

## **PUBLIC WORKS COMMITTEE**

**February 25, 2019**

**Meeting Minutes**

**3:00pm**

Chair Eric Niemann called the meeting to order at 3:00 p.m. in the Council Chambers, City Hall, 980 Applegate Street, Philomath, Oregon.

### **ROLL CALL:**

**Committee Present:** Mayor Eric Niemann (via video-conference), Councilor Doug Edmonds, and Councilor Chas Jones.

**Committee Absent:** None.

**Staff Present:** City Manager Chris Workman, Public Works Director Kevin Fear, Public Works Operations Supervisor Garry Black, Finance Director Joan Swanson, and City Recorder Ruth Post.

### **APPROVAL OF MINUTES:**

Minutes of February 7, 2019 –

**MOTION:** Councilor Edmonds moved/Councilor Jones second, to approve the meeting minutes of February 7, 2019. Motion APPROVED 3-0 (Yes: Edmonds, Jones and Niemann; No: None).

### **PUBLIC WORKS BUSINESS:**

**Utility Rate Discussion** – Mayor Niemann reviewed the work performed at the February 7 Public Works Committee meeting regarding the utility rate discussion, including the request for staff to provide specific alternative options. He identified the need for the Committee to come to a recommendation to make to the City Council.

Ms. Swanson reviewed the annual revenue generated by current water rates and the expectation to bond approximately \$9 million for a new water treatment plant with construction beginning in the year 2021. She noted the expectation is to actively apply for any grants and low interest loans available but the best plan is to go forward without expecting the benefit of those. She also noted any accumulated funds can reduce the amount of money needed to be borrowed.

Mayor Niemann requested a review of expenses paid out of the current revenues. Ms. Swanson noted these include personnel costs, daily operation expenses including materials and chemicals, line maintenance, and transfers to savings for major water repairs and projects. Mayor Niemann stated this was important information that would matter to constituents.

Mayor Niemann reviewed the age of the water treatment plant and discussions that have happened at the Public Works Committee level regarding the extent of maintenance that needs to be performed to keep it operational. Mr. Fear described the operating status of the current plant, including the parts that have become obsolete for this plant. He described the treatment plant operator's proactive purchase of parts kits seven to eight years ago when they were discontinued and noted that the last parts kit was installed just last year. He stated the current plant will either need to be rebuilt or replaced and noted that, even with a rebuild, the current plant will eventually not meet current water quality turbidity requirements.

Mr. Black stated the plant was originally designed to produce over 1,000 gallons of water per minute but, due to age of the system, production levels over 750 gallons per minute are resulting in increased turbidity. Mayor Niemann stated the cost of maintenance starts becoming problematic compared to new construction. Mr. Fear described pumps that need to be rebuilt and the costs associated to rebuild more and more parts of the plant.

Councilor Edmonds questioned the three year window between now and a newly constructed plant coming on-line and whether it remains possible to actually rebuild those components. Mr. Workman stated the components can be rebuilt but the bigger issue is when the plant is down for repairs, reliance for water production falls on the 11<sup>th</sup> Street well and Corvallis intertie. He noted Council emphasis on avoiding reliance on the intertie and the importance of moving away from use of that.

Councilor Edmonds questioned if there are any parts that are completely obsolete. Mr. Fear stated there is a certain standardization of pump parts. He described standard service for impellers but after many years of use the shafts become more brittle.

Mayor Niemann noted this situation is similar to replacement of other equipment and the life-cycle of this plant has been significantly extended. He requested information regarding the similar water treatment plant being constructed by the city of Jefferson. Mr. Fear explained that Westech Engineering is overseeing construction of the Jefferson plant. He stated they started raising rates several years ago and had about one-third of the cost of the plant saved. He explained, however, that the quality of their water had become non-compliant and resulted in the Oregon Health Authority issuing a non-compliance notice with potential penalties for failure to remedy the situation. Being non-compliant resulted in Jefferson qualifying for grants and low-interest loans that will help with the overall cost.

Ms. Swanson stated the fact that the plant needs to be replaced has been known for many years but noted that the recession in 2008 would not have been good timing for adding to citizens' rates and the more immediate need was to expand the sewer treatment facilities. She explained both issues resulted in the water treatment plant life being extended until this time. Mayor Niemann stated understanding of those issues.

