



Revised

NOTICE OF PUBLIC MEETING
CITY OF ALBANY
CITY COUNCIL WORK SESSION
~~Municipal Court Room~~ **Council Chambers**
333 Broadalbin Street SW
Monday, May 23, 2016
4:00 p.m.

OUR MISSION IS

*"Providing quality public services
for a better Albany community."*

OUR VISION IS

*"A vital and diversified community
that promotes a high quality of life,
great neighborhoods, balanced
economic growth, and quality public
services."*

AGENDA

Rules of Conduct for Public Meetings

1. No person shall be disorderly, abusive, or disruptive of the orderly conduct of the meeting.
2. Persons shall not testify without first receiving recognition from the presiding officer and stating their full name and residence address.
3. No person shall present irrelevant, immaterial, or repetitious testimony or evidence.
4. There shall be no audience demonstrations such as applause, cheering, display of signs, or other conduct disruptive of the meeting.

- 4:00 p.m. CALL TO ORDER
- 4:00 p.m. ROLL CALL
- 4:05 p.m. BUSINESS FROM THE PUBLIC
- 4:10 p.m. GOVERNMENT TECHNOLOGY AWARD – Jorge Salinas. [Verbal]
Action Requested: Information.
- 4:15 p.m. SPRING HILL DRIVE TRAFFIC-CALMING OPTIONS – Benton County staff. [Verbal]
Action Requested: Information, discussion, and direction.
- 4:45 p.m. CITY MANAGER EXECUTIVE SEARCH FIRM UPDATE – David Shaw. [Verbal]
Action Requested: Information, discussion, and direction.
- 5:00 p.m. SEWER RATES – Chris Bailey. [Pages 2-9]
Action Requested: Information, discussion, and direction.
- 5:30 p.m. RECREATIONAL MARIJUANA REGULATIONS – Jeff Blaine, Bob Richardson, Richard Montague, and Sean Kidd. [Verbal]
Action Requested: Information, discussion, and direction.
- 6:00 p.m. DISCUSSION OF REPEAL OF ORDINANCE NO. 5869 (ESTABLISHING STORMWATER UTILITY). [Page 10]
Action Requested: Information, discussion, and direction.
- 6:15 p.m. BUSINESS FROM THE COUNCIL
- 6:25 p.m. CITY MANAGER REPORT
- 6:30 p.m. ADJOURNMENT

City of Albany Web site: www.cityofalbany.net

The location of the meeting/hearing is accessible to the disabled. If you have a disability that requires accommodation, advanced notice is requested by notifying the City Manager's Office at 541-917-7508, 541-704-2307, or 541-917-7519.



TO: Albany City Council
VIA: Wes Hare, City Manager
FROM: Chris Bailey, Public Works Operations Director *CB*
Jeff Blaine, P.E., Public Works Engineering and Community Development Director

DATE: May 19, 2016, for the May 23, 2016, City Council Work Session

SUBJECT: Sewer Rate and Industrial Permit Increase for July 1, 2016

RELATES TO STRATEGIC PLAN THEME: ● A Safe City
● An Effective Government

Action Requested:

Staff is seeking direction from Council regarding a sewer rate increase to be effective July 1, 2016. A rate increase between three percent (3%) and six percent (6%) is recommended. An increase in the City's Industrial Wastewater Discharge Permit fee is also recommended.

Discussion:

Sewer Rates

In January 2012, Council received a report regarding the five-year water and sewer system needs and a projection of system rate requirements to support the two utilities. Council approved a target of \$2.6 million (inflation adjusted) in annual sewer system capital revenues by fiscal year 2017. A projection of the five-year rate requirements was developed and presented to provide Council with a picture of what it will require over time to reach this capital investment need. Each year staff updates the rate picture as part the of the annual rate discussions with Council. This year is the fifth year in the initial five-year plan.

In the June 2015 sewer report to Council, staff anticipated a six percent (6%) sewer rate increase would be required in July 2016. Staff completed an updated analysis of sewer rate needs based on year-to-date information and revised projections of expenses and revenues in the sewer utility. The evaluation found that the rate increase can be reduced to three percent (3%) and still meet the target goals established by the Council in 2012.

