

# **Clean Water Services Advisory Commission**

## **Meeting Summary and Minutes**

April 21, 2010

### **Attendance**

The meeting was attended by Commission Chair Bill Young and Commission members Molly Brown, Lori Hennings, John Kuiper, Victoria Lowe, George Marsh, Mike McKillip, Stephanie Shanley, Tony Weller, and Julie Wilson, Clean Water Services General Manager Bill Gaffi.

Commission members Alan DeHarpport, Deanna Mueller-Crispin, Jim Spencer, and Jerry Ward were absent.

Clean Water Services staff members attending included Tom Andrews, Bruce Griswold, Jeanna Hall, Jerry Linder, and Mac Martin.

### **Summary of Major Agenda Items**

#### **S-1. Election of Chair and Vice Chair**

Tony Weller was elected as Chair. Lori Hennings was elected as Vice Chair.

#### **S-2. Proposed Budget, Bond Sale, and Rate Projections**

The proposed operating budget for 2010-11 reflects an increase of only 0.9% over the budget for 2009-10. The budget assumes increases for some rates and charges. Monthly sewer rates will increase an average of 5.5%, which is about \$1.80 per month for the average household. Sanitary sewer systems development charges (SDCs) for new construction will increase by \$500. Monthly surface water management (SWM) fees will go up by \$0.50 per equivalent surface unit. The Budget Committee will meet Friday morning, May 7. Re-organization and re-engineering has kept Clean Water Services streamlined and able to minimize increases over the years but they cannot be delayed indefinitely and cannot be deferred at the expense of the capital program.

Clean Water Services recently issued \$100 million in bonds to fund capital improvement projects for the next three years. The Federal "Build America" bonds program will pay a federal subsidy of 35% of the interest, saving about \$12.5 million. Clean Water Services has an AA rating from Standard & Poor's and an Aa3 rating from Moody's. Bonds were issued to fund the capital improvements rather than cutting the projects from the budget because it is appropriate to keep up the investment in facilities and the current economy provides advantages in purchasing goods and services. The bond revenue will be combined with cash and revenue from rates and other sources to fund the projects.

The Board will take action on the budget, capital improvement plan, and rates and charges on June 1.

### **S-3. Clean Water Institute**

Clean Water Services recently formed a nonprofit organization, the Clean Water Institute, to respond to the increasing number of requests for technical assistance, conduct research on behalf of Clean Water Services and for the benefit of the entire industry, receive and distribute grant money, and take advantage of commercial opportunities for some of the intellectual property developed by Clean Water Services. The Institute can receive income but must reinvest it into programs or activities which support its mission. Revenue from grants, partnerships with Ostara and other companies and from patented processes such as WASSTRP will fund research, grants, and other activities that will benefit Clean Water Services and the entire wastewater industry. Performing these functions through the Institute will reduce the growing demand on Clean Water Services and its staff. The Institute will also be able to conduct some activities that Clean Water Services cannot as a public agency. Clean Water Services ratepayers will benefit from this arrangement in the short term and long term as the Institute will be funding activities that previously came out of the Clean Water Services budget or that Clean Water Services was unable to do.

Paperwork to establish the Institute as a 501(c) 3 nonprofit charitable organization has been submitted to the state and will be filed with the Internal Revenue Service. A Board of Directors has been appointed and has held its first meeting. Mr. Gaffi will serve as the Executive Director of the Institute.

## **Meeting Minutes**

### **1. Call to Order**

The meeting was called to order by Chairman Bill Young at approximately 6:30 pm. The meeting was held at the Clean Water Services Administration Building.

### **2. February Meeting Minutes**

Victoria Lowe moved to approve the minutes of the February 17 meeting as they were mailed to Commission members prior to the meeting. Tony Weller seconded the motion. Motion passed.

### **3. Election of Chair and Vice Chair**

Chairman Young said as noted on the agenda that Commission members Tony Weller and Lori Hennings are willing to be candidates for Chair and Vice Chair, respectively. Ms. Lowe offered a formal nomination of Mr. Weller as Chair and Ms. Hennings as Vice Chair. Mr. Young asked for any additional nominations and with none forthcoming, declared the nominations closed. Commission members elected Mr. Weller and Ms. Hennings as nominated.

### **4. Proposed Budget, Bond Sale, and Rate Projections**

Bruce Griswold, Clean Water Services Business Services Department Director/CFO, reviewed the upcoming proposed budget, projected rates, and recent bond sale (*presentation attached*). Mr. Griswold explained that Clean Water Services budget process is governed by ORS 294.305 through ORS 294.565. The Budget Committee consists of the elected Board of Directors (Washington County Commissioners) plus five citizen members from this Commission. The fiscal year is July 1-June 30 and legally the budget for 2010-11 must be adopted by the Board before any money can be spent during that period. The Budget Committee members will receive their budget documents by

April 30 and will meet Friday morning, May 7. The Board will take action on the budget, capital improvement plan, and rates and charges on June 1.

