QUESTIONS FROM THE BUDGET COMMITTEE

Responses 04/25/23

OLWS Proposed 2023-2024 Budget Questions (Bob Weber 04/24/2023)

1. **The organizational chart on page 6 of the proposed 2023-2024 Budget reflects 39 positions, an increase of 1 position relative to the adopted 2022-2023 Budget. The requested additional position appears to be for a second Jr. Accounting Specialist. What is the need or justification or need for this new position?**

   The Finance Department of OLWS provides budgetary, accounting, and financial services to the North Clackamas County Water Commission and the Clackamas River Water Providers. This means three budgets and three audits every year. In 2019, OLWS' new auditors found 21 areas deficient requiring additional accounting activities and additions of internal controls. The accounting work required by these recommendations, work that was not being completed at the time of the consolidation, require additional staffing. These recommendations are necessary financial best practices needed for utilities, especially in respect to capital expenditures and asset intensive. This position was requested in the Proposed Budget FY 2021-2022. At the time, the additional work was not fully scoped, and the position was denied. As material variances have been documented, especially within capital and fixed assets, this added position is essential. Without this position, OLWS will continue to not meet base level for accounting and internal controls.

   This added position is essential and was approved by the Board outside of the Budget Committee cycle based on the needs mentioned above. The Jr. Accounting Specialist position has been filled and is currently staffed.

2. **The organizational chart on page 6 of the proposed 2023-2024 Budget also reflects a consolidation of the former Utility Operations Director and District Engineer positions into a single Public Works Director/District Engineer position under the General Manager along with some additional restructuring under the Public Works Director/District Engineer position. Is this restructuring primarily to clarify functional roles and streamline reporting or are there expectations of increased efficiencies leading to cost savings in this budget?**

   The main goal in the restructuring was indeed to clarify functional roles and streamline projects. By having the Public Works Director/ District Engineer oversee filed crews. This position becomes the expert in workflows and the work needed in wastewater collections, water distribution, and watershed protection. Ultimately crews can be mobilized as efficiently as possible, workloads can be shared and distributed when spikes in work occur. The restructuring will make it easier in future years to identify when projects can overlap leading to decreased mobilization costs and cost savings.

3. **Per the Expenditure Assumptions section on page 15, Medical and Dental estimates an increase in rates of 5%. However, the Medical/Dental Insurance Totals across all Divisions increases from $702,000 in the adopted 2022-2023 Budget to $814,000 in the proposed 2023-2024 Budget, an increase of 16%. When adjusted for the increase in headcount (38 FTEs =>39 FTEs), the average cost per person increases from $18,474/person to $20,872/person, an increase of 13%. What explains the 13% increase if insurance rates are only assumed to increase 5%?**

Health insurance is budgeted at 5% above current rates at the current plan distribution. Over the past year the plan distribution has changed. We currently have a higher number of staff electing the family plan for insurance coverage versus employee only or employee plus spouse coverage. The increase is explained by a shift in the demographics of the workforce at OLWS.

4. **The Expenditure Assumptions also specify "Continued funding of the on-going Low Income Rate Relief Program (income based)". What is the level of funding for this program as represented in this proposed budget and in what Fund(s) and line item is this captured?**

   The policy level of funding for the low-income program at the Proposed Budget level is $103,765. The current FY 2022-23 level is $75,710. There are currently 138 water customers and 129 wastewater customers, out of 8,912 (1.5%) water and 7,526 (1.7%) wastewater accounts receive low-income rates.

5. **The Revenue Assumptions section on page 15 assumes non-payment of bills by customers at 2% based on history. Based on the significant rate increases proposed in this budget, the average residential customer would see their monthly bill increase by about 37% from $94.54/month to $129.70/month. This $35.16/month increase translates to an annual increase of approximately $422/year. Given this level of increase, along with recent large increases in rates for other utility services in the area (i.e. gas, electric, cable, etc.), it seems plausible that OLWS would expect to see some level of increase in non-payment of bills, particularly among economically challenged customers, relative to historic averages. Has any assessment been undertaken to critically evaluate the probability of increased non-payment rates and potential loss of expected revenue?**