In addition to the rate increase, staff recommends increasing the permit fees for Significant Industrial Users (SIU) to reflect the increase in fees charged to the City by Oregon Department of Environmental Quality (DEQ) for these permits. The current fee is \$569. The proposed new fee is \$637. These fees only cover the City's cost to DEQ and do not recover any staff time in issuing or monitoring the permits.

Unfunded Needs

The five-year sewer capital revenue plan approved by Council is focused on programmed replacement of aging infrastructure that is at the point of failure. Consequently, the \$2.6 million capital target referenced above does not provide for any investment in capacity-increasing projects to avoid sewer overflows during rain events that could lead to permit violations and/or sewer backups.

At the March 9, 2015, Council Work Session, staff presented an updated Wastewater Collection System Facility Plan that identified approximately \$30 million in high priority capacity-increasing projects. Staff developed funding alternatives for some of these high-priority projects, notably the Cox Creek interceptor projects which are now programmed to be constructed within the current CIP window. However, the most expensive of the high priority projects, the Riverfront Interceptor, does

not currently have an identified funding source. The cost of this project is not included in these rate projections and will be the subject of a future discussion with Council.

Next Steps

Staff is seeking Council direction on whether a three percent (3%) or six percent (6%) rate increase should be brought back for consideration. A three percent (3%) increase is necessary to continue to fund our operations and debt expenditures while achieving the goal of \$2.6 million for capital projects by 2017. Council may want to consider holding the rate increase at the projected six percent (6%) in anticipation of significant unfunded capital needs. If Council chooses to implement a rate increase beyond the minimum recommended three percent (3%), the additional revenue that is generated will be used to fund future capital projects.

After receiving input from Council on the proposed sewer rate increase, staff will present a Resolution regarding the sewer rate increase and SIU permit fee increase for Council consideration at the June 8, 2016 Council meeting. If approved, increases will take effect on July 1, 2016.

The following table identifies the monthly impact to a residential sewer customer being charged for eight units of sewer usage based on a three percent (3%) and six percent (6%) sewer rate increase.

Proposed Rate Increase	Monthly Increase for a Residential Customer Billed for 8 Units of Sewer Usage	Total Monthly Sewer Charges for a Residential Customer for 8 Units of Sewer
Three Percent (3%)	\$1.75	\$60.21
Six Percent (6%)	\$3.51	\$61.96

Attachment A provides a more detailed discussion of sewer revenues and requirements and provides an updated five-year rate projection. This is the same general information staff has presented annually to Council during each rate discussion. It has been updated with current sewer rate revenue projections for the next five years. This document is provided as background for Council and the public.

Budget Impact:

The following table provides estimates for the anticipated additional revenue a three percent (3%) and six percent (6%) sewer rate increase will generate.

Proposed Rate Increase	Estimated Additional Revenue Generated
Three Percent (3%)	\$483,000
Six Percent (6%)	\$966,000

JJB:CB:rk

Attachment A – Sewer

ATTACHMENT A – SEWER

Background

The Albany Strategic Plan identifies the importance of a safe and reliable sanitary sewer service to Albany citizens while also meeting federal and state environmental requirements for the system. To accomplish this, the City proactively manages the system. Part of managing the system is to plan for the needed system revenues and expenditures. There are no general fund resources used to support the sewer utility. All functions to operate and maintain the sewer system are funded through sewer revenues generated by service charges, System Development Charges (SDCs), and other permit fees. Grant funding is used to augment revenues when available.

Similar to most budgets, there are three components to the cost of running and maintaining the utility expenditures. The three expenditure components are:

- Debt Service
- Operation and Maintenance (O&M)
- Capital Expenditures

These three components are interdependent and impacts to funding of any one of the components ripple into the other two.

Debt Service – The City’s first obligation is to pay off the debts we owe. At times utilities borrow money to complete large capital improvement projects that cannot be funded with pay-as-you-go funding. The Albany-Millersburg Water Reclamation Facility (WRF) is an example of this type of large project.