Ms. Lowe asked if these are open meetings. Mr. Griswold said they are all advertised according to open meeting rules and are all open to the public.

Mr. Griswold began by comparing Clean Water Services average sewer rates with those from 10 others around the state. Clean Water Services rates are in the middle of the range, even though its tertiary treatment of wastewater is a higher level of service than is provided by all of the others in the comparison table except McMinnville. McMinnville's rate is \$53/month compared with \$33/month for Clean Water Services. McMinnville's rate is higher partly due to the cost of completely relocating the treatment plant and some transmission mains as required to meet environmental regulations; McMinnville also is a smaller community which does not have the same economy of scale as Clean Water Services. Bill Gaffi, Clean Water Services District General Manager, said that Clackamas County, City of Portland, and others will see their rates increase, possibly double, in the next few years as they complete plant upgrades and expansions and other projects. Mr. Gaffi said Clean Water Services hopes to keep rate increases to a fraction of what others are seeing, although there is always the possibility of increased regulatory requirements. He feels Clean Water Services offers a very good value and has made impressive efforts to control costs.

Mr. Griswold said the proposed operating budget for 2010-11 reflects an increase of only 0.9% over the budget for 2009-10. The budget assumes some increases in rates and charges. Monthly sewer rates will increase an average of 5.5%, which is about \$1.80 per month for the average household. Sanitary sewer systems development charges (SDCs) for new construction will increase by \$500, from \$3,600 to \$4,100 per equivalent dwelling unit (roughly, an average detached single-family residence). The surface water management (SWM) SDC for new construction will remain at \$500 per equivalent surface unit, but the monthly SWM fee will go up by \$0.50 per equivalent surface unit.

Mr. Gaffi pointed out that re-organization and re-engineering has kept Clean Water Services streamlined and able to minimize increases over the years—if SWM fee increases had kept up with the cost of living they would be at least \$700 right now—but inflationary and regulatory pressure is catching up and SWM fees will have to change, too. He said the District will be talking with customers, especially large ones such as school districts, to let them know SWM fee increases are on the horizon.

Mr. Griswold shared a 10-year revenue history. Total revenue has shown steady growth. As a percentage of total revenue, sewer service fees and other revenue such as interest have grown fairly consistently, SWM fee revenues have stayed about the same, and revenues from SDCs and other development charges have decreased. Due mainly to the economy, projections through 2014 show SDCs continuing to decrease as a percentage of gross revenue. Clean Water Services is trying to avoid rate spikes but cannot delay rate increases or cut back on capital program expenditures indefinitely.

Ms. Lowe asked if the rate projections include any assumptions about the dam at Hagg Lake. Mr. Gaffi said the budget includes the costs expected for the five-year planning period; any construction costs would probably be outside that time. He mentioned that other participants in the Tualatin Basin Water Supply Project will likely see larger Project-related increases than Clean Water Services, as

those expenses will be a greater proportion of their total budget. The District hopes to help mitigate that impact.

John Kuiper asked if accounts receivables for sewer services had increased with the downturn in the economy. Mr. Griswold said the District has not seen a big increase in unpaid accounts, even with the increase in foreclosures—though staff members have worked with people on payment plans. Mr. Gaffi commented that Clean Water Services charges are usually included on water bills, and there is built-in incentive to pay so water service is not cut off.

Ms. Lowe asked if the budget includes emergency or hardship funds similar to those set aside by the City of Forest Grove to help struggling citizens avoid service cutoffs. Mr. Gaffi said no, although the issue was discussed previously with the Board and the city managers group while considering participation in Tualatin Valley Water District's fund. At the time, the Board felt Clean Water Services should stick to its role as a utility and stay out of the social services business.

Ms. Hennings asked if Clean Water Services had considered giving schools a break on SWM fees, perhaps even offsetting their costs by a slightly higher residential increase. Mr. Gaffi said Clean Water Services generally tries to steer away from such things, as it is difficult to provide a break to one group without providing it to all. Mr. Kuiper said that was the right call.

Mr. McKillip asked if the projected increases in revenue through 2014 were a combination of rate increases and growth. Mr. Griswold said the projections do reflect an expectation that the economy will pick up. Mr. Gaffi said there is still a surprising amount of growth, even with the slower economy. Mr. McKillip said Tualatin has recently seen a small increase in growth-related activity.

Mr. McKillip also asked if the projected rate increases reflected costs to meet additional regulatory requirements. Mr. Gaffi said Clean Water Services is pursuing some alternative strategies to better serve the environment at a lower cost to ratepayers, such as using wetlands for final polishing of water that has already been through the treatment plant. He said alternatives will also be developed for storm water as increasingly stringent requirements are applied.

