

CITY MANAGER REPORT AND RECOMMENDATIONS



Meeting Date: September 17, 2018

Agenda Item:

Introduction and Scheduling a Public Hearing on Resolution No. 3803, a Resolution Setting Water, Wastewater, and Storm Water Utility Rates

Background:

In 2017, the City authorized the FCS Group to conduct a utility rate study for the City of Newport. FCS Group has performed over 2,000 utility rate studies in the Pacific Northwest. On February 5, 2018, the consultant presented its findings to the City Council. At a following work session, City Council directed staff to pursue the recommendations outlined by the consultants by informing utility customers of these recommendations, and collecting comments from them to help refine the plan. The City contracted with FCS Group to review two (2) separate issues regarding the utility rates. The first issue was to determine whether our rates are sufficient to pay for operations and major reinvestments that will be required in the utility system's future. The second issue was to determine whether our rates are equitable in how they are structured to share the cost of supporting the various utility systems among the various types of utility users.

To share this information with utility customers, an April 6 communication was sent to all water and sewer customers, which outlined a summary of our utility systems, as well as recommendations for restructuring the utility rates. A public information session was held on Thursday, April 19, 2018, at 6:00 P.M., at City Hall, to review the recommendations with utility customers. Finance Director, Mike Murzynsky, Public Works Director, Tim Gross, and I facilitated that session. Approximately 20 citizens attended this session. We shared comments made by the public at that session with City Council at a work session held on May 7, 2018. Public hearings were held on May 21, 2018 and June 4, 2018. A following work session was held on July 16, 2018, and on August 6, 2018.

September 4 City Council Meeting

At the September 4 City Council meeting, the Council directed staff to proceed with the development of a resolution based on the items outlined in the August 6, 2018, work session. Councilor Goebel had requested one alternative be reviewed by the City Council, and that would be to look at implementing the storm water equivalent service units (ESU) over a five-year phase-in period versus the three-year period that was outlined in the August 6 meeting. This would incrementally adjust the responsibility for storm water expenses from residential/small commercial and institutional properties with limited ESUs to the larger commercial and institutional properties that have significant impervious surfaces throughout the City. For comparison purposes, Finance has put together information between a three-year phase-in and a five-year phase-in for the same examples which are cited later in the report. These are as follows:

Resident Using 6,000 Gallons (5/8" or 3/4" Meter) COSA / Storm Water by ESU 3 Year Phase-In and Current Storm Water 3 Year Phase-Out							
	2016- 2017 2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Water	41.80	42.50	45.05	47.73	50.59	53.66	56.88
Wastewater	65.00	60.68	65.53	70.78	73.63	76.53	79.59
Storm Water	8.25	8.25	18.73	13.79	8.62	8.82	9.02
Infrastructure Fee	7.30	7.30	-	-	-	-	-
Total	122.35	118.73	129.31	132.30	132.84	139.01	145.49

Resident Using 6,000 Gallons (5/8" or 3/4" Meter) COSA / Storm Water by ESU 5 Year Phase-In and Current Storm Water 5 Year Phase-Out							
	2016- 2017 2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Water	41.80	42.50	45.05	47.73	50.59	53.66	56.88
Wastewater	65.00	60.68	65.53	70.78	73.63	76.53	79.59
Storm Water	8.25	8.25	20.82	18.07	15.19	12.18	9.02
Infrastructure Fee	7.30	7.30	-	-	-	-	-
Total	122.35	118.73	131.40	136.58	139.41	142.37	145.49

Large Commercial Using 5 Meters 47 ESUs with COSA and ESU 3 Year Phase-In and Current Storm Water 3 Year Phase-Out							
	2016- 2017 2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Water	594.45	670.08	710.30	753.36	798.11	845.83	896.58
Fire Line	20.85	20.85	20.85	20.85	20.85	20.85	20.85
Wastewater	1,045.30	1,210.42	1,307.56	1,411.55	1,468.69	1,527.31	1,588.40
Storm Water	41.25	41.25	209.14	304.98	405.14	414.54	423.87
Infrastructure Fee	65.60	65.60	-	-	-	-	-
Total	1,767.45	2,008.20	2,247.85	2,490.74	2,692.79	2,808.53	2,929.70