The largest debt the City holds is for sewer utility improvements the community chose to make several years ago. The sewer debt is in the form of a loan from the State of Oregon administered by the Department of Environmental Quality (DEQ). The debt agreements have specific requirements for repayment as well as annual revenue generation. Repayment of the debt is made through a combination of rate funds and System Development Charges.

Operation and Maintenance – The City’s second obligation is to properly operate and maintain the existing sewer facilities. These assets include the pipe systems, sewer lift stations, and the treatment facilities to treat the wastewater. In addition, there are monitoring and enforcement obligations the City must accomplish in order to continue to meet state and federal permit requirements.

Proper operation and maintenance reduces the risk of system failures that can lead to interruption of service or violation of health and environmental standards. Proper maintenance can also reduce overall expenditures including capital needs and prolong the service life of infrastructure components.

Capital Expenditures – Finally, the City needs to invest in capital improvements to replace failing and undersized infrastructure. Adequate investment in this work provides for reliable service to existing customers and anticipates needs to support economic development in the community. Almost all capital expenditures are made to replace failing or undersized infrastructure or in response to mandated regulations to protect Albany’s citizens and the environment.

Regular capital investment in the utility infrastructure will reduce the risk of system failures that can lead to interruption of service or violation of health or environmental standards. Staff routinely conducts assessments of all the accessible sanitary sewer pipes in the collection system, providing condition data which allows planning for specific, targeted pipe repairs. Targeted capital expenditures will reduce the ongoing maintenance costs associated with operating the utilities.

Revenue and Rate Picture

Staff has prepared a five-year projection for the sewer fund, understanding the revenue and expenditure picture will likely change as we move into the future. The requirement to pay off the existing debt in the sewer fund is fixed. However, there are significant variables that can impact the operation and capital requirements for the sewer system. Following is a list of the variables that will impact the rate picture over time:

- Rate Revenues – While we have been fairly accurate in past revenue projections, the state of the economy can dramatically impact revenues in either direction. In addition, weather can impact revenues.
- SDC Revenue – The revenue the City receives from SDCs is driven by the amount of development happening in the City. The projections in this memo are conservative in that they assume moderate SDC revenues. If development picks up, so will SDC revenues, which can change the long-term picture of rates.
- Personnel and Other Large Operation Expenses – Personnel costs are the largest single driver impacting operating expenses. The cost of fuels, chemicals, and electricity can also have large impacts on expenditures and, therefore, rate requirements.
- Unforeseen Capital Needs – Staff is able to project and identify most significant capital needs in a timely manner such that there is time to plan and incorporate the need into long-range rate planning. However, there are instances when unforeseen issues arise requiring unanticipated expenditures. We are continually working to improve our understanding of the current condition of facilities through a properly functioning asset management program in order to minimize unanticipated needs.
- WRF Sludge Issues – The underperformance of the WRF solids system has resulted in a significant cost to the City when a savings was originally anticipated. Until the system can be corrected, this will continue to impact the sewer budget.
- Future Regulatory Costs – The City's existing discharge permit for wastewater is expired and administratively extended. There is no certain timeline for our permit renewal process to begin with Oregon Department of Environmental Quality, however, when that process begins, the City will be required to perform some additional capital work for both permit renewal and implementation.

In January 2012, Council supported a targeted plan for meeting the debt, O&M, and capital investment needs in order to maintain the utilities at a level so they can continue to meet service needs, meet environmental regulations, and minimize the need for unpredictable large rate increases.