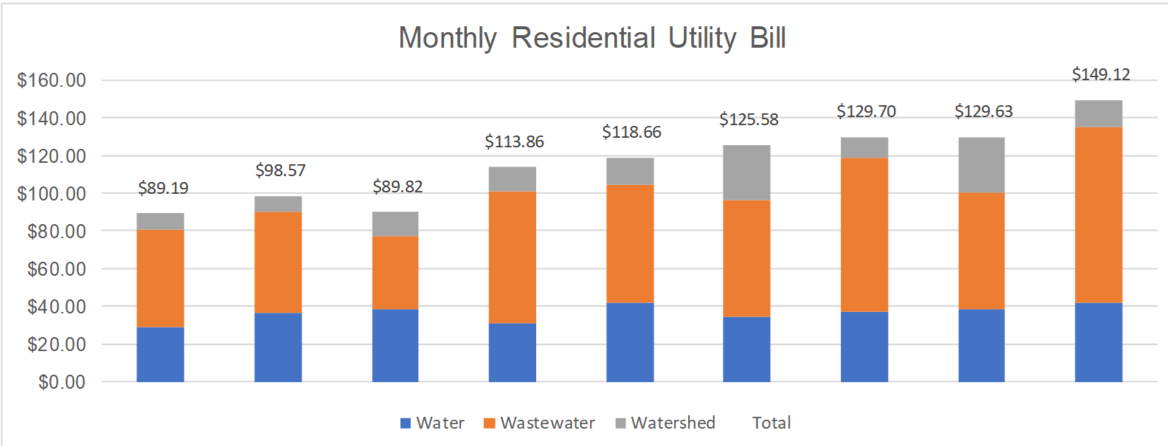
   The current delinquency rate is the lowest for the consolidated utility. Here is the collections rate starting in August 2018:

Month-ending	Over 60 Days	# of Accounts	Average Balance per Account
August 31, 2018	$330,765	1709	194
August 31, 2019	$236,279	690	342
August 31, 2020	$330,765	778	425
August 31, 2021	$297,892	568	437
August 31, 2022	$174,960	554	316
Last Reported: March 31, 2023	$124,134	428	290

   Since the consolidation and with the additional Billing Specialist, OLWS has reduced outstanding receivables by $206,631 and 1,281 accounts. I feel OLWS can provide the necessary support to our customers through the low-income program, local assistance programs and moving to monthly billing.

6. **How do the current monthly rate of $94.54/month and the proposed monthly rate of $129.70/month for the average residential customer compare with rates charged by other similarly sized water districts in the region?**

This slide was at the end of April 20, 2023 presentation. The proposed rate is inline with the rate within the City of Milwaukie at their current rate. The City of Milwaukie has an annual rate increase of 5%.



Services	West Linn	Happy Valley	Oregon City - CRW	Oregon City	City of Gladstone - WES	City of Milwaukie	Oak Lodge Water Services	Milwaukie - CRW	City of Gladstone - OLWSD
Water	$ 28.76	$ 36.41	$ 38.36	$ 30.98	$ 41.59	$ 34.31	$ 37.17	$ 38.36	$ 41.59
Wastewater	51.78	54.02	38.80	70.22	62.79	61.80	81.72	61.80	93.25
Watershed	8.65	8.14	12.66	12.66	14.28	29.47	10.81	29.47	14.28
	$ 89.19	$ 98.57	$ 89.82	$ 113.86	$ 118.66	$ 125.58	$ 129.70	$ 129.63	$ 149.12

Apr-2023

7. **Under Materials and Services for Fund 5 – Administrative Services Fund (page 25), there are large increases in the proposed 2023-24 budget relative to the adopted 2022-23 budget for Contracted Services ($90,500 => $462,000) and Computer Maintenance ($313,103 =>$434,500). What are the specific new items and their associated costs contributing to these large increases?**

Contracted Services increase is due to the following items:

- Lobbying Services $100,000
- WIFIA Application Services $100,000
- WIFIA Required Environmental Study $125,000
- GIS Services (Outsourced-additional level) $50,000

Computer Maintenance increase is due to the following items:

- IT Outsourced Computer Services $30,000 - RFP Year= unknown rate
- New Software Requests $65,000 - Electronic Records, Financial
- Telephone Costs (Moved) $13,000
- Remaining is annual software renewal rates $14,000

8. **In the Capital Improvement Plan, the first 5 Wastewater Capital Improvement Projects totaling approximately $16.9MM are aimed at reducing Rainfall-Derived Infiltration and Inflow (RDII) after heavy rains to reduce the incidence of sanitary sewer overflows. What is the targeted % reduction in RDII to be expected once these projects are implemented? Is there a**

plan in place to evaluate, or will there be a way to assess, the relative success of the first project, Lift Station 5 Basin RDII, in meeting the targeted reduction in RDII after that stage is completed?