Large Commercial Using 5 Meters 47 ESUs with COSA and ESU 5 Year Phase-In and Current Storm Water 5 Year Phase-Out							
	2016- 2017 2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Water	594.45	670.08	710.30	753.36	798.11	845.83	896.58
Fire Line	20.85	20.85	20.85	20.85	20.85	20.85	20.85
Wastewater	1,045.30	1,210.42	1,307.56	1,411.55	1,468.69	1,527.31	1,588.40
Storm Water	41.25	41.25	173.42	232.00	293.20	357.25	423.87
Infrastructure Fee	-	-	-	-	-	-	-
Total	1,701.85	1,942.60	2,212.13	2,417.76	2,580.85	2,751.24	2,929.70

Medium Size Restaurant Using 42,000 Gallons 2 ESUs COSA / Storm Water
by ESU 3 Year Phase-In and Current Storm Water 3 Year Phase-Out

	2016- 2017 2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Water	185.80	210.90	223.56	237.13	251.20	266.21	282.18
Wastewater	353.50	409.34	442.20	477.35	496.69	516.51	537.17
Storm Water	8.25	8.25	21.48	19.41	17.24	17.64	18.04
Infrastructure Fee	7.30	7.30	-	-	-	-	-
Total	554.85	635.79	687.24	733.89	765.13	800.36	837.39

Medium Size Restaurant Using 42,000 Gallons 2 ESUs COSA / Storm Water by ESU 5 Year Phase-In and Current Storm Water 5 Year Phase-Out							
	2016- 2017 2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024
Water	185.80	210.90	223.56	237.13	251.20	266.21	282.18
Wastewater	353.50	409.34	442.20	477.35	496.69	516.51	537.17
Storm Water	8.25	8.25	22.47	21.44	20.36	14.11	18.04
Infrastructure Fee	7.30	7.30	-	-	-	-	-
Total	554.85	635.79	688.23	735.92	768.25	796.83	837.39

At the September 4 meeting there was discussion on timelines for proceeding with these changes. It is my recommendation that the Council introduce Resolution No. 3811, a resolution A Resolution Setting Water, Wastewater, and Storm Water Utility Rates, and Scheduling a Public Hearing on Utility Rates for the October 15, 2018, City Council Meeting. If the Council comes to terms as to the introducing the resolution, then we will be able to provide information that will go out to all utility customers as part of their October bill, to give resident, commercial, multi-family and others an opportunity to review this information prior to Council taking action on October 15.

In regard to the implementation scheduled for the storm water rates, please note that Council should indicate whether the resolution should include the three-year implementation process, or the five-year implementation process. The draft resolution includes the three-year implementation process. If a five-year process is done, we will modify the rates, accordingly, in the resolution and information that we send out to our rate payers.

August 6, 2018 Work Session

On August 6, 2018, the City Council met in work session to review a report submitted by the City Manager on the implementation of recommendations from the FCS Group regarding water, sewer, storm water and the infrastructure fee structure for the 2018-2019 fiscal year. At the work session, Council discussed a number of specific issues to incorporate in the modification of the utility rate structures. These include the following:

- 1.) Eliminate the garden rates.
- 2.) Eliminate the first one thousand (1,000) gallons of fixed charges for water, so that a fixed fee for both water and sewer would not include any water usage and the variable rate covers all water and sewage used by the customer. This would simplify the explanation of utility bills to customers.
- 3.) There was a majority consensus to implement the utility payment assistance program in place of the current voluntary contribution program which has not been effective. The

Council opted to use an income threshold of sixty percent (60%) of Lincoln County's median income as basis for this benefit. The benefit would be done through a reduction in the bill, with a thirty percent (30%) reduction in the cost of water and sewer with the payment in lieu of franchise fee being continued to the General Fund to cover the cost for the utility payment assistance program. A copy of the draft policy is attached.