Mayor Niemann described the tennis court discussion at the last City Council meeting and the dedication of funding that demonstrates to potential grant pools the support of the community. He noted similarities between that and need to demonstrate as a community the means to service the debt in order to attract a good bond market. He requested that Ms. Swanson review the options staff had developed and outlined in the agenda packet memorandum.

Ms. Swanson reviewed each of the six options as included in the agenda packet. There was discussion about the variation in the options, including the different scenarios for increasing base and per unit charges at different increments in order to ultimately reach the debt service funding level by 2021. There was confirmation that the scenarios all included 4% cost of business increases to avoid additional rate surprises. Mr. Workman stated the preference that surprises would expect to be in the form of beneficial grants or low interest rate funding.

Councilor Jones noted that Option 1 and Option 2 both result in the same end cost per month. There was discussion about the amount of summer use reduction that could result from a substantial per unit increase. There was discussion about the tradeoffs to low-income and fixed income residents by

increasing the per unit rate instead of the base. Mr. Workman noted that Option 5 creates the best fiscal situation but questioned if that was what was best for citizens.

There was discussion about the additional down payment available with Option 5 and the reduction in cost of financing that would create over 20 years. Mayor Niemann stated concerns about the dialogue for the public being that their water rates go up every six months. Mr. Workman stated that could create an opportunity for more education over the three years. He stated it might be easier for the public to handle a \$3-\$5 decreasing annual base fee increase as opposed to an \$8 annual base increase.

Ms. Swanson stated that choosing the low-slow options could work well if industrial development were to occur and add to revenue. Councilor Edmonds noted that was a potential but not a guarantee. He stated he'd rather come up with a surprise reduction than a surprise increase.

Mayor Niemann requested additional information regarding the impact of System Development Charges (SDC's) received from development. Ms. Swanson explained that the current SDC's shown in the Capital Improvement Plan are designated for payment of the plant engineering and consist of approximately \$730,000 saved up from The Boulevard and Oak Springs apartments SDC's. There was discussion about those engineering costs being paid up front by using those SDC funds. Councilor Edmonds noted that the information to lenders that the engineering was paid for up front and the plan is in place for debt service should result in a better bond situation.

Councilor Jones stated strong support for Option 2 as it gives the greatest flexibility to consumers, is easier to understand, and is more transparent. He stated the use of less water makes sense from his perspective. Mayor Niemann stated support for ground water resource management but stated concern that an additional increase could ultimately be required because it is unknown how much water use reduction it would result in. He stated the need to think in terms of financial certainty to ensure the financing package is there. Councilor Jones stated that a correction could be made in next year if needed. Ms. Swanson clarified that Option 2 results in a \$9.85 per unit cost plus \$15 base fee.

There was discussion about the unforeseen potential effects of Option 2 and the need to re-evaluate within the next year. Councilor Edmonds had concerns about changing rates mid-game. He stated it would be necessary to be up front about the potential for additional rate adjustment requirements.

Ms. Swanson stated concerns about low-income and fixed income residents in Option 2 resulting in those customers who already don't use much trying to conserve too much. Councilor Jones stated that higher income people would probably not adjust their consumption and middle income residents would be more likely to conserve.

Councilor Jones stated his support still lies with Option 2. Councilor Edmonds stated support for Option 5 because it increases the savings to decrease the long-term cost. He stated while it was a more aggressive approach, it results in a better long-term position.

**MOTION:** Mayor Niemann moved, Councilor Edmonds second, to move Option 5 on to the City Council for review and approval. Motion APPROVED 2-1 (Yes: Niemann and Edmonds; No: Jones).

**Other Business** – Mr. Fear stated there should be no need for a March 7 meeting.

**Emergency Water Contamination** – Councilor Jones questioned if the current plans has a mechanism for detecting hydrocarbon contamination from an upstream spill. Mr. Black stated there are grab samples but the current plant is not that smart. He stated, however, the new plant should be. There was discussion about the shutdown mechanisms in existence.

Councilor Jones stated he attended a recent meeting in which 225 Washington communities had no backup water supplies in case of emergency contamination. He stated the importance of the backup systems the city has in place makes Philomath citizens more fortunate than other cities. Councilor Edmonds agreed with the value of those redundancies. Mr. Workman described preliminary discussions about regional water supply and formulating supporting systems in Benton County. Councilor Edmonds noted Corvallis is also embarking on the water program improvements process.

Meeting adjourned at 4:14 p.m.

Meeting recorded by Ruth Post, City Recorder