GLADSTONE ADJOURNED CITY COUNCIL MEETING MINUTES of October 28, 2014

Meeting was called to order at 7:30.

ROLL CALL:
The following city officials answered roll call: Councilor Nelson, Councilor Mersereau, Councilor Martinez, Councilor Sieckmann, Councilor Busch, Councilor Reisner, and Mayor Byers

ABSENT:
None

STAFF:
Irene Green, Library Director; Scott Tabor, Public Works Supervisor; Jolene Morishita, Assistant City Administrator; Shane Abma, City Attorney; Pete Boyce, City Administrator; Rhonda Bremmeyer, Senior Center Director

BUSINESS FROM THE AUDIENCE:
None

CONSENT AGENDA:

1. Approval of Oregon Liquor Control Commission Liquor License – McLoughlin Market Place:

   Councilor Sieckmann had a couple of questions. On page 1-6, question 24 was marked "Yes," but there was no explanation, and he believes that anything that is marked "Yes" requires and explanation. Does that have any effect on us? The second question is that he did not see anything from the Police Department if there were issues that we should be concerned with.

   City Administrator Boyce said that he had received word from the Police Department that there were no issues. As far as Question #24, he does not know what the reasoning behind the "Yes" is at this point. What the City has historically looked at when considering Liquor License Applications is whether in a Law Enforcement stand point, as in is this placing an undue burden on services, and what they are hearing from the Police Department.

   Mayor Byers entertained a motion to approve the Consent Agenda. Councilor Nelson so moved. Councilor Busch seconded. Mayer Byers called for the vote. The Consent Agenda was approved unanimously.

REGULAR AGENDA:

2. Ringle Lawsuit Settlement:

   Mayor Byers announced that this was a legal proceeding, and that it is still in process.

   Mayor Byers asked if there was any other regular business to come before the Council. There was none.

WORK SESSION:

3. Water and Stormwater Master Plans/Rate Studies (additional information available on City's website):

City Administrator Boyce explained that the purpose for the work session was to hear Brown and Caldwell go through the Water and Stormwater Master Plans that they have provided for the Council. He explained that this an opportunity for the Councilors to ask questions and comment on the reports. They also have the rate studies included in the Council binders and we have a gentleman from FCS who did the rate study. He will be able to answer questions.

Tonight at a work session, Council is not able to take action. He would like to have the City Council accept the report in the November meeting – not asking for endorsement, just saying to accept the report as being complete. From that point, we will need to have discussion about how to move forward and how to proceed. There will be several meetings where this will be a topic. We will also have to get public input on the reports before we decide how we want to implement these plans. Tonight we are looking to you to take in the presentation, ask questions, and we will be discussing it further down the road. He turned the floor over to Brown and Caldwell.

Krista Roniga of Brown and Caldwell. She explained that the presentation is going to be in four pieces, and that she was going to try to keep her piece of it fairly brief. She is going to give more of an executive summary of the Water Master Plan and then do the same for the Strom Water Master Plan. She is assuming that the rates are going to be one of the big issues of interest and concern; John Giller from FCS is here to present the Water Rate Study and the Storm Water Rate Study.

a. Water Master Plan – the last plan was completed in 1980. There have been many changes since then; population growth, new water source, new technologies to do master planning, and the system is aging. These are good reasons for updating the plan.

   Some of the goals of the master plan were to document the state of the system, getting a good mapping system in place – that was phase 1, identifying where you have deficiencies now, and will any of those get worse with future growth that is planned or expected, and then to come up with capital projects to address those deficiencies and cost those out. In addition to capital projects, they looked at ongoing maintenance needs. That information that we came up with was then fed to John who performed the financial evaluation.

   In terms of the study area, the primary water supply is the North Clackamas County Water District, and the source is the Clackamas River. There is supplemental water available through the Oak Lodge Water District, and there are three inter-ties to that system. Your water system distribution consists of three storage tanks, two pump systems, and lots of piping. You have an intergovernmental agreement with the North Clackamas Water Commission to obtain up to 2.5M gallons of water per day. In the current system staffing, we approximated at 1.5 Full Time Employees to maintain and oversee the system. Mayor Byers made an observation that should have been in the report that City of Gladstone has a 10% equity in that system that they are in the process of purchasing. In terms of study models, a hydraulic model was set up to simulate how the water gets through the system, so you set all these pipes into the model and basically what you do is they got records of the water that was supplied into the system, and then we have records of your current demands through your water users; you put those into the model to tell you how it is working.