- 4.) There was a consensus to implement the cost of service analysis developed by FCS Group. This creates three classes of utility customers, for purposes of water and sewer, which include residential, multifamily, and all others (commercial, industrial, institutional). The cost of service analysis (COSA) establishes a rate structure based on the impact that each of these classes have on the water and sewer utility systems. Currently, the City has one rate structure for all customers under a COSA, the City will establish three separate rate structures for the different classification of customers.
- 5.) There was a majority consensus to implement equivalent service units (ESU) for calculating storm water rates and eliminating the current infrastructure fee on a phased-in schedule. I am recommending that this change occur over a three-year period, beginning July 1, 2019, where the infrastructure fee will be reduced by one third, and one-third of the ESUs will be implemented. July 1, 2020, two-thirds of the infrastructure fee will be eliminated and two-thirds of the ESU will be implemented, and July 1, 2021, the infrastructure fee will be eliminated in total, and the ESU for storm water will be one hundred percent (100%) will be implemented. Furthermore, July 1, 2020, the City Council will review options to provide credits for innovations which reduce storm water flow from impervious surfaces for all properties. ESUs will be applied to all developed property except for streets, roads, and alleys that are publicly held. Regardless of location within the City, since there is a general benefit to all property owners to maintain an effective storm water system in the community.

Recommendation:

I recommend the City Council consider the following motion:

I move to introduce Resolution No. 3803, a resolution setting water, wastewater, and storm water utility rates for possible adoption following a public hearing scheduled for October 15, 2018. Information on the proposed changes and the notice of the public hearing to be scheduled for the October 15, 2018, City Council meeting will be sent to all utility customers by way of the October utility bill.

Fiscal Effects:

None by directing City Administration to develop a resolution for Council's review and possible introduction at the September 17 City Council meeting.

Alternatives:

Consider other modifications to the rate proposal, or as suggested by City Council.

Additional Information Compiled on the Utility Rate Study

Draft Report from FCS Group on Comprehensive Water, Sewer, and Storm Utilities Rate Study

FCS Group has provided the City with a draft report on comprehensive water, sewer and storm utilities rate study dated May, 2018. As part of the draft report, FCS reviewed the City's fiscal policies, and assess revenue needs for a multiyear period, which includes adequate funding

for operations and maintenance, system reinvestment, debt service, other program activities, and long-term capital needs. FCS used industry standard methodologies to establish a defensible basis for assigning “cost shares” and establishing “equity” for utility customers. Furthermore, they developed rate structures which will generate sufficient revenue to meet each of the utilities financial obligations on a stand-alone basis.

As part of this study, FCS conducted an analysis identifying the total revenue needed to fully fund each system on a stand-alone basis, analyzed the equitable distribution of cost to different customer classes, and developed a rate structure that will meet the requirements necessary to operate, maintain, and renew the City’s utility systems.

In developing the revenue requirement, FCS incorporated prudent fiscal policies, including reserve levels, capital /system replacement funding and debt service coverage. FCS reviewed the City’s capital improvement and equipment replacement program, identified future annual non-capital costs associated with the operation, maintenance and administration of the various systems. They designed rates to fully fund all financial obligations on a periodic or annual basis over the projected period in a level and predictable manner to provide a stable rate structure. This was for both the benefit of planning future operations, as well as, providing stability for utility customers.

The current rate structure provides for the collection of four separate fees on the utility bill, which includes the water bill, the wastewater bill, a storm sewer charge, and an infrastructure fee. These four fees support the operations and replacement of the City utilities.

In developing the rate recommendations for each utility, FCS Group reviewed the recommended operating reserves, capital contingencies reserves, operating revenue, operation and maintenance expenses, debt service system reinvestment, and the capital funding plan. In reviewing these various components, the overall water utility annual rate increases necessary would be six (6) percent a year, fiscal year 2019 through fiscal year 2023.

FCS also conducted a cost of service analysis (COSA). This reviewed a number of aspects of the water utility, including the needs of the system to meet normal customer demands, meters and services, fire protection, peak demands, and base demands. They determined that 44% of the cost of the water utility system are specifically for meeting peak demands for water. Exhibit 3.3 in the draft report shows how the other costs are allocated with the other functions of the water system. The COSA allocates costs based on how the classes of utility users are impacting the system with move of the burden to pay for the system placed on the appropriate parties. Based on these impacts, in this case, the burden is shifted from residential to commercial, industrial and institutional users. FCS is recommending a phase-in of a fee schedule implementing these changes, which in 2019 would result in a 0.8% reduction in single- family water costs, a 1.6% reduction in multi-family costs, and an 11.7% increase in commercial costs for the 2018-2019 fiscal year. Furthermore, the recommended water rates would eliminate the first thousand gallons as part of the fixed fee. Under our current rate structure, this is provided in water, but not in sewer. This differential complicates our ability to provide a much clearer breakdown of expenses on the water and sewer bill.

