increase”

The Water Department has not added any personnel over the past 20 years. Over that time:

- The City has added 6,000 residents
- Nearly 30 miles of new water lines have been laid, along with the associated service lines, meters, fire hydrants, and valves which all have to be maintained.

The time saved by remotely reading meters will greatly increase the Water Department’s ability to perform other critical functions. Therefore, the change to remote-read meters will function like adding approximately 1.5 FTE to the department’s maintenance staff without actually hiring any additional employees.

Customer Benefits

Leak Detection- A cellular remote-read meter system is nearly always monitoring water usage by individual customers, and can therefore quickly detect irregular water usage caused by a leak, a toilet running, a hose left on, etc. The system will be able to notify City Hall staff quickly, as well as send notifications directly to customers if they sign up for the service. Currently, leaks may go un-noticed for as many as 30-90 days, due to physical meter reading requirements. This can, and often does, lead customers to be surprised with bills in the hundreds of dollars, which could have otherwise been prevented.

More Precise Water Usage Tracking- Currently, meters are only read once per month, so there is no way that customers can easily determine how various habits affect their water usage, and ultimately their bills. A remote-read system will allow customers to create online accounts, and directly view their water usage in almost real-time. This can greatly benefit customers who are trying to best plan their irrigation practices, or participate in other conservation measures.

Attachment B

De-Watering Equipment

Estimated Cost: \$1.5M Capital \$85k Operational

The overall de-watering system will require the acquisition and installation of new presses at the RWTP to actually separate the solids from the liquids. Additionally, the system will require new machinery and equipment to haul the solids away. Disposal costs, based on current fees, and estimated annual volume of solids, are estimated to cost approximately \$85,000 per year.

Alternative Cost: \$1.54M Lagoon Dredging in 2019

The upgraded RWTP, in order to achieve the higher quality of discharge water, removes substantially more particulates (solids) than the old system, and sends them to the storage lagoon. The lagoon is now filling at a rate which will require it to be dredged approximately once every three years.

Escalating Cost- The cost to fully dredge the lagoon in 2016 was \$1.4M, which was well above original estimates, due to rapid inflation in construction costs. Even assuming only a 3.3% inflation in the construction market, which is well below recent trends, the cost of dredging could be \$1.54M in 2019, \$1.69M in 2022, and \$1.86M in 2025. Aside from the fact that the de-watering system's return-on-investment would be realized within 3-years; installation of the de-watering system will also substantially reduce inflationary risk.

Compounding Problem- The amount of solids being poured in to the storage lagoon each day will continue to rise as Hermiston continues to grow. The frequency of dredging will only increase without installation of a de-watering system. The only cost increases imposed by a growing population on a de-watering system will come in the form of disposal fees and labor to haul the solids away, which are substantially less costly than dredging.

RESOLUTION NO 2049

A RESOLUTION ADOPTING SEWER RATES FOR THE CITY OF HERMISTON

WHEREAS, Ordinance No. 1737 provides for the establishment of sewer rates by resolution of the City Council, now, therefore,

BE IT RESOLVED by the City Council of the City of Hermiston that the following sewer rate schedules be adopted:

As of March 1, 2017

Dwelling units:	\$24.74	Monthly flat rate
Motel units:	15.71	Per month per unit
Commercial:	26.93	Base rate for first 5,000 gallons
Plus:	1.37	Per 1,000 gallons over 5,000 gallons

As of October 1, 2017

Dwelling units:	\$25.97	Monthly flat rate
Motel units:	16.49	Per month per unit
Commercial:	28.28	Base rate for first 5,000 gallons
Plus:	1.43	Per 1,000 gallons over 5,000 gallons

As of March 1, 2018

Dwelling units:	\$27.25	Monthly flat rate
Motel units:	17.30	Per month per unit
Commercial:	29.66	Base rate for first 5,000 gallons
Plus:	1.50	Per 1,000 gallons over 5,000 gallons

Those commercial sewer users, excluding commercial independent discharge users, who dispose of a portion of their water by other than the City’s sanitary sewer system shall be billed by computing the average monthly use during the four months of November, December, January and February, and said average shall be the monthly charge for the eight months next following.

For relief of those residents who are experiencing a financial hardship, application may be made to the City Recorder for a reduced monthly charge calculated at 50 percent of the minimum charge as established above.

Commercial independent discharge users must operate and maintain independent wastewater disposal facilities which are currently licensed by the State of Oregon for the disposal of wastewater. During all times when approved and licensed wastewater facilities are operable, the rate for discharge to the public treatment works will be based on the actual metered flow of discharge, or will be based on the calculated discharge of each employee per shift per day as follows:

Industry discharging only domestic wastewater:	Billing to be figured on 15 gallons per employee/per shift/per day or based on metered discharge.
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The metered users of the class will provide access to City personnel to read the meter in each billing period. They will also provide an annual calibration and certification of the metering device from an individual certified for such verification.

Non-metered users of this class shall provide a verified employee count and total hours worked during the billing period. The City will establish the date for such submittal with each user. Employee information must be expressed in total employees per shift per day. Failure to report this figure on the designated day will result in the base flow charge calculated annually based on employee counts reported.

In the event independent discharge facilities are not operating, or for any other reason the total discharge of a user in this class is provided to the public treatment works, user rates will be calculated in accordance with the commercial account category, or in the event that such discharge exceeds 25,000 gallons per day, an industrial cost recovery rate will be applied in accordance with the ordinances of the City.

Should users of this class not provide access to the waste meter, verification of meter accuracy or employment information as required, the user shall be billed at the commercial rate.

IT IS FURTHER RESOLVED that Resolution No. 1949 is superseded and this resolution is effective March 1, 2017.

Dated this 23rd day of January 2017. CITY OF HERMISTON

By: _____
MAYOR

ATTEST:

By: _____
ASSISTANT CITY RECORDER

RESOLUTION NO 2050

A RESOLUTION ADOPTING WATER RATES FOR THE CITY OF HERMISTON

WHEREAS, Ordinance No. 429 provides for the establishment of water rates by resolution of the City Council, now, therefore,

BE IT RESOLVED by the City Council of the City of Hermiston that the following water rate schedules be adopted:

As of March 1, 2017

\$18.00	First 3,000 gallons (minimum charge)
1.37	Each 1,000 gallons over 3,000 up to and including 13,000 gallons
1.13	Each 1,000 gallons over 13,000 gallons

As of October 1, 2017

\$18.90	First 3,000 gallons (minimum charge)
1.43	Each 1,000 gallons over 3,000 up to and including 13,000 gallons
1.19	Each 1,000 gallons over 13,000 gallons

As of March 1, 2018

\$19.82	First 3,000 gallons (minimum charge)
1.50	Each 1,000 gallons over 3,000 up to and including 13,000 gallons
1.25	Each 1,000 gallons over 13,000 gallons

For relief of those residents who are experiencing a financial hardship, application may be made to the City Recorder for a reduced monthly charge calculated at 50 percent of the minimum charge as established above.

Special water use from a fire hydrant, upon approval of the Water Superintendent, shall be charged at two times the water rate in effect, based on the water rates established above.

IT IS FURTHER RESOLVED that Resolution No. 1950 is superseded and this resolution is effective March 1, 2017.

Dated this 23rd day of January 2017. CITY OF HERMISTON

By: _____
MAYOR

ATTEST:

By: _____
ASSISTANT CITY RECORDER