   We looked at this in three scenarios. We looked at it as how it is working now under current conditions. We looked at it as how it is anticipated to change under future

conditions, with a population growth of 0.3% per year. In the third scenario, we did a fire flow demand conditions, so that if there were a fire and the system is being taxed for that, how does the system perform.

Once you run the model, you look at the results and see how it meets some criteria that are sometimes regulated in the ORS, or sometimes in the Selected Desired Levels of Service. We look at how the system is performing, for example, what are the water pressures, what is the supply capacity, things like that.

What the results showed is that there are a significant number of fire flow deficiencies. We saw them at estimated 49 locations due to undersized pipes and lack of looping. There were a couple of areas where the water pressures were above the criteria we are supposed to meet. To have emergency storage available, which is a criteria selected by the city, you would need 2M more gallons of storage capacity.

We also saw deficiencies by just going out with your staff as they were working on the system and also the mapping activity that was done by Sisul Engineering. The first item is that you have about 17 miles of asbestos-concrete pipe, and that is an older type of pipe, which is a problem in a number of cities – it is a type that you don't want to be using anymore, and you don't want your workers working with it anymore. A lot of cites have ongoing programs to get that replaced.

Councilor Nelson asked if the asbestos, since it is so old, is it getting into our water system. Is some of the asbestos leaching into the water system? Krista answered not that she was aware of. The pipes are pretty well lined, but the problem is when it gets into the air when the workers are cutting on it or things like that. Councilor Martinez spotted someone from the audience who spoke up and said that they had been doing testing on the water and that there was no foreign material in it at this time.

A lot of the Pressure Reducing Valves that are required to maintain the proper pressures around the system are difficult to access because they are on private property or have just been covered over. That was another issue to have those located in places where maintenance could get at them.

At The Webster Pump Station, there is a backup pump that is unreliable. Data collection methods at the Webster Station are a chart recorder system, and it is an out of date system. It is difficult to get the kind of data you want in real time, so it makes it inefficient when the staff is having to run out and look at readings and things like that.

Leaky service connections exist in some areas. When we compared the amount of water coming into the system from your commission with all the demands on the system and there is a difference, that means that there is some non-revenue water out there. That can be from a leaky portion of the system. There was 16% of non-revenue water, so that is a little bit high – it seems like 10% is more of an average.

The Ranney System is still in place and it probably needs to be decommissioned. There is some property associated with the Ranney System, which if decommissioned; you could get rid of the property. It would just be good to remove that system.

As a result of those deficiencies, 18 capital projects were developed, and the total CIP costs of those projects is $13.3M. Additionally, operations and maintenance needs related to that, put in an ongoing asbestos pipe replacement program, which if you are going to replace all 17 miles, will be about $820,000 per year for the next 30 years.

When we planned for future growth, we looked out 20 years. When we saw how significant the costs were, we tried to distribute that over 30 years to buffer it a little bit.

One of the capital projects was to put in a Skada System to replace the data collection system. It seemed like the most efficient way to keep that going. An efficient way to keep that going is to have that service annually, which is $2500. More staff would be need for the CIPs and oversight of the system. We estimated 2 Full Time Employees.

The leak detection survey is a one-time cost and we estimate it at about $75,000. These kinds of surveys can be performed at costs in this ball park or range where you can go out and get a much better idea about where your system is starting to degrade at high risk rates and where you are getting leaks now so that you can really target your CIP dollars, and maybe put off replacement of some of the other areas for a longer portion of time.

She showed them the estimated CIOOP Cost Summary. She noticed that there was an error in it for which she apologized and pointed out some of the projects in the list.

Councilor Mersereau asked that in the $13.3M, he is assuming that the replacement of the Asbestos-Concrete pipe is over and above that. She answered that it was. She explained that some of the capital projects included some of the AC pipe, but they had removed that from the total of the AC pipe. Councilor Mersereau said that it was more than $13.3M. She replied, "Yes." Councilor Sieckmann observed that it was about $40M over the 30 years. Councilor Sieckmann wanted to know if the addition of the 2M gallon storage tank is a something that they want to do, or if there were state standards that we are not meeting at this time. There is no state standard on that, so it is a little more subjective based on how much risk you want calculated on two times the daily use of water.

