

Clean Water Services Advisory Commission

Meeting Minutes

February 16, 2011

Attendance

The meeting was attended by Commission Chair Tony Weller and Commission members Lori Hennings, Victoria Lowe, Mike McKillip, Judy Olsen, Stephanie Shanley, Bill Young, and Clean Water Services District Deputy General Manager Bob Cruz attended on behalf of General Manager Bill Gaffi. Commission member Jerry Ward participated in the business portion of the meeting via telephone.

Commission members Molly Brown, Alan DeHarpport, John Kuiper, Deanna Mueller-Crispin, and Julie Wilson were absent.

The meeting was also attended by Nora Curtis, Bruce Griswold, Mark Jockers, Jerry Linder, and Peter Ruffier, all of Clean Water Services.

1. Call to Order

The meeting was called to order by Chairman Tony Weller at 6:31 PM in the conference room at the Clean Water Services Administration Building.

Several Commission members were unable to attend due to other commitments and a last-minute illness, but with Jerry Ward joining the meeting by speakerphone a quorum was available to conduct business.

2. Review/Approval of Meeting Minutes from November 17, 2010

Bill Young moved to approve the minutes as distributed, but asked for clarification of two terms, “social media” (p. 4, par. 2)” and “ECREP” (p. 6, par. 3). Mr. Jockers explained “social media” refers to electronic, internet-based communication tools such as Facebook and Twitter, and “ECREP” is an acronym for “Enhanced Conservation Reserve Easement Program.” Victoria Lowe seconded the motion. Motion passed, with Judy Olsen abstaining as she was not yet a Commission member in November.

3. Budget Committee Recommendation to Board of Directors

Mr. Jockers explained that the Clean Water Services Budget Committee is comprised of the five Washington County Commissioners (who serve as the Clean Water Services District Board of Directors) and five representatives from the Advisory Commission who live in the District’s service area. Commission member Alan DeHarpport is the only continuing member of the Budget Committee; the other four spots are vacant as a result of Commission term expirations. Three of those Commission members whose terms expired have been reappointed to the Commission and are willing to serve again on the Budget Committee: Molly Brown, John Kuiper, and Tony Weller. In addition, Lori Hennings has volunteered to fill the fourth opening. If there are other Commission members with an interest in serving on the Budget Committee, they will also be considered.

Victoria Lowe moved to recommend that the Board of Directors appoint Molly Brown, Lori Hennings, John Kuiper, and Tony Weller to the Budget Committee. Bill Young seconded. Motion passed.

Mr. Ward ended his phone call with the group at this point, as the remaining agenda items were informational with no action required.

Bruce Griswold, Clean Water Services Business Services Department Director, noted that the Budget Committee would meet on May 6 and information would be sent to committee members about a week in advance. He expects the Washington County Commissioners will approve the final budget on June 7.

4. Introduction of New Commission Member

Chairman Weller welcomed new Commission member Judy Olsen, who was recently appointed to represent the agricultural community. Ms. Olsen and her husband farm nearly 200 acres, mostly in hazelnuts, on Highway 219 and in the Sherwood area. The Olsens also grow cherries and plants for sale at farmers' markets.

5. Surface Water Management Program Assessment Update

Nora Curtis, Clean Water Services Conveyance Systems Department Director, gave an update on the Surface Water Management (SWM) Program assessment (*presentation attached*). Ms. Curtis met with the Commission in September, as the assessment was underway, to review the 20-year history of the program. The SWM Program deals with stormwater runoff. It is separate from the sanitary sewer system. Clean Water Services is responsible for about 8,000 catch basins, 600 water quality facilities, and various other structures, equipment, and services as part of its SWM Program.

The SWM Program assessment focused on aspects of the program which had changed in scope or size over the years (such as street sweeping), anticipated regulations and how they would affect the program, and a review of customer service requests (such as leaf removal) to see how or if some of them might be incorporated into the program. Eight brief issue papers addressing various aspects of the SWM Program have been or are being prepared. Ms. Curtis presented a financial overview and staff recommendations to the Board of Directors in January.