Chairman Weller observed that there is some perception of government as a "growth industry" right now and it is important to communicate that this is a constrained budget—there are no new programs, no new staffing, just operating costs. Mr. Gaffi added that Clean Water Services has no control over some of the major operating costs, such as electricity and natural gas. Mr. Griswold said rates for chemicals have gone up.

Mr. Griswold moved on to discuss the bond sale, which will fund capital improvement projects over the next three years. He said Clean Water Services has excellent bond ratings (AA from Standard & Poor's; Aa3 from Moody's), which are reflective of the District's overall financial condition. The ratings were upgraded at the end of 2008 and also recently in association with the bond issue. About \$100 million in 25-year bonds were sold April 14 at an overall net interest cost of 3.55%. The District used the Federal "Build America" bonds program, which will pay a federal subsidy of 35% of the interest cost. This will save an estimated \$12.5 million (compared to traditional tax-exempt financing).

Ms. Hennings asked about the term, “subordinated lien,” shown on the slide about the bonds. Mr. Griswold said a subordinated lien is similar to a second mortgage on a home and is “subordinate” to all other liens in case of default.

Mr. Griswold said the District could have cut its capital program instead of selling bonds to fund it, but it is appropriate to keep up the investment in facilities. Chairman Weller agreed, noting that he has talked with other municipalities about expanding capital programs and building as much as possible now to take advantage of the current economy’s lower prices.

Ms. Lowe said she felt the rate projections do not reflect a true picture as they do not take into account any costs for the Hagg Lake dam expansion, earthquake-proofing, and/or replacement (associated with the Tualatin Basin Water Supply Project and the US Bureau of Reclamation’s seismic evaluation). She said Clean Water Services will at least have to cover its part of the 15% local share of the minimum action (seismic upgrades), and wondered why the bonds program was not being used to build funds now for those future expenses even though the exact amount is not yet known. She felt that as a city councilor for Forest Grove, she could defend such an action as avoiding double-digit rate increases in the long term and that it would be a fair conversation to have with ratepayers and other constituents.

Mr. Gaffi said the Board shares the philosophy of building up funds before they are needed to avoid a spike later, but the major capital investments associated with the Water Supply Project are still quite a few years away. Ms. Lowe said if she were on the Board she would want to cover at least that minimum amount that everyone knows is coming.

Mr. McKillip asked if there would be a way to show the public that the bonds are funding activities that provide jobs and economic stimulus to our area, and if there would be some way to break jobs down so the work can be awarded to local firms. Mr. Gaffi said for the past several years the District has done just that and he cannot recall a recent out-of-state contractor.

Mr. Kuiper asked if there is a deadline for completion of capital projects funded by the bonds. Mr. Griswold said it is intended as a three-year program, and there are tax provisions that specify the District must spend 85% of the funds within three years, which will not be a problem! He added that the bonds are not the sole funding for the various projects—funding from rates, cash, and other sources will also be used.

## **5. Clean Water Institute**

Mr. Gaffi announced that Clean Water Services recently formed a nonprofit organization, the Clean Water Institute, as mentioned in the briefing paper mailed out with the other meeting materials. Paperwork to establish the Institute as a 501(c) 3 nonprofit charitable organization has been submitted to the state and will be filed with the Internal Revenue Service. A Board of Directors has been appointed and has held its first meeting. Mr. Gaffi will serve as the Executive Director of the Institute.

As Mr. Gaffi explained, Clean Water Services has invested in research efforts and developed technology and innovations for its own use, and has shared staff time and expertise with many others over the years. The Board wants to continue those industry-wide contributions while reducing the growing demand on the agency and its staff. A nonprofit is the best way to respond to the increasing

number of requests for technical assistance, conduct research on behalf of Clean Water Services and for the benefit of the entire industry, receive and distribute grant money, and take advantage of commercial opportunities for some of the intellectual property developed by Clean Water Services.

Mr. Gaffi said Clean Water Services would likely provide a start-up loan to the Institute, as funding will not come in right away. The agency can also pay the Institute to do research on its behalf. As a private nonprofit, the Institute will be able to conduct some activities that Clean Water Services cannot as a public agency. As a nonprofit, the Institute can receive income but must reinvest it into programs or activities which support its mission.

One commercial opportunity is the result of Clean Water Services' partnership with Ostara, which last year installed equipment at the Durham treatment plant to produce Crystal Green™ fertilizer using the phosphorus in wastewater. Rob Baur and other Clean Water Services staff developed and patented a process (WASSTRP) which substantially increases the amount of phosphorus extracted from the wastewater. As Ostara expands its market world-wide, there will be increased demand for the accompanying WASSTRP technology. Licensing agreements for use of WASSTRP are being developed between Clean Water Services and the Clean Water Institute, and in turn between the Institute and Ostara. Mr. Gaffi estimated the eventual revenue from the licensing agreements could be \$100-200 million.