Councilor Mersereau said that he knows that some in the system believe that is needed. He noticed that in the report that it is not noted that in the summarization that is not listed as a high priority or a low priority. She replied that that is because it seems more like a policy decision and they would need more input from the Council or from the public stakeholders to make that determination of about what is an acceptable level. They did not feel that they could make that decision.

Councilor Sieckmann noted that in the back of the book, Appendix F it listed the storage tank, alternative, steel. Were there other alternatives that you looked at? Angela Wieland said that they had looked at steel and concrete alternatives, and that the relative cost difference was about 1 penny per gallon. It didn't seem to make a big difference, so they had gone with the lower cost option of steel for the purposes of pricing.

She explained the prioritization that they used in the summary.

b. Storm Water Master Plan – there was no previous Storm Water Master Plan so the City did not have a Capital Improvement Plan in place. We reached a point in which there were some regulatory requirements to go into the plan – she said that she would go over later.

The goals of this plan were similar: to get a good handle on what the current system is, get the maps all updated in digital format, and to identify current and future system deficiencies for flood control, and also to look at water quality issues, identify capital projects and costs, and identify maintenance and operation costs and feed that into the evaluation, and complying with permit requirements was a layer on this one.

In terms of the regulatory requirements, you have what is referred to as a Phase 1 NPDES (National Pollution Discharge Elimination System), MS4 (Municipal Separate Storm Sewer Storm System) permit, and under that permit you are required to have a Storm Water Management Plan. The Storm Water Management Plan has a lot of problematic activities, like public education, erosion control, getting rid of illicit discharges, and things like that. The Master Plan is more capital improvements. You have a Storm Water Management Plan to meet that permit requirement, and the permit gets renewed every five years, and the City got its last one in 2012. The last one had some fairly significant requirements in it that were not in the previous one. One of those requirements was individual to Gladstone, no other city had this requirement, was to develop a Storm Water Master Plan. The other was to develop a retrofit assessment. What that is that they feel like they have been regulating new development and asking new development to put in water quality facilities, but we have all the older systems where we are not addressing water quality issues. So now they are making this push to go into existing infrastructure and make retrofits for water quality from our existing development. So we are required to do an assessment of our system and where we have opportunities to do retrofits, and they want us to start working toward commitments to doing some retrofits.

Outside of the permit, the TMDLs (Total Maximum Daily Load) are a requirement for your streams. If you are exceeding water qualities in your steams, you basically get an allocation of pollutant loads that you have to reduce. You have a TMDL for the Willamette and Clackamas, and it is essentially a requirement for bacteria, temperature, and mercury. So when we develop a retrofit assessment, and a Storm Water Master Plan, those two should really be developed as one. We need to keep those things in mind and they are requiring us to document our pollutant load reductions and how we are continuing to try to meet those load allocations.

Councilor asked if we have any idea in this study where we are with that. She answered affirmatively and as far as where we are to meeting those load applications – not close. That is true for most everybody; these bacteria requirements for most of the water bodies are not very reasonable, and we argued with them to show that in complete open space, we would not be meeting the requirements. We have done some studies that show that most of the bacteria is from rats and birds, not humans. They are allowing us, and requiring us, and this is due for you guys next year, to put a report together to say can when you can meet that load allocation, even if it is 100 years from now, how you will attain it, how feasible is it, and how much will it cost. Some of the other jurisdictions are doing their assessments now, and we are kind of finding that we are not going to get there. She thinks it is just going to be a long process, but in the meantime, we will continue to do water treatment. Councilor Reisner asked if that was DEQ. She said that it was DEQ.

Temperature is an odd one. We have shading as a surrogate, so we have shading on all of our streams. That one is a little different in that we only have to provide a certain amount of shading on our streams. For mercury, they did not have enough monitoring data to give us load allocations. So we don't even have load allocations.

There is also this thing called the 303D list, where if they go out and monitor streams and find water quality expediencies, they put things on a 303D list, it is kind of like a waiting list to become a TMDL. There are more parameters on the 303D list, she thinks there is one in the Commissioners' reports, that will eventually become TMDLs for Gladstone too, so they are not going away. They are going to be looking for treatment and for you guys to show that you are continually making progress – they know you can't get there right away.

For study area characteristics, the city is identified as mostly occupied with only 10% of it identified as vacant; some of that is in parks and in public spaces that will remain in that condition. The City storm systems contain about 30 miles of conveyance, almost 300 manholes, and more than a thousand catch basins. So it is significant from a maintenance standpoint when those catch basins have to be cleaned out once a year.