In the analysis of the sewer utility cost and rates, a similar analysis was completed. In this particular case, FCS determined that multi-family and commercial have a greater impact on the utilities systems and would pay higher rates over single-family customers. FCS is recommending that the overall revenue from single family customers remain constant in 2018-2019, with an increase in multi-family of 15.8%, and an increase in commercial of 13.9%.

Furthermore, the recommended sewer rates eliminate the garden rate for all classes of service. The garden rate is calculated by using the highest monthly sewer usage for the first four months of the calendar year, or their actual monthly usage, whichever is lower, to calculate sewage usage for June, July, August and September. Unlike water rates, the existing sewer rate does not provide any usage as part of the fixed monthly fee. If the FCS recommendations are approved, the water rates would be structured in a similar fashion.

The most significant change relates to the storm water utility fee. The City of Newport operates the storm water system with 32 miles of gravity piping, ditches, curbs, gutter, culverts and other methods to convey storm water to the nearest natural water body. Currently the storm water utility is run from a joint fund with the streets utility, and would be our intent to operate a separate storm water utility as part of the recommendations from FCS, if the changes are approved by Council. The storm water fees would undergo a major restructuring as part of the recommendation from FCS. The recommendation from FCS is to eliminate the current infrastructure fee if the storm water fee structure is implemented, as recommended by FCS, by the City of Newport.

FCS is recommending that City Council consider restructuring the monthly rates to utilize a per equivalent service unit (ESU) for the calculation of the rates. FCS states that this rate structure is very common in the storm water utilities. Essentially, each residential unit would be charged one ESU for non-single family homes and the ESU would be based on 2,700 square feet of impervious surface area. If approved, this rate structure is proposed to take effect in the 2019-2020 fiscal year. By eliminating the infrastructure fee, single-family homes see a reduction in rates, with commercial, industrial and institutional entities paying a rate based on each 2,700 square feet of impervious surface. The single-family residential units would maintain the rate at \$8.25, and eliminate the infrastructure fee for the fiscal year 2019-2020. The charge for non-single family usage would be based on 2,700 square feet of impervious surface area. If ESUs are phased in, then the transfers would occur gradually over the phase-in period.

Please note rates are utilized to pay all ongoing debt costs for improvements for the three utility systems, with the exception of voter approved general obligation bonds. General obligation bonds have been issued for the wastewater treatment plant and for the water treatment plant. These bonds are paid from voter approved property taxes. General obligation bonds would likely be issued for addressing seismic issues for the water reservoirs utilized by the City of Newport, as well.

Impacts on Rate Payers

Sample rates for utility users utilizing are illustrated below. Utilizing the straight percentage increases without differentiating between different types of users, and the impact of the rates if the cost of service analysis (COSA) is utilized. Finally, if the Council elects to phase-in ESUs over a three-year period, those impacts are also notes. As you can see, over time the costs are shifted from residential users to commercial users when the COSA is utilized to calculate rates. The impact on two examples (one residential and one large commercial) are shown below:

Resident Using 6,000 Gallons (5/8" or 3/4" Meter) Straight Percentage Increases without COSA without ESU					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	41.80	48.55	51.46	54.55	57.82
Wastewater	65.00	70.20	75.82	81.88	85.16
Storm Water	8.25	8.25	23.97	24.51	25.06
Infrastructure Fee	7.30	7.30	-	-	-
Total	122.35	134.30	151.24	160.94	168.03

Resident Using 6,000 Gallons (5/8" or 3/4" Meter) COSA / Storm Water ESU Applied					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	41.80	42.50	45.05	47.73	50.59
Wastewater	65.00	60.68	65.53	70.78	73.63
Storm Water	8.25	8.25	8.25	8.43	8.62
Infrastructure Fee	7.30	7.30	-	-	-
Total	122.35	118.73	118.83	126.94	132.84