Flow testing, smoke testing, and condition assessments of our infrastructure shape our plan of attack at reducing RDII. With this type of project, a set percentage reduction is hard to quantify. For the sanitary sewer overflows that are occurring at Lift Station 2, we calculated that a reduction of 1.6 million gallons per day would need to be reduced to prevent overflows. This calculated reduction is needed to meet the maximum capacity of the Trunk Main in this basin area. We will use flow monitoring before and after the project to quantify the reduction of RDII to report to our customers and the Department of Quality (DEQ).

9. **In the past year (fiscal year or calendar year, whichever is easier to track), how many distinct sanitary sewer overflow episodes have occurred which incurred DEQ fines and what was the total dollar value of those fines? Recognizing that there is some level of increasing penalty with recurring sanitary sewer overflow episodes, if we assume the same number and magnitude of episodes occur annually over the next 5 years, what are the projected annual dollar values of the fines OLWS would expect to be assessed by DEQ?**

Since January of 2022, OLWS has had 4 Sanitary Sewer Overflows (SSO). Of those 4, we have been issued fines for two of those SSO's (and one prior to 1/22), totaling $13,200. DEQ reserves the right to go back and fine OLWS for the remaining two outstanding SSO's.

The DEQ formula for determining the amount of penalty for each violation is:

BasePenalty + [(0.1 x BasePenalty) x (PriorSignificantActions + CorrectingPSA's + Repeat or Ongoing Violations + Mental State + Efforts to Correct] + EB = total fine

EB is the approximate dollar value of the benefit gained and the costs avoided or delayed as a result of our noncompliance. As you can see, the formula has a wide range of discretion when it comes to fines. Projecting the dollar value would be difficult, especially the "EB" variable, which can be massively substantial.

OLWS is striving hard not to impact the environment with either permit violations at the wastewater treatment plant, or Sanitary Sewer Overflows out in the field. When fines are levied by DEQ they do escalate if you have had similar incidents. What you are proposing is not something we are able to do, our focus is doing everything we can not to have a violation.

With the fines levied we have used DEQ's alternative program (Supplemental Environmental Projects) so that 80% of the fines can be spent on watershed projects within the Authority.

10. **In the Budget Committee meeting presentation on Thursday, April 20th, a reference to "WIFIA" was made along with new assessments and costs associated with this plan or project. For documentation and future refences, can you please provide a brief description of what "WIFIA" does or what its purpose is? Also, please identify the specific new projects and/or assessments and their associated budgeted costs required because of it.**

The Water Infrastructure Finance and Innovation Act (WIFIA) is managed by the Federal Environmental Protection Agency. It is a low-cost federal credit program with flexible pay back terms that supports critically important water and wastewater infrastructure projects in communities across the nation.

WIFIA-financed projects enable the modernization of drinking waste and wastewater treatment facilities, elimination of combined sewer overflows, replacement of outdated water supply lines, creation of new water sources, retrofitting of existing dams and more. The WIFIA program offers flexible, customizable terms, including bundling of multiple projects under one loan and master credit agreements. There can be long repayment terms up to 35 years, after substantial completion and payments may be deferred up to 5 years after the project's substantial completion.

OLWS with the 29,000 customers we serve counts as a large community. The minimum project size is $20 million, of which they could fund 49% and the rest of the match needs to be made up of borrowings from other entities and rates. The State has borrowing programs too; the interest on those loans starts immediately.

If WIFIA accepts our letter of interest, there is a $100,000 cost for them to process and refine our loan and we would also need to do any required National Environmental Policy Reviews (NEPA) for the capital construction plans. Each one could cost $50,000 to $100,000. Once we received the WIFIA loan we will be required to follow Davis-Bacon and American Iron and Steel preference rules.