We looked at pipe sizes of 12 inches or greater in your system and modeled 32 outfalls that discharge to the Clackamas, some to natural areas, and to natural areas adjacent to the Clackamas. Current staffing is estimated at about 1.5 Full Time Employees. Later John has a slide where we compare FTEs with other cities in the area so you can you look as compared to some of the others cities for FTEs and rates.

For study methods, they did another hydraulic model using the pipes 12 inches and greater. We did scenarios for 10 year, 25 year, and 100 year design events to see how the system performs. And if a system was discharging out of a manhole, but not into the streets, we did not call it a flooding problem. We only called it a flooding problem if it came out into the streets or if it overtopped a bank or something.

She showed a land use map to point out for future conditions, to show those areas that are vacant right now, but are zoned for residential or commercial so as the impervious from those areas increase, then the flow from those areas increase. The study results show that we did not meet some of the valuation criteria and we prioritize problems on whether or not it was flooding during the ten year storm. For the 25 year storms there were so many flooding problems, and these design storms are made to be a little conservative, and they are designed that way so that you have a factor of safety in there. So we ran the 25 year event and saw a lot of flooding problems, so we prioritized those that are showing up in a more frequent event, like a ten year storm. Then we compared the problems in the model, for instance how far it comes into the street and how long it stays in the street and how fast it drains. The best evidence is where you have been out there and seen flooding, and so those areas are ranked the highest.

She showed maps (and referred the Councilors to the maps in their packets) then explained that they show green pipes where there was flooding but it lasts less than two hours. She explained the color codes with the categories of the flooding.

In water quality, you do not really have a map to refer to for identifying retrofits. It is really opportunistic. So what you need to do is look at your higher pollutant generating areas. You want to achieve TMDL load reduction, and you want to address those areas that are not being treated now. We focused on infiltration facilities where you get the water into the ground because those are the most effective at reducing loads, and that is where EPA is really pushing in that direction. We also look for opportunity on public property because

that would be the easiest, not acquiring property. We also overlaid those with flood control CIPs to see where there are opportunities to do both at one location.

The process that was used was to look at your vacant lands, reviewed your land usage, used your soils for infiltration capacity. We looked at placement in the conveyance system, because even if it was in a really good spot, if it was in an upstream area, you wouldn't get that much drainage. We looked for available right-of-way, so it would be on public property, and then we overlaid these locations with those we found with flood control projects to see where they overlapped. We also looked at feasibility and practicality. This was more to get some idea where you could go get some idea for a retrofit project.

Basically that came down to for water quality CIPS, we came down to 19 potential opportunity areas. We identified about 10 CIPs that included like rain garden type planters or detention or channel swell improvements. We also talked about green street projects where you are already going in and doing road improvements, for doing green streets for getting a water quality credit for a project that you are already doing.

For flood control, we had about 22 problem areas, 15 addressed with CIPs, and 13 ended up as CIPS, which are pipe upsizing, pipe replacement, channel improvements, and detention. So if you look at the integrated list where we overlapped them, we had 18 CIPs and one ongoing program, which is money for the green streets program. Eight of those were flood control and water quality, and five were overlapping flood control and water quality.

She pointed out the maps that showed where the CIPS are, where the pipe replacements are.

We kind of prioritized those top four projects on the loft. This list came out to about $13M as well. We also projected these out over 30 years to dampen it as much as possible. She opened the floor up for questions.

Councilor Mersereau said that in some places in the report you had to add people in Public Works. In the cost of doing that annual work in the lists, are the costs of labor included? She said that it did where they added 2 FTE for Water and 2.5 for Storm Water. He said that in the cost of the same water plan, there were two different methods that he saw: in one the contingency was 40% and in the other it was 30%. You also added that in the construction costs, 40% in one and 30% in the other. You also included in one, mobilization and demobilization cost by contractors. On the other you just used a contractor controlled standard. Why did you use different methods on each plan? She replied that it was a good question, but she didn't know if she had help on that one. Angela Weiland responded that the Storm Water Master Plan was developed first, and in that study we developed a 30% contingency, it seemed reasonable. For the Water System Master Plan, with the steel storage tanks and such, we used our estimating group and they could be more detailed on it. The 40% was on the Water System more in keeping with other Water Master Plans. On the Storm Water Master Plans, the 30% was more comparable to what the contingency was. Councilor Mersereau asked if they weren't doing the same kind of work in both projects, such as laying pipe and laying the system. Why is it so much less for one than it is for the other? Krista said that it was a very good question. It just seems that industry standard seem to be different for the two studies. She said that they got the costs from the cost estimators on the for the Water plan, whereas with storm water we had local bids and we have numbers that we share regionally with other jurisdictions. For the case of the difference in

the contingencies, it just seems to be the state of the practice. We can take it back and try to investigate that more and give you a better response.