Current and Future Revenue Needs

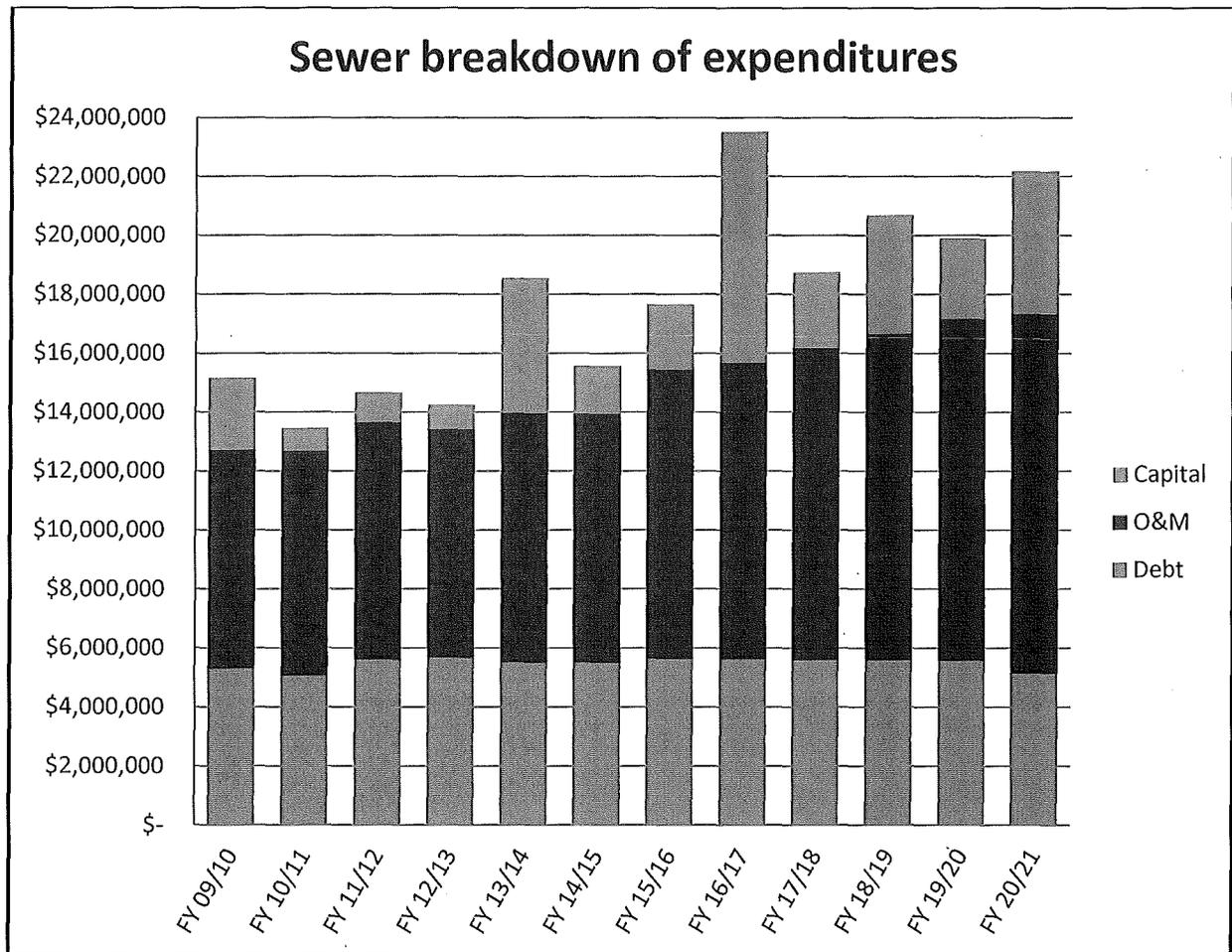
Following is a summary of the revenue and expenditure needs for the sewer system:

Revenues:

- Rate Revenue – The current estimated total sewer rate revenue the City will receive in the 2016 fiscal year is approximately \$16 million.
- SDC Revenues – SDC revenues vary year to year depending on the pace of development in the community. The City anticipates it will receive approximately \$550,000 in fiscal year 2016. For the future projections, staff has assumed \$470,000 in annual SDC revenue. This is equivalent to approximately 158 home starts in a year. The SDC estimates may be conservative, but they provide a relative picture of SDC funding availability. If development patterns change and SDC revenues increase or decrease, the future analysis will be adjusted to reflect that change.