Resident Using 6,000 Gallons (5/8" or 3/4" Meter) COSA / Storm Water

by ESU Phase-In and Current Storm Water Phase-Out

	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	41.80	42.50	45.05	47.73	50.59
Wastewater	65.00	60.68	65.53	70.78	73.63
Storm Water	8.25	8.25	18.73	13.79	8.62
Infrastructure Fee	7.30	7.30	-	-	-
Total	122.35	118.73	129.31	132.30	132.84

Large Commercial Using 5 Meters 47 ESUs without COSA

	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	594.45	647.08	685.90	727.06	770.68
Fire Line	20.85	20.85	20.85	20.85	20.85
Wastewater	1,045.30	1,128.92	1,219.24	1,316.78	1,369.45
Storm Water	41.25	41.25	119.83	122.53	125.28
Infrastructure Fee	65.60	65.60	-	-	-
Total	1,767.45	1,903.70	2,045.82	2,187.21	2,286.26

Large Commercial Using 5 Meters 47 ESUs with COSA and ESU Applied					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	594.45	670.08	710.30	753.36	798.11
Fire Line	20.85	20.85	20.85	20.85	20.85
Wastewater	1,045.30	1,210.42	1,307.56	1,411.55	1,468.69
Storm Water	41.25	41.25	387.75	396.21	405.14
Infrastructure Fee	65.60	65.60	-	-	-
Total	1,767.45	2,008.20	2,426.46	2,581.97	2,692.79

Large Commercial Using 5 Meters 47 ESUs with COSA and 3- year ESU Phase-In and Current Storm Water Phase-Out					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	594.45	670.08	710.30	753.36	798.11
Fire Line	20.85	20.85	20.85	20.85	20.85
Wastewater	1,045.30	1,210.42	1,307.56	1,411.55	1,468.69
Storm Water	41.25	41.25	209.14	304.98	405.14
Infrastructure Fee	65.60	65.60	-	-	-
Total	1,767.45	2,008.20	2,247.85	2,490.74	2,692.79

Medium Size Restaurant Using 42,000 Gallons 2 ESUs Straight Percentage Increases without COSA without ESU					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	185.80	201.19	213.26	226.05	239.62
Wastewater	353.50	381.78	412.32	445.31	463.12
Storm Water	8.25	8.25	23.97	24.51	25.06
Infrastructure Fee	7.30	7.30	-	-	-
Total	554.85	598.52	649.55	695.87	727.80

Medium Size Restaurant Using 42,000 Gallons 2 ESUs COSA / Storm Water ESU Applied					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	185.80	210.90	223.56	237.13	251.20
Wastewater	353.50	409.34	442.20	477.35	496.69
Storm Water	8.25	8.25	16.50	16.86	17.24
Infrastructure Fee	7.30	7.30	-	-	-
Total	554.85	635.79	682.26	731.34	765.13

Medium Size Restaurant Using 42,000 Gallons 2 ESUs COSA / Storm Water by 3-year ESU Phase-In and Current Storm Water Phase-Out					
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Water	185.80	210.90	223.56	237.13	251.20
Wastewater	353.50	409.34	442.20	477.35	496.69
Storm Water	8.25	8.25	21.48	19.41	17.24
Infrastructure Fee	7.30	7.30	-	-	-
Total	554.85	635.79	687.24	733.89	765.13

Low Income Utility Payment Assistance

There are several models utilized by Oregon cities to provide payment assistance for low-income residents. There are several components to a low-income assistance program, which would include eligibility, administration, and the source of funding to supplement low-income rate payers.

Standards for eligibility include citizen annual income being 70% or less of the Linn County Medium income, based on family size for the US Department of Housing and Urban Development (HUD) for seniors and disabled individuals for the City of Albany. The City of Hood River utilizes 60% of area medium income (AMI) as calculated by the United States Census Bureau. The utility billing account must be in the name of the eligible party.

The reduction can be a straight percentage, such as in St. Helens, where 40% is discounted from water, and 30% from sewer. In Albany, the first four units of water consumption is not billed.

The City of Hood River indicates that with their discounts of 40% of water and 30% of sewer, 108 households had applied and were accepted for the utility rate assistance program, which was pegged at 60% of AMI. The cost to the city was \$40,000 per year. Hood River has a population of 7,167.

Most low income utility assistance programs are administered by third parties. We have had discussions with the Community Services Consortium (CSC) who is running utility programs for Albany, Toledo and Corvallis. CSC charges an administrative fee for each client they screen. They determine eligibility for the credit. They note that there is a set amount for the credit, which will be applied to any client's account. If City Council wishes to pursue a low-income credit, then it would appear that the CSC would be willing to administer that program.

At the August 6 work session, Council provided direction to use a thirty percent (30%) discount on water and sewer flat fees and the first five units used, with a third party agency making these determinations. Community Services Consortium (CSC) currently does this work for the City of Toledo at a cost of \$15 per application. A copy of the draft policies is attached for your review.

Response to Various Questions from the April Open House and Subsequent Meetings regarding the Utility Rate Recommendation

1. How would single-family condos be treated under the new rates?

Each condominium unit would receive a bill for water and sewer as individual users and pay one ESU rate for their unit. This would be consistent with the current process for billing condominium units within the City of Newport.

2. Why is the burden for funding utilities placed on single-family homes from our current rate system according to the study?

The City's current rate structure establishes a rate by meter size and for consumption of water. These rates are consistent for all classes of customers within the City of Newport. Furthermore, the City charges a flat storm water fee on all accounts,

regardless of the type of account served. FCS Group is indicating that the City could consider charging based on a cost of service analysis (COSA). This analysis distributes costs to customer classes based on their proportional demand for use of the system. This is a common practice for utility systems, where such things as peak demands and other factors influence the cost for that utility service. In Oregon, many cities utilize a flat rate for utilities, such as Newport's historic rates. Other communities utilize a cost of service analysis, and have different rates for different classes of customers. Communities with storm water rates will typically use an ESU to determine storm water charges with those that have larger impervious surfaces paying more than those with less impervious surfaces paying a smaller amount. In Newport, the rate system has been structured with all customers paying a flat rate for storm water services.

3. Aren't streets the biggest contributor of storm water to the system?

The street network represents the largest impervious surface in Newport. The expenses to maintain the street system is paid by the public, convey storm water to catch basins, storm sewers and ditches to drain the streets and adjacent properties. The cost for maintaining streets are publically incurred, as is the case for storm water. Streets are considered part of the public storm water conveyance, and are not charged separately. The streets serve all residences and businesses. There has been discussion in the past that the storm water fee could be based on vehicle trips instead of impervious surfaces. This idea has not been pursued.

4. Will the significant increases in storm water fees for commercial facilities with large impervious surfaces be passed along in rents for commercial customers?

Typically, leases are structured provide that the tenants will pay their proportional share of utilities to service that tenant. Landlords will likely pass along increases in expenses for maintaining facilities to their commercial tenants. These expenses also can be passed along by commercial entities as part of the prices of goods and services.

5. Won't the storm water fees penalize businesses that provide parking versus those that don't provide parking?

This is not entirely true, since businesses that are not required to provide off-street parking pay an annual fee which is used to maintain and improve the public parking assets they rely upon to meet their parking needs. That fee is assessed to business in Nye Beach, City Center, and Bayfront Commercial District, and can vary from \$35 to \$600 per year. These fees are currently being evaluated, and if a storm water fee is imposed, it would be appropriate to include that in this analysis.

6. How would gravel lots be treated under a storm water fee?

This is an item that would need to be determined during the course of this next year, if City Council moves forward with utilizing an ESU to determine storm water fees.

7. If property drains directly into the bay, why should that property pay a storm water fee?

While a property may not be physically connected to the drainage system in the same manner it is for water or sewer services, the City's storm water system improves and maintains those upstream storm water facilities that protect downstream property. The program establishes design criteria and regulates design to help control offsite storm water problems. The storm water program is taking steps to reduce storm water pollutants that degrade the quality of water and life in the City. Every property and person in the City is either directly or indirectly served by these activities. The storm water utility system, in conjunction with the street system, provides access to commercial customers utilizing those properties. A storm water system provides both direct and indirect benefits to all properties located within the City of Newport.

8. How will the new rate structure impact subsidized housing within the City of Newport?

The structure will be applied to the housing based on unit type. A single-family unit will pay single-family rates, and a multi-family unit will pay multi-family rates. The storm water fee would be applied based on impervious surface. The cost differential would depend on whether a unit is metered individually, or the entire building is metered with one meter, as to the difference in cost for storm water fees under the proposed recommendations.

9. Should the City consider a food tax, or other taxes, that tourist pay rather than storm water tax to pay for these utility needs?

Currently, the City has implemented a gas tax which generates revenue from both tourist and local residents utilizing Newport's streets. There may be options of increasing the gas tax, as an alternative to the proposed changes in the storm water fees to cover these obligations. A number of cities have implemented taxes on prepared foods as a source of revenue for their communities (Yachats, Ashland). Council could consider different alternatives than implementing the ESUs for the storm water utility.

10. Will the storm water fee be owed by both taxable and nontaxable entities, such as the schools, county, and other entities that are exempt from property taxes?

Yes, the storm water fee is currently billed on a meter basis, and would continue to be billed on an ESU basis, based on the recommendations from the study.

11. Are there any provisions for those that capture storm water on their property?

At this point, we do not have a methodology for addressing storm water conservation issues. This would be something that we could consider implementing at some point in the future, if Council establishes an ESU for stormwater.

12. Is the City consider any benefits for low-income utility users such as energy assistance programs?

The City Council is discussing this in a separate section of this report. There's a more detailed analysis of these options.

13. Some businesses with multiple meters have historically been paying more in storm water and infrastructure fees than a similar sized business with one meter. Is that fair?

The current system is based on a flat rate for each service meter within the City's system. This can create differences from one business to another, depending on the number of meters utilized by that property owner. By going to ESUs, similar sized businesses with similar impervious areas would be paying the same amount.

14. The City utility rates have been both an economical and environmental injustice to small and/or residential properties. The minimum rates for small users are too high because the large users are not being charged enough.

The City's current rate structure for water and waste water is also utilized by other communities in the state. It is one way to equitably distribute the charges for the water and waste water system. The use of COSA is an alternate method of allocating costs for the utility system. Both systems make various assumptions and have different impacts on the various users in the City. Both systems are commonly used in the state for allocating costs for providing various utilities.

15. The current rate structure discourages conservation of water by water users.

Water and sewer rates have been based on a number of types of rate structures which have different impacts on different communities. The City of Newport's existing rate structure and the rate structure proposed by FCS Group are both flat rates. This means that utility users pay the same amount per each 1,000 gallons of water. Other rates are structured so that as the water consumption increases, the rate for subsequent units of water utilized increases. These types of rate structures would tend to incentivize people to use less water. Historically, some rate structures had rates which declined as more water was used to encourage economic activity and other uses of water within those communities. This type of rate structure is becoming less common in communities. Each community selects a rate structure that fits its best needs moving forward. One change that is proposed would reduce the sewer allowance for water used in the summer. This allowance is proposed to be eliminated in the rate schedule, where a reduction in waste water charges is provided to homeowners, based on their water usage during June, July, August, and September. This amount is based on their water usage in January, February, and March.

16. If utility customers utilize gray water, their sewer bills should be reduced.

Unfortunately, we do not have a methodology that allows us to track this type of use of gray water in the billing processes. This likely would only be feasible if there was a large commercial reuse of gray water that could be metered separately.

17. The City provides services to properties whether there is any use of water or not. There should be standard fees applied twelve months of the year.

All water customers connected to the water system pay a monthly water and sewer minimal charge, and pay a storm water fee and infrastructure fee in our current system. This would continue under the new rate structure, as well.

18. A commercial user should pay twelve months of the year for the number of units available whether the units are rented to help recover costs for sewage treatment.

Neither our current rates nor our recommended rates would base sewer charges on the number of units available.

19. Do commercial, industrial, industrial and other utility users pay the same rate as residents?

Under our current system, there is a differentiation on the size of the meter, however, for water and waste water services utilized, the same rate currently applies for all water and sewer customers in the City. The proposed rates from FCS would create three distinct classes of property that would have three separate rates calculated for those classes based on their overall impacts to the City's water and sewer utility systems. This is determined by a cost of service analysis that was conducted by FCS, and is recommended by FCS for implementation by the City of Newport.