Councilor Mersereau said that in the contractor standard for getting the equipment in and getting it out, on the Water plan it was 12% added , but on the Storm Water Plan, it was 14% added to the 30%, so when you are looking at the others, look at those too. Krista said that she would go back and investigate those and get better answers for them. Councilor Mersereau pointed out that it was a heck of a lot of money – it was over $5M overall just on contingency and the contractor standards. Krista said that she had the feeling that the expertise of the two groups have just been going in separate directions. It could be that the type of construction needed for water systems is different.

Councilor Sieckmann pointed out that in the Storm Water System Survey, it talks about several manholes and inlets are on private property, or buried and not inspected due to lack of access, Appendix A mapping is still in progress. Krista said that that statement is outdated. Krista said that the mapping was complete; someone in the audience amplified that there was still some of them that they did not have access to, so they were not fully mapped. They are contacting those and getting permission to go on their properties and do the survey. There is still a small percentage that is still unknown. Krista said that when they started the survey, there was an estimation that there were only 12 outfalls, but as they did the survey they found that there were 32, so the system was outdate, common for older cities. The system was just much bigger, and we had to meet those regulatory guidelines, so we kind of gave up on those that we weren't getting access to. Councilor Sieckmann said that there is still mapping to be done yet. Krista said that there was, but it is pretty miner. Someone from the audience said that there is still a little to be done, but as the get the information, they can plug those into the digital maps to bring them up to date.

Public Works Supervisor Tabor said that one of the things that they are working this through, they are going to have to get TV cameras like we did with sanitation here on the east side. Some of those may be accessible through TV cameras put down through manholes or catch basins that they come to in hopes that they can get there. We can get cameras in there to get measurement to see how far they are on private property. One of the biggest problems that we had was in finding where our infrastructure is. It is going to be an ongoing event. We have the ability to plug that information into the maps, so it is ongoing. Councilor Sieckmann asked him if he had an estimate of how much of the mapping was completed. Public Works Supervisor said that it was about 99%. Councilor Sieckmann said that there is a list in the packet of the places that are not done, and he would think that within a year and a half, he would have gained access to those properties to do it. Krista thinks there were a couple that were not allowing us to do it. Public Works Supervisor Tabor said another problem that they have is the debris that gets into the drain pipes. He gave one example where there was a boulder and a large fence post that were blocking access for cameras getting into the pipe. He said that over by Glen Echo and Harvard, in that area it is a mess. Councilor Sieckmann reflected that it must be a high priority on the replacement list. When we do some of the capital improvement, we will be replacing those things and we will have an adequate idea where they are because we will have installed them. That will be taken care of. Councilor Sieckmann said that based on what he was reading, the mapping is not completed, but we are calling it done. Public Works Supervisor Tabor said he would say that.

Councilor Sieckmann said that back on the costs, basically the total costs that we are looking at for the Storm Water is about $25M, including additional operations over what we have now. So we are looking at another $25M for the storm sewers. Someone from the audience said that sounded about right, that we are looking at about $700,000 per year in operations. We are getting real close to 2015 and all of these costs are based off 2013. John said that he will address that in his study. Councilor Mersereau asked if she said that they had escalated the costs for current costs. Krista answered that they had, for the rates. Councilor Mersereau asked then if this was in 2014 dollars for the estimate. Krista answered that should be in the rate study handouts that they were given. It was observed that the Storm Water estimates are at 2016 rates. Councilor Mersereau said that it does not say that anywhere that he saw.