Expenditures:

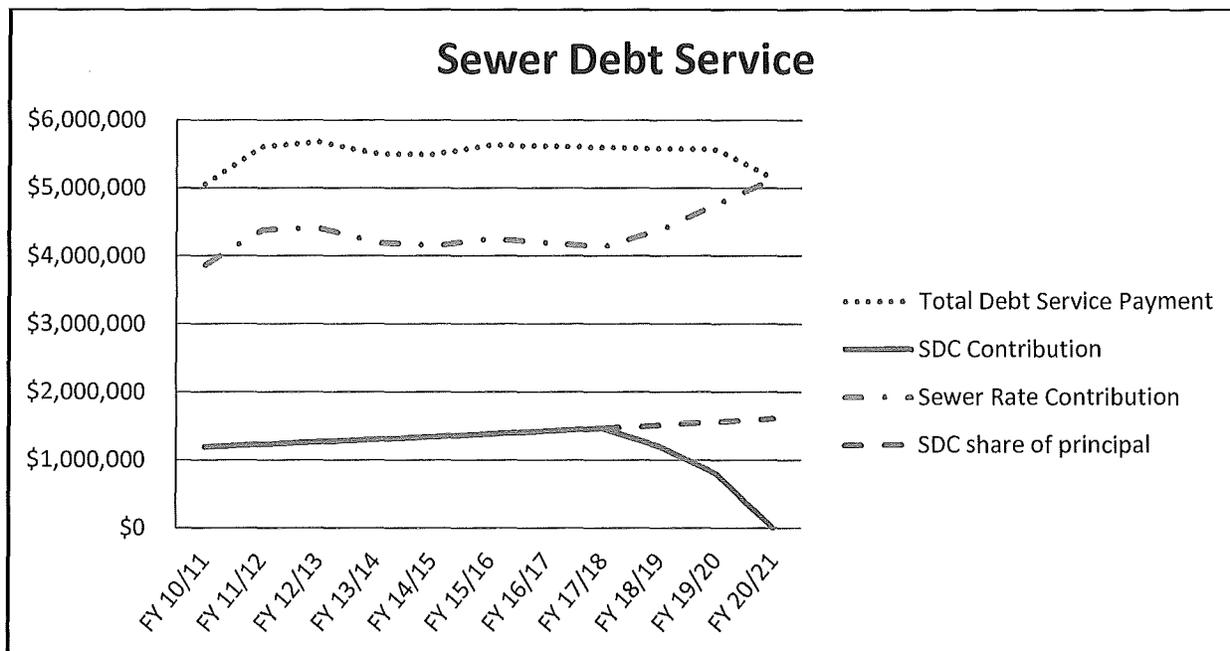
The following graph shows how sewer expenditures are split between the three expenditure areas:



Debt Service: In order to complete the Water Reclamation Facility (WRF) and Talking Water Gardens (TWG) Wetlands project, the City borrowed approximately \$77.2 million. While the City was able to secure low-interest financing for these projects, the annual debt payments are significant. The total debt service associated with the construction of the WRF and the TWG wetlands treatment projects amounts to approximately \$5.6 million per year through the year 2032. Albany’s share after Millersburg’s contribution toward debt service is approximately \$5.2 million per year.

Both rate and SDC revenues are responsible for paying off the debt for the wastewater improvements. Rate revenues are responsible for all interest costs and 55 percent of the principal payments for the WRF and 100 percent of the TWG. In fiscal year 2017 this equals approximately \$4.19 million. SDCs are responsible for 45 percent of the debt principal payment for the WRF because a significant portion of the facility was sized to serve future capacity needs. In fiscal year 2017 this equals \$1.42 million.

Both rate and SDC reserves have been used to help pay for the debt service; however, these reserves will be exhausted in the coming years as rate and SDC revenues do not keep pace with the funding needs. Staff estimates the SDC reserves will be exhausted by 2020-21. Subsequently, sewer rate revenues will need to be borrowed by the SDC fund to cover the debt service obligation. The following graph shows how rate requirements for debt service are impacted as reserves are spent down.



As part of the loan agreement the City has with the Oregon Department of Environmental Quality (DEQ), the City is required to annually collect net revenues at 1.05 times the yearly amount owed in debt service payments. This is the debt coverage ratio. The DEQ will allow Albany to include SDC revenues in the debt coverage ratio calculation. Previously staff worked with DEQ to lower our debt coverage ratio from 1.25 to 1.05 by increasing our reserves.