Ms. Curtis reviewed the Clean Water Services financial policies, which guide the SWM Program as well as sanitary sewer services:

1. Keep rates stable (small, predictable increases with clear justification—no undefined “cost of living” increases—rather than large, infrequent jumps)
2. Maintain rates at the level needed to maintain the system, meet regulatory requirements, enhance services as appropriate, and allow for reasonable capital improvements
3. Use reserves to avoid rate spikes
4. Maintain reasonable reserves for capital improvement projects (construction) and capital outlays (trucks, sweepers, etc.)
5. Use long-term debt when appropriate

Ms. Curtis said the current SWM fee base rate of \$4.75 per month per ESU (equivalent surface area, approximately 640 square feet) is the lowest in the Portland area and one of the lowest in the nation for programs of similar size and scope. The average rate for comparable programs in the region is \$7.74. Clean Water Services sets the base rate and bills that amount directly to customers in unincorporated areas, while in partner cities the SWM fee is collected with other city utility billings. The cities keep 75% to cover their share of program services and remit 25% to Clean Water Services. All but Hillsboro add their own surcharge, which is not shared with Clean Water Services, to further support their local SWM responsibilities. Ms. Curtis observed that an increase of 50 cents per month might not seem like much to a homeowner, but becomes significant for a commercial customer such as a school district or industrial campus.

Ms. Curtis showed graphs of the SWM Program's finances since it began in 1990. There were relatively low capital costs the first few years as Clean Water Services caught up on "inherited" maintenance tasks, evaluated existing facilities, and identified needed capital improvements. After major flooding in 1996, more capital improvement projects were identified. Over the next few years, reserve funds grew as some projects were delayed due to permitting issues, and then were used as projects began to move forward. The capital budget has been \$3 million --\$6 million annually. Operations and maintenance costs have increased with growth and regulatory requirements to about \$10 million per year. SWM fees cover about 80% of operations and maintenance, and in recent years reserve funds have been used in lieu of rate increases to cover about 12%. Since 2005, reserves have been decreasing and are anticipated to be approximately \$5 million by the end of the current fiscal year. The SWM program has had only three fee increases since its 1991 inception. The \$3/month fee was increased to \$4/month in 1998, to \$4.50 per month in FY2010, and to \$4.75 per month in FY2011. The current rates fund about 50% of the total program costs. Operations and maintenance costs (O&M) are somewhat fixed as they are driven by environmental permit requirements, but capital costs are easier to treat as discretionary, at least in the short term. The SWM Program has always been run on a cash basis and has no long-term debt.

Ms. Lowe said personnel would likely be a good percentage of the increased operations costs since 2007, and wondered if reserve funds could be used to cover labor and benefit costs. Ms. Curtis said that personnel costs have increased for the District and many other public agencies. She said there are 318 operations employees, about 2/3 are unionized, and reserve funds can and have been used to cover labor and benefits.

Ms. Curtis said the following staff recommendations were made to the Board in January:

1. Continue annual SWM fee increases of 50 cents per month through 2016
2. Revise "overhead" cost allocation between sanitary sewer and SWM programs
3. Reduce operational expenses where possible without reducing service or performance
4. Restrict annual capital improvement projects and capital outlay to for 2-3 years
5. Explore possibility of bonding authority for SWM Program

In discussing the recommendations, Ms. Curtis said a rate increase of 59 cents per month would increase program revenue by about \$1.0 million—about the same amount that has been that reserves have been drawn down annually in recent years. An accounting change for some costs, such as those for administration, human resources, information technology, and other departments shared with the sanitary sewer program, would reduce SWM Program "overhead" costs by about \$750,000 per year.

Although operations and maintenance activities are dictated by regulatory requirements, the District has the ability to determine the most efficient ways to carry out the program. Examples of previous cost-reduction efforts include taking drop boxes into neighborhoods so street sweepers don't have to run all the way back to the yard to unload, reducing TV inspection crews to one person, and changing to more efficient equipment.

Ms. Curtis also explained the rationale for the recommendation to explore bonding authority. The current bonding authority allows Clean Water Services to issue bonds for the sanitary sewer system but not for the SWM Program. Typically, bonds are used to even out the effect of large capital expenditures. Clean Water Services has used bonds to fund sanitary sewer capital improvements in the past and had \$285 million in bonds outstanding for fiscal year 2010. So far the SWM Program has not had large capital spikes, but that could change with new regulations requiring SWM facilities in pre-1990 neighborhoods and expanding the current requirements beyond water quality parameters for stormwater runoff to include hydro-modification, or managing the volume of runoff. Ms. Curtis added that having bonding authority would not mean that bonds would be issued, but that the option would be available.

Ms. Hennings wondered if reducing capital improvements would “come back to bite” later. Ms. Curtis said the recommendation is for a temporary restraint until rate revenue catches up with program needs. The SWM Program typically spends less than the amount budgeted for capital improvements, and some projects could be deferred or scheduled over a longer time to spread out costs.