11. **In the presentation of the Waterworth financial tool at the Budget Committee meeting on Thursday, April 20th, charts of Capital Expense projections (slide 4) for both the Wastewater Capital Fund and Drinking Water Capital Fund were broken out between "Asset Renewal" and "Capital Improvements". For the periods 2024 - 2029 that are represented in the current Capital Improvement Plan, can you please identify the specific capital expenses that comprise the "Asset Renewal" category?**

DRINKING WATER	**FY 23-24**	**FY 24-25**	**FY 25-26**	**FY 26-27**	**FY 27-28**	**FY 28-29**
DW Asset Recovery	860,000	581,500	534,000	318,000	382,000	320,000
DW Capital Improvements	2,860,000	2,465,375	3,390,000	3,500,000	4,000,000	4,000,000
Total	**3,720,000**	**3,046,875**	**3,924,000**	**3,818,000**	**4,382,000**	**4,320,000**

WASTEWATER	**FY 23-24**	**FY 24-25**	**FY 25-26**	**FY 26-27**	**FY 27-28**	**FY 28-29**
WW Asset Recovery	1,085,000	964,400	946,567	625,799	905,761	1,010,100
WW Capital Improvements	5,453,000	10,623,843	13,757,665	5,699,970	6,635,661	12,160,560
Total	**6,538,000**	**11,588,243**	**14,704,232**	**6,325,769**	**7,541,423**	**13,170,660**

12. **Also in the Waterworth financial tool presentation at the Budget Committee meeting on Thursday, April 20th, charts of the Current & Proposed Debt Service projections (slide 12) for both the Wastewater Capital Fund and Drinking Water Capital Fund were broken out. For the periods 2024 - 2032 that are displayed in these charts, can you please provide the total dollar values of the current debt service and proposed debt service represented, respectively?**

The total debt service for current and proposed:

Fiscal Year	Current	Proposed	Total
2023-24	3,630,117	158,228	3,788,345
2024-25	3,624,558	631,305	4,255,863
2025-26	3,620,527	1,735,047	5,355,574
2026-27	3,598,848	1,880,043	5,478,891
2027-28	3,378,541	2,350,201	5,728,742
2027-29	3,372,742	2,921,932	6,294,674

13. **The budgeted Capital Outlay in the adopted 2022-23 budget for the Drinking Water, Wastewater, and Watershed Protection totaled $7.16MM but the current estimate of expenditures for this fiscal year totals $5.28MM. This shortfall of ~$1.88MM, or 26%, does not appear to be the result primarily of cost savings but rather several projects not being completed this year and being deferred or carried over into this coming fiscal year or future years. Furthermore, the budgeted Capital Outlay in the proposed 2023-24 budget totals $10.56MM, a 47% increase over what was budgeted for the current fiscal year and a 100% increase over what is expected to be spent this fiscal year.**

    While I appreciate the optimism that twice as much will be accomplished in the coming fiscal year, I retain a healthy skepticism that this will be achievable given there is no increase in operations staff and there are continuing references to lingering pandemic effects such as supply chain constraints. The significant ramp up in capital expenditures is also driving the significant single year proposed rate increases averaging 37%. This proposed increase ranges from almost twice to three times the increases I have personally seen recently in my other utility bills (electric (avg $/KWh), gas (avg $/Therm), cable) and I suspect will present a real hardship to many low-income customers.

    As such, could you please evaluate the implications of implementing only a 25% rate increase on both Drinking Water and Wastewater this year (while leaving the Watershed Protection rate increase at 12%). If my calculations are correct, this would reduce budgeted Drinking Water Revenue by $0.65MM and budgeted Wastewater Revenue by $1.38MM. If commensurate reductions were made to the Capital Outlay budget, this would reduce expenditures from $10.56MM to $8.53MM which is still a 61% increase over what is expected to be achieved this year. Obviously, the forgone capital projects would need to be deferred into FY25 and perhaps there could be some smoothing of FY25 & FY26 projects into FY27 (and possibly FY28?).

    However, reducing these proposed rate increases from 40% to 25% would also reduce the average residential monthly rate increase from 37% to about 23.6% (more in line with other recent utility rate increases). Furthermore, the average monthly charge would only increase about $22.82/month, from $94.54/month to $116.92/monthly (versus $129.70/month). This also recognizes that some significant level of rate increase - more than 4% and likely in the double digits - would probably be required in the future proposed 2024-2025 budget.

    In order for all of the proposed Capital Projects to be achieved it will need to be a combination of outside contractors managed by our staff. Scenarios have been sent as part of the Budget Presentation meeting the evening of Tuesday, April 25, 2023.