Operation and Maintenance: Rising employment, chemical, and energy costs impact the O&M budget. In addition, the lack of prior investment in the wastewater collection system and the current challenges being experienced at the WRF further stress the O&M budget.

Cost reduction measures have reduced the five-year O&M cost increase average from seven percent to five percent. For the five-year projection, a five percent per year increase has been used for O&M. Public Works will continually evaluate how to operate more efficiently and make sure funds are appropriately targeted. However, most maintenance activities cannot be deferred without increasing the risk of sewer failures resulting in potential sewer backups and other impacts from failed systems.

Capital: The City needs to invest in capital projects to replace failing and/or undersized infrastructure. Adequate investment provides for reliable service to existing customers and anticipates needs to support economic development and growth. A five-year look at the sewer fund revenues and expenditures shows a decreasing amount of rate revenue money available for capital maintenance projects unless additional funding is provided. If rate increases are limited to just the revenue required to meet debt coverage and O&M expenses, no rate revenue will be available for capital projects by 2021, with only minimal investments made in the interim.

Identifying the appropriate level of capital funding must be balanced with the burden it places on the rate payers. It is vital to have enough capital funding available to replace the worst infrastructure in a reasonable time in order to reduce the risk of failures, sewer backups into basements, surcharging, sink holes, and environmental permit violations. It is also important to be able to address problems that result in recurring high operation and maintenance costs.

The remaining capital needs in treatment are the solids process improvements and future permit renewal and implementation requirements. Additionally, staff continues to develop and implement capital projects to address long-standing collection system needs.

An annual amount of \$2.6 million is required to meet a minimum capital replacement program. Although progress can be seen in the condition assessment of the collection system pipe network as a direct result of previous rate increases, thousands of linear feet of pipe are still rated at a level equivalent to imminent failure, and many more thousands of linear feet continue to decline with each passing year. The funds generated for the capital program will allow staff to continue to make progress with this perpetual life replacement program. Meanwhile, there are existing needs with capacity limitations, lift station repairs, and other system requirements that are not currently funded.

The level of funding described above will continue the implementation of a strong asset management and perpetual life replacement program for the approximately 220 miles of sewer pipelines. The funding level does not address other significant capital needs in the collection system such as necessary improvements to the Riverfront Interceptor (RFI). Funding a solution to the capacity limitations of the RFI is critical to allowing increased development in the sewer basin in serves, and in avoiding penalties for unpermitted sanitary sewer overflows.

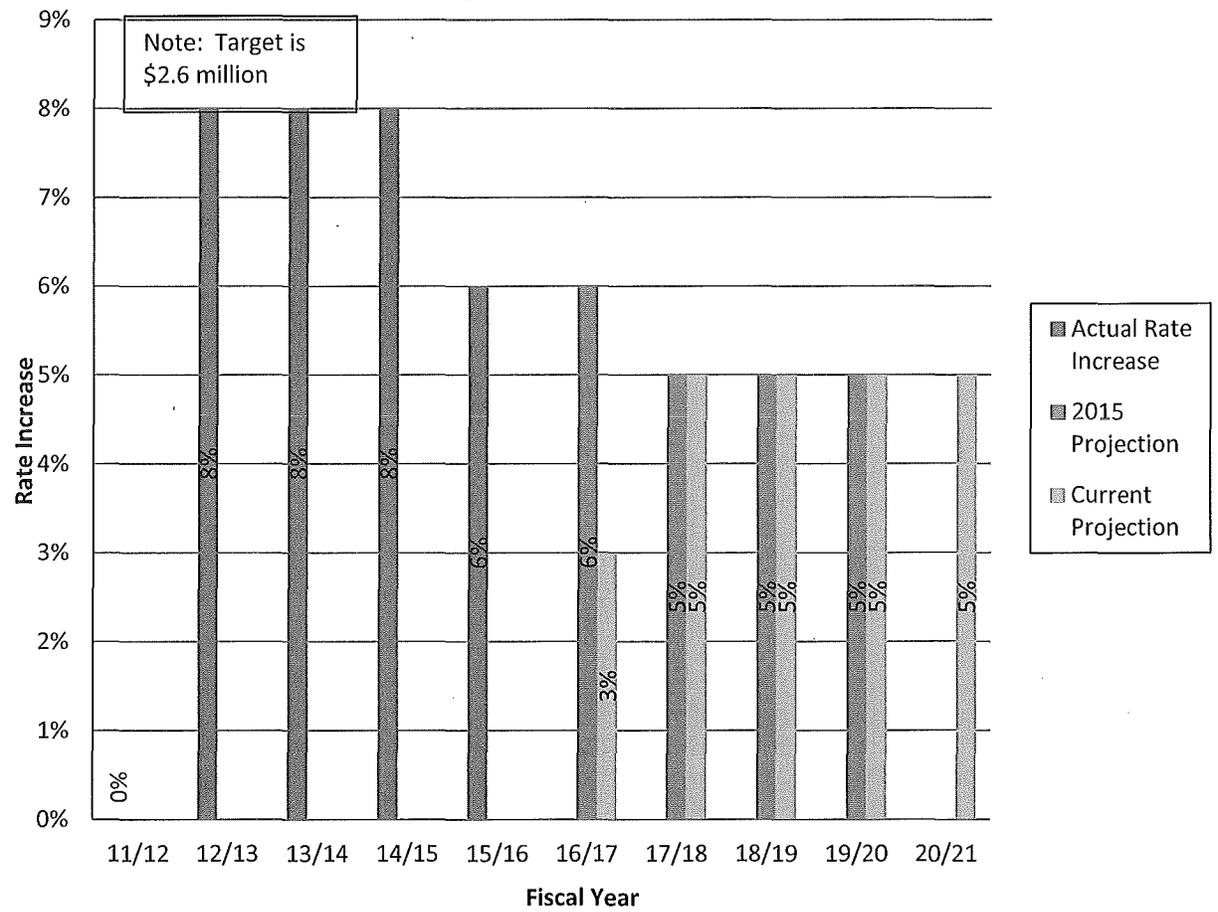
Summary

A sewer rate increase of three percent (3%) is necessary effective July 2016. This rate increase will help the City to continue to build toward an adequately funded system to address the many challenges that are present. This rate increase is lower than the previously projected rate increase for this year.

Council may want to consider implementing the six percent (6%) rate increase that was previously projected in order to generate more capital in anticipation of the high cost for completing capacity improvements that are anticipated, but not accounted for in the current funding and rate models.

The following graph compares the anticipated rate increases as projected in 2015 to the current projection for rate increases. It also shows the actual rate increases implemented in the past and proposed for this year.

Five-year Rate Projection



ORDINANCE NO. _____

AN ORDINANCE REPEALING ORDINANCE NO. 5869 IN ITS ENTIRETY AND DECLARING AN EMERGENCY.

WHEREAS, the City Council adopted Ordinance No. 5869 on April 13, 2016, to be transparent about stormwater system needs and process; and

WHEREAS, on April 19, 2016, a Referendum Petition was filed regarding Ordinance No. 5869, and designated RP-2016-01; and

WHEREAS, the pending Referendum Petition restricts communication about stormwater system needs and costs; and

WHEREAS, the City Council prefers to be transparent and share information publicly without restriction; and

WHEREAS, repealing Ordinance No. 5869 allows City of Albany staff to communicate with Council and the public about stormwater system needs and costs.

NOW, THEREFORE, THE PEOPLE OF THE CITY OF ALBANY DO ORDAIN AS FOLLOWS:

Section One: The City Council hereby repeals Ordinance No. 5869.

Section Two: Emergency Clause. In as much as this ordinance is necessary for the immediate preservation of the public peace, health, and safety of the City of Albany, or to facilitate the prompt and timely completion of important City business, an emergency is hereby declared to exist; and this Ordinance shall take effect and be in full force and effect when signed by the Mayor.

Passed by the Council: _____

Approved by the Mayor: _____

Effective Date: _____

Mayor

ATTEST:

City Clerk