Clean Water Services is also negotiating with the maker of a specialized phosphorus meter which it has installed and which could be of benefit to Ostara and to wastewater plants using certain types of treatment. The Clean Water Institute may receive a commission for acting as the phosphorus meter company's representative. Mr. Gaffi outlined a 15% commission on 400 installations at \$40,000 each as an example of the revenue which could help fund Institute programs.

Another revenue opportunity is a partnership with a Korean company which, recognizing Clean Water Services' expertise in biological nutrient removal, has asked it to subcontract with them in response to a Request for Proposals from the Korean government. The company, Pan Asian Biotech, would pay business development expenses and assume all risk, but because the project could generate income it would be more appropriate for the Institute as a private organization than for Clean Water Services as a public one.

Ms. Hennings mentioned she and others have been working with SOLV in getting groups together for restoration projects but especially in an urban or disturbed environment they have found there is money available for the restoration and a couple years maintenance, but not for long-term maintenance. She wondered if the Institute might address that. Mr. Gaffi described a pending temperature credit agreement between Clean Water Services and PGE. If that could be used as an interim strategy, there might be a possibility for some actual restoration of the affected streams. It would not be appropriate for Clean Water Services to do the restoration work, but it could be funded through the Institute.

Ms. Lowe said she likes the innovation behind forming the nonprofit and sees it is a problem-solving investment, but worried that ratepayers might not understand why revenue from technology development underwritten by their rate payments is going to the Institute instead of being used to reduce those rates. Chairman Weller said it can be explained that it will still affect rates because Clean Water Services would need to allocate less of its budget for research activities if they are

carried out by the Institute instead. Mr. Gaffi said the licensing agreements will allow for periodic review so revenue can be adjusted or redirected if needed. There will probably not be so much income that rates will be substantially reduced, but there will be much less pressure to increase rates. Mr. Gaffi added that Clean Water Services currently issues grants to numerous groups, such as SOLV, Friends of Trees, and others, for projects that advance its agendas. Another benefit to ratepayers in setting up the Institute is that it could use revenues from the licensing agreement to fund these projects and more, instead of spending money from the Clean Water Services budget to do so. Again, there will be less pressure to increase rates to balance the budget. Ms. Lowe said that is the kind of thinking that could reassure the public about long-term benefits for our children and grandchildren. Mr. Gaffi noted the desire of the Clean Water Services Board that the Institute would ultimately support and benefit the District's ratepayers.

George Marsh asked if the Institute will use Clean Water Services employees to do the research and respond to requests for technical assistance. Mr. Gaffi said initially that will be so, but it will be important that work done through the Institute doesn't interfere with carrying out the core work of Clean Water Services. The Board has asked him to serve as the CWI Executive Director. He said that is one reason the CWI Board asked him to be the CWI Executive Director—the whole idea of the Institute is to advance the interests of the ratepayers, and to enhance the District's work.

Ms. Lowe asked about Mr. Gaffi serving both Clean Water Services and the Clean Water Institute. Mr. Gaffi said this is a common practice, with similar situations all around the state, where a public organization has spun off a nonprofit to advance certain aspects of its work.

Mr. McKillip asked about future CWI Board members. Mr. Gaffi said the Clean Water Services District Board of Directors will make appointments to the CWI Board. This close relationship will help maintain the purpose of the Institute and keep it focused on its mission.

Mr. Kuiper asked how big the CWI might become. Mr. Gaffi said he does not see it as a very large organization.

## **6. Budget Committee Calendar**

Mr. Griswold said as mentioned in his presentation, the Budget Committee will meet May 7 in this room. There is space in the schedule for an additional meeting if needed.

## **7. Announcements**

Jeanna Hall, Clean Water Services Public Involvement Coordinator, encouraged anyone who missed the last meeting to pick up copies of the abundant handouts and other materials before leaving.

Stephanie Shanley asked about getting a copy of the documentary mentioned in the minutes of the last meeting, and several others said they would also like to see it. Ms. Hall will bring copies to the next meeting.

Molly Brown mentioned that some of the dates and terms on the list of Commission members on the budget committee distributed at the meeting did not seem to match up. Ms. Hall said terms are staggered to provide continuity, or it could be that some dates seem off because someone finished out someone else's term before beginning their own, but she will check to be sure everyone is listed correctly.

Chairman Weller thanked Mr. Young for his exemplary service as chairman of the Commission. Mr. Young assured Ms. Brown and others who inquired that he would remain a member of the Commission.

**8. Adjournment**

At Chairman Weller's invitation, Mr. Young moved to adjourn the meeting. Ms. Hennings seconded the motion. Motion passed and the meeting was adjourned at approximately 8 pm.

*(Meeting notes prepared by Tom Andrews and Sue Baumgartner)*