Ms. Curtis showed slides of several SWM capital improvement projects. She said whenever a SWM or sanitary sewer construction project is scheduled, Clean Water Services looks at how it might also provide benefits or enhancements for water quality, water quantity, and habitat. Examples include re-grading stream channels, replanting riparian corridors, restoring fish passage, and replacing invasive species with native plants. She said Clean Water Services also applies for grants from the Oregon Watershed Enhancement Board (OWEB) and other sources to help with such projects.

Mr. Young asked about the types of bonds that would be available if Clean Water Services had bonding authority for the SWM Program. Ms. Curtis said the bonding authority would allow all the commonly accepted types of bonds, and the main question for the Board was whether they were interested in having the option of issuing bonds.

Ms. Hennings commented it would seem an intuitive choice to invest capital now in natural systems that could respond to the wetter seasons that are expected with climate change. Ms. Curtis said that certainly could be the focus of a large capital project.

In summarizing the presentation to the Board, Ms. Curtis said Board members generally felt the SWM Program is operating as they would wish within the expressed financial policies. The Board reviewed four rate scenarios: no increase, 50-cent increase, 75-cent increase, and \$1 increase. Neither the \$1 increase nor leaving rates as is would meet the Board's financial policy goals, but they felt an increase of 50-75 cents was realistic. Ms. Curtis said the Board felt that “cautious” exploration of bond authority would be appropriate as things can change quickly and it might be good to have the option in place should the need arise, but they would be reluctant to use it. One Board member commented that a 75-cent increase would be preferable if it would avoid the use of bonds.

The Board recognizes that establishing bonding authority for SWM could affect the District's bond rating and/or its ability to issue bonds for sanitary sewers. The Board also asked for more information on the District's efforts to reduce operations and maintenance costs.

Ms. Lowe wondered if the Board had asked about the cost of labor. Ms. Curtis said Board members did not specifically ask about labor, but were interested in all operations and maintenance costs.

Ms. Curtis said a reporter was present at the January Board presentation and an article about the SWM Program budget appeared in the Washington County section of *The Oregonian* on February 5. Mr. Jockers said a link to the article was included in the monthly media clippings email to Commission members. Ms. Lowe said she got immediate questions from Forest Grove constituents as to why the City was raising water rates, even though it was not the City's decision. Ms. Curtis said Clean Water Services heard from a Tigard ratepayer expressing general concern about raising rates for any service in the current economy, and a Sherwood-area resident submitted a letter to the editor which referred to "taxing rainfall" – a comment which was often heard when the SWM Program's first began in 1990.

Ms. Curtis said the budget will be prepared using a 50-cent increase and an approximate \$2 million limit on capital improvements. As Mr. Griswold mentioned earlier, the budget document will be sent to Budget Committee members on April 29 and the Committee will meet May 6. The Board of Directors will consider a rates and charges document as well as the proposed budget on June 7.

Mr. McKillip suggested Clean Water Services keep in mind when exploring bonding authority the possibility of structuring bonds so partner cities could access funds for SWM projects that would be too small to economically issue a bond of their own.

Mr. Jockers noted that the upcoming Clean Water Services budget also will propose a rate increase for sanitary sewer services. Combined with a SWM rate increase, the total increase would be just under \$2 per month—less than last year's increase in sanitary sewer rates alone. He said CFM Strategic Communications, which recently conducted a Customer Awareness and Satisfaction Survey for Clean Water Services, is beginning a rate sensitivity survey to assess ratepayer preferences about size and frequency of rate increases, value of services, and related issues. Mr. Jockers will email a link to Commission members.

Ms. Lowe said the City of Forest Grove annually encloses a citizen survey with its utility bills, and the response rate is close to 80%.

Chairman Weller asked if the Commission would be involved in the bond authority exploration. Ms. Curtis said not at this time but staff will bring SWM-related topics back for Commission discussion.

Mr. Cruz said Commission members are welcome to share their thoughts about SWM rates and any other issues. Ms. Lowe wondered if there would be a presentation regarding the sanitary sewer budget. Mr. Cruz said there was not one scheduled but it certainly could be done.

6. Announcements

Mr. Jockers reminded all that the next meeting is scheduled for March 16.

Mr. Jockers also said that Clean Water Services staff may soon ask the Board to charge the Commission with providing input on the Fats, Oils, and Grease (FOG) program, which addresses controlling such substances in the sanitary sewer system.

7. Adjournment

Chairman Weller declared the meeting adjourned at 7:53 PM.

(Meeting notes prepared by Sue Baumgartner)