Councilor Sieckmann said that on existing debts, you guys have it listed here and it looks like you have collected all of the bond information and stuff, we've got an existing debt service of just under $200,000 per year. He said that he believes that expires in about 12 years. We are looking at a 30 year plan, did you figure that reduction in the forecasts? So did you figure any reductions since we will have that additional $200,000 available per year in your cost estimates? Someone from the audience said that they did; they inputted the precise debt service when we put this in, but the problem is that when you get out that far, even as much as seven years, things become pretty speculative. Councilor Sieckmann asked if it was figured into the rate studies as well as the amount that they would have to come up with? He said that was twelve years into a 30 year plan – it could be a pretty sizable reduction. Someone in the audience said that he was not sure that they had even gone out that far in their analysis. He said that they went out ten years. Councilor said that it was based on a 30 year plan. John said that he will go into that in more detail in his presentation.

John Giller introduced himself as a principal with the FCS Group, they are a rate and financial firm. He said that he will go through it as Krista did, go through the Water findings in which we looked at forecasted rates, then transition to storm water. Storm water is quite different in that we are presenting what it would take to initiate a Storm Water Utility that the City does not currently have. So there are some policy recommendations for the Storm Water Plan that he will go through which relate to forming a utility and sound financial practices that go with that in addition to the rate study that you will see.

c. Water - For that Water financial element, and this general framework applies to both, the key result that we are looking for is that gold box in the middle, the rate revenue requirement. What that rate revenue requirement tells us is how much money is needed from rates to meet all of the financial obligations needed to operate that utility. Operations, capital, fiscal policy… so you see our primary inputs at the top of this chart are the operating budget, and those include the additional FTE staffing needs and operating costs in both instances. They are both in those numbers, and the capital improvement plans for each utility. He pointed out that they had spun off the SDC analysis off to the side because a small portion of that capital improvement plan for water will be recovered in system development charges. Unfortunately it is a small portion. It is only the growth related portion of the capital project lists that you can recover in SDCs. If you go farther down, you can begin to look at the rate structure itself; the City of Gladstone has a fixed charge that varies by meters, meter size and then a volume charge for water. We did not look at changing the actual structure of the of the rates, so the percentage increases that you see in your report would be applied to your existing rate structure for water. Both the fixed

charges and the volume charges would go up by those percentages to get the recover the revenue that you need.

When we do any rate study, our goals are to make sure that the rates generate enough revenue of the utility; that they charge only for services that are provided – you can't make a profit on rates – use them for other things; they can only be used for the services that they are being applied for. You try to apply the rates so that they are equitable; that is one way that they are different from taxes. Ideally the people that are using the service pay more. There are other objectives you can work in there, like stable revenues; how you recover costs in the fixed portion of the rate versus the variable portion of the rate, can determine how stable the rates are in terms of generating revenue, meeting other fiscal objectives like meeting funding replacement, and keeping enough money in the bank to meet emergency needs.

He put up a chart and showed where the existing rates were indicated. He said that about 90+% of your customers at that ¾ inch size. He explained how the customers were charged by the fixed rate and how much they were charge for each 100 cubic feet of water. He explained how customers outside the city limits pay a multiplier to the inside city rates. Councilor Sieckmann asked that when he looked at that, did he look at any kind of average consumption. 90% of our residential customers are using ¾ in lines, that $15.05 minimum monthly charge rate – is that what most customer paying or is that the customer is paying $30 a month, so the $15.05 is not indicative of the income that will be received. How does that work? Mister Giller said that they did not do that kind of analysis here, he would do it if they were going to do a cost of service analysis and rate structure change. Our focus was only on the revenue requirements. He said that he could tell you that 600 units of water is around the typical single family during the winter months. If Gladstone is like most communities, then that is what we are seeing. Most of the bills that you are putting out are at the base rate without any of the volume rate added at the $1.75. They are at 600 and below, except during summer when you will see everyone over that usage. Councilor Sieckmann asked if Mister Giller understood that question. If it were over that amount, we would be gaining more revenue. Mister Giller said that what they are looking at is the revenue from both of those charges and forecasting that into the future without distinguishing, so we are not missing it.

They did run two scenarios, understanding that the City's charter requires a public vote to issue debt. In the first case, we looked at spreading the capital costs over just twenty years and looked at pay as you go cash funding from rates, and the results were worse that the rates that you are looking at in the report right now. We put together the 'debt-funded' scenario in case that might be an options - something that you might try to package to the community. It probably would not look like the one that we have here where we have the debt every year tracking with the capital projects, but the results would be similar. So we put together a scenario for which debt is assumed for all of the capital projects for which you do not have capital in the bank, which is by far, most of them.