Other Questions

1. **40% increases are not an insignificant amount of money for many of our rate payers. We have many low income families living in this district along with working poor that can't sustain this level of increase in their house hold expenses at one time. What would be the net effect on planning if we attacked this problem in smaller increments of rate increases? Based on our past spending on capital projects it appears to me that we could fund a lot of projects with increases of 20% for Water and Wastewater.**

   The power point presentation distributed on Monday, April 24th demonstrates the challenge of balancing the risk of what is done and not done for the infrastructure systems and the cost of the community owned infrastructure for our customers. It demonstrates the net effect on planning. As projects are shifted from one year to the next, they get added to the projects which are already there and only some of those may be able to be shifted. This means rate increases at a higher level for multiple years.

   Please see the answer to Bob's Question 4 with regards to the programs already in place to assist customers in need.

2. **How much of the rate increases are driven by bringing the reserves up to the optimum level in water, wastewater, and watershed funds?**

   The proposed rate does not return the fund balances to the Fund Balance Policy levels.

Fund	Ending Fund Balance	Level	Policy Level	Proposed Budget
Drinking Water Operations	$ 669,708	22.8%	25%	Not Met
Wastewater Operations	672,947	20.5%	25%	Not Met
Watershed Protection Operations	131,161	27.4%	25%	Met
Drinking Water Capital	1,872,700		$2 M	Not Met
Wastewater Capital	2,522,089		$4 M	Not Met
Watershed Protection Capital	2,663,105		$1 M	Met

3. **What are the rate impacts of doing this?**

   The rate impact of bringing all fund balances to the Fund Balance Policy Levels is $49.23/month, with the Proposed Capital Plan. ($35.16 + 14.07)

Fund	Policy Fund Balance	Policy Level	Additional
Drinking Water Operations	$	25%	$ 0.96
Wastewater Operations	672,947	25%	3.05
Watershed Protection Operations	131,161	25%	0.00
Drinking Water Capital	2,000,000	$2 M	0.77
Wastewater Capital	4,000,000	$4 M	9.29
Watershed Protection Capital	1,000,000	$1 M	0.00

4. **What are the implications of not doing that fully at this time?**

The Proposed Budget does not fully fund the policy balances. The Drinking Water Operations fund, based on the proposed rate, returns to the policy level of 25% in FY 2025-26 Budget. The Wastewater Operations fund returns to the policy level of 25% in FY 2027-2028, four years from now, at the proposed rate. The implication is the Operating Funds will be completely depleted within the next one to two years, without additional double-digits rate increases.

Drinking Water Rate Increase	$12.36 per month
Wastewater Rate Increase	$35.71 per month
Watershed Protection	$ 1.61 per month

5. **Can some of the projects be done late to spread the rate increase over time? At last night's meeting the explanations of why it would be beneficial for not delaying the wastewater capital projects were very informative. I did glance at the Master Plan and didn't find that information. If it isn't there it would be good to document those explanations.**

   Some discussion of this will be tonight.

6. **We didn't discuss delaying the water capital projects but considering the same proposed rate increase it would be good to develop and document the reasons for not delaying the Capital Water projects as well?**

   Some discussion of this will be tonight.

7. **The question I have regarding the analysis and rate proposal is whether a 3% escalation is enough. I would feel more comfortable with 4%. Would you be willing to run your analysis with a 4% escalation and let us know the impact?**

   Some discussion of this will be tonight.

8. **For Personnel Services Estimates were there any assumptions made regarding COLA or other likely outcomes from the ongoing labor negotiation? I know there was a 5% increase for medical, insurance disability, etc. which I think is good.**

   As part of our preparation for Union negotiations an extensive compensation survey and analysis was completed based on local comparable entities. Assumptions for salaries and the upcoming COLA, which is part of current negotiations, were made based on the compensation survey and market data.

9. **Is the OGCC, Jennings Lodge CPO, and Trolley Trail Fest sponsorships and other community engagement expenses captured in Communications Account 6730?**

   Yes, all of those expenses are captured in the Human Resources budget on 05-02-6730 Communications.

10. Is all the debt service expenditures for wastewater, except for one?

Yes, one is in Drinking Water for the meter upgrade in 2018-2019. The wastewater debt service is specifically for the Wastewater Treatment Plant.