20. Does the City of Newport include water, sewer, and storm water payments in their budget to reimburse utility use by city facilities?

The City currently does not bill our own facilities for water, sewer, and storm water payments. This is something that we have had internal discussions about, and may be an action the City Council wants to take in future budget years.

21. As a commercial business, I recognize the challenges the City has to finance storm water needs, but is there a way that the impact of this could be spread out among a larger group of users?

The basis for recovering storm water rates in the recommendations from FCS Group, is to charge a fee equivalent to the impervious areas occupied by various buildings, parking lots, and other developments that reduce infiltration of storm water into the ground. The City Council could consider other methods to collect revenue to pay for these improvements as outlined in question 9.

22. The City should charge a higher rate for residents at higher elevations because of the extra costs in operating booster stations within the City, as the City of Eugene does.

The listed elevation for Eugene, Oregon is 119'. Eugene, Oregon adds an additional charge for properties located above 800', 975', and 1150' above sea level. Please note that the first 400' of elevation is all part of the base charge. While the City of Newport utilizes booster stations in various parts of our water system, all of our customers are within 400' feet of sea level. If our customers were in Eugene, they all would be paying the same rate since they are within 400' elevation of each other. No elevation changes are proposed for Newport.

23. What capital costs have been included in the calculations for water and sewer rates?

Attached is list of projects considered by FCS Group in order to determine the financial needs of the system over a multi-year period.

24. Can the City's utility billing program through Caselle bill the three new utility rate categories?

Yes, Caselle is designed to charge various rates for various types of utility customer uses. Furthermore, the billing statements can be clarified, and it's possible to add graphics in the bills in the future, showing historic usage.

25. Has the City conducted a separate analysis of the project needs for the utility systems for the future?

The projects identified for funding are based both on expected projects, and annual replacement needs based on utility standards. The projects have been identified through various utility planning processes, which have identified specific needs for the City. These have been reviewed by the Public Works Director, and specific projects have been appropriated in accordance with these plans. The utility rates take into account the borrowing plan that was first initiated by the Infrastructure Task Force, and has been revisited as part of the utility rate analysis. A separate analysis of this work has not been completed.

Options for Moving Forward

There are several possible options that City Council could pursue. These include the following:

1. Implement the recommendations of FCS Group which include the recommendations relating to the cost of service analysis, creating three tiers of rate payers for water and sewer bills, an equivalent to service unit (ESU) in 2019-2020 for calculating storm water charges, elimination of the summer watering provisions, elimination of the conclusion of the first 1,000 gallons of water in the base rate, elimination of the infrastructure fee in 2019-2020.
2. Modify the above recommendations by implementing the recommended flat increases across all utility customers (not implement the COSA recommendations), and implement the ESU for storm water customers.
3. Implement the COSA recommendations, but not the ESU recommendations by charging all customers the same rate per meter for storm water charges, and eliminating the infrastructure fee with those changes occurring in the 2019-2020 fiscal year.
4. Implement COSA and phase-in the ESU charges and phase-out the infrastructure fee over a three-to-five year period.
5. Implement the COSA and one of the ESU options, but consider other ways to generate revenue to meet these future needs. (i.e. increase gas tax, tax on prepared foods, etc.)
6. As suggested by City Council.

Next Steps

September 17 at the regular meeting, Council will propose a utility rate structure and schedule a public hearing for the City Council meeting to be held on October 15, 2018. City Council will hold a public hearing and following the hearing, considering any comments

made, approve a rate structure for the utility rates for implementation by November 1, 2018 (except for any storm water changes), with the next rate increase occurring on July 1, 2019.

Since utility rates have not been adjusted for this past fiscal year, and have not yet been adjusted for the current fiscal year, it is important that a decision is made within this time frame to address the fiscal needs of our utility systems, to avoid more substantial increases in the future. Attached to this report are the capital outlay costs considered in the rate study by FCS Group, and more detailed analysis of the impact that the rate structure changes would have under various classes of customers. Please let me know if any additional information is needed.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "S. Nebel".

Spencer R. Nebel

City Manager