Scenario two says there is no debt, and you cash fund from rates for projects. In both cases, the projects are spread out over 30 years. Their analysis only looked at the first 10 years, but in order to determine how much of the capital would go out in each of those ten years; it is essentially 1/30 of the whole project. That is how the thirty year plan was incorporated into the 10 year analysis.

Some of the key assumptions that they made for their analysis: they are escalating all of the expenditures and revenues over time for growth and inflation; they are making sure in their analysis that the water fund has at least 60 days of cash operating expenses as a minimum fund balance, this is sort of a rule of thumb; when we did use bonds, we assumed that you would not only have to recover the debt service in the rates, but a factor of half again over and above that which is what the market will require if you are able to use revenue bonds to finance any of these projects; and the interest rate that we used in the capital plan is for 30 years in both cases, though we are focusing on water now.

In the debt-funded scenario, a rate revenue under existing rates is $1.2M in the current fiscal year ($1,168,000). That is what the city is projected to bring in this fiscal year, 2015 is the fiscal year end of June 30, 2015. The cash operating expenses are a little over $3M, that includes the staff additions and operating additions that Krista talked about. The existing debt service there is just a little over $200,000, then you see new debt service escalating from year to year – they are associated with the execution of the project list in 30 years. So that is what we mean. You would bundle a number of those projects together, then in another few years later, do another one, but your results would not be that different.

The annual rate adjustment required to meet those obligations is 32% for 2015, followed by another double digit increase in fiscal year 2016. You can structure that a few different ways; in other words, you could do the second year full cumulative increase in the first year if you wanted to do it all in one increase for example. You see the average monthly bill at the bottom of the table, because as shocking as the percentages are, the dollars are not as bad. The average monthly bill under your current rate is $22.05. Assuming the same amount of usage, the average bill would go up to $29.20 – so about a $7 increase monthly associate with that 32% increase. Councilor Sieckmann asked if that was figured monthly, because their billing is bi-monthly. Mister Giller said that the monthly is $22.05. Councilor Sieckmann said that it would be double that for our billing purposes.

In applying those rates to the rate structure, the 2014 column is the current rate. The 2015 column is the 2015 rate with the 32% percent increase applied. In 2016, you see it with the additional 14%. After that, the increases are basically inflationary. In 2017, you see that inflationary increase applied.

Scenario 2 is for cash funding, in which no debt is assumed and a 30 year execution of the capital plan. In the Rate Funded CIP line, that is where all those capital costs appear every year. The reason it is lower in 2015 is because we are spending down what fund balance the City has so that there is not a dollar for dollar on the rates. It is well over $1M per year starting in 2016. The required increases then: almost 60% in the first year and an almost 60% increase in the second fiscal year, then inflationary or lower after that. The average monthly bill that you see at the bottom here is between $50 and $60. The same thing here when you see the percentages applied to the rate structure, and perhaps more interesting, we tried to just show you graphically just how the patterns of increases differ between the two scenarios. The one with the initial jump is the cash funded scenario, the debt funded scenario is the lower bar, and we are just tracking the average monthly bill in each of these. I should have looked ahead to tell you when those lines cross, and they do, but because you are layering debt on debt, those rates don't go down for a long, long time. But in the cash funded scenario, they are basically level, and when you get done, you are done. Unfortunately that is in another 30 years, and if they were not replaced with a whole batch of capital projects, those rates would go down.

He explained that in one of the charts there was a comparison on there to cities of similar size to the City of Gladstone. Troutdale is on there because of their similar size. One of the things to remember about West Linn is that they had a charter amendment 20 years ago that prevents them from racing rates by more than 5% without a public vote. Their rates have been suppressed for a long time, and they have had some water service issues because of that. He changed slides and explained that it was the same information graphically. Krista talked about some program information that we have collected here. So here we have tried to come up with a comparable staff per thousand citizens. Gladstone, with its 1.5 FTE is almost unique in how lean the staffing is.

He said that he was ready to charge ahead with those system development charges if you have any questions about that rate information.

Councilor Sieckmann asked that when they figured the rating, currently the City does not have a Storm Water fee or plan. Right now it is being paid out of our Sewer program. I was told by staff that was about 30%. Did you figure on allotting any of what is in the current Sewer budget, 30%, being moved into a Storm Water project, since that is where it is being paid from now? Mister Giller said that some of the costs, the initial cost for the Storm Water Utility and that is still to come, came from the Sewer budget. Staff went through the efforts to try to figure out how much of the budget should be attributed to Storm Water. That is where the initial cost for Storm Water came from.

The second part of the finances for the Water is for the System Development Charges. Just to refresh your memories, the System Development Charges are one time fees paid at the time of new development, by new developments, or sometimes, redevelopments. If a site is redeveloping into something bigger, they will pay through an SDC, but existing development do not pay these – they are for capital only. We calculate a System Development Charge based on the cost of capital construction and the revenues can only be used for capital construction. We are governed very specifically by Oregon Law, ORS 223.297 through 223.314 in how you calculate a system development charge, how you use the money, etc. they usually include a piece to buy in to an existing facility if there is unused capacity and a forward looking piece based on planned capital projects. In this case, we are only looking at that future piece because there is essentially not unused capacity in the existing water system. That would be a basis for a reimbursement fee.

The calculation for an SDC is pretty straight forward, that reimbursement fee they did not calculate. Had we, the rules say that you have to isolate the cost of your unused capacity that is available for some future user. So, if you overbuilt your water system, and there is plenty of room for growth, that is the piece that would be in your reimbursement fee. You divide that by the growth that it will serve, and that will be gives you your reimbursement fee.

The improvement fee, which is the forward looking piece of and SDC, is based on that list of projects that Krista showed you. Starting with that list of projects, we have to go in and figure out how much of each project is increasing capacity that will be available for a future user. Only those capacity increasing pieces can form our improvement fee cost basis, divide them by growth, and that gives you your improvement fee and your SDC. The denominator in that calculation is growth. All of these calculations here tell me that we are expecting growth in the ¾ metering to increase in number by 256 in the next twenty years, which

takes us out to 2034, because the city is mostly built out. There is not a lot of growth that is going to hide or help us pay for these projects.

That is going to be the denominator in the SDC calculations, this is the project list. This is the project list - we are about $38M, that is because we are including the whole pipe replacement program of $800K per year. None of that is recoverable in the SDC because all of that is strictly pipe replacement. There are a number of these projects in which we are saying they will be replaced with enough additional capacity to serve what growth the City does expect. So we have a small percent, that is that 5% - that is the growth portion of those replacement projects, a little bit more from the storage tank because some of that is redundancy and growth related capacity. So the total of that $38M in projects, only $1.4M is SDC eligible and growth related. So when we calculate the fee based on those numbers, our bottom line System Development Charge per meter is $6,255. If you apply that by meter size, based on the flow capacity of the meters, so you probably have only a handful of meters over three inches, but in the case of major customers hooking up, they would pay SDCs by this schedule were you to adopt these charges.

He opened the floor up for questions. He apologized for not having comparable charts for this, but the rates run between about $2500 to $7K or $8K is a typical rate for an SDC, so this would be on the higher end of that range. In some ways Gladstone is in the unenviable position of having some pretty significant infrastructure needs, with a broad customer base to spread the costs.

Storm Water – One of the significant parts of this effort that was different from Water, was the initial discussion with staff and with Brown and Caldwell in what some of these key policy issues are in the formation of a utility and what our recommendations are on each of them. The first one of them is that we discussed is what funding options are there out there.
A utility is their recommended approach because the other options out there are so much worse. It is continuing to take money out of the sewer fund, or it is using street fund money or general fund money. All of those funds have needs of their own, and one of the things that we are seeing is, because of the regulatory environment, the cost of storm water management are increasing to a point where they cannot be buried in another fund anymore. Most of the cities in Oregon and Washington have moved to a utility to handle storm water management for that reason.

We made recommendations about fiscal policies, establishing minimum fund balances, establishing an operating reserve, like we did for water, a separate capital reserve to fund capital projects, we did not recommend that you set aside replacement funding on an ongoing basis because the Capital Improvement Plan is full of capital improvement projects and you are going to have your hands full just funding those. You need a separate policy on top of that.

The rate structure that we proposed is an impervious surface based approach which is the standard now for storm water rates. You are charging for developed property, because that is what generates additional storm water runoff that requires management. We are recommending that you give credits for onsite mitigation that qualify – that means that if someone is willing to retain their storm water, and do so to the benefit to the cities system, they can get a partial rate credit. Because the city provides rate discounts to qualifying low

income customers for water and sewer, we think you should extend that practice to storm water without contradicting what your policy is with the other utilities.

In the implementation strategy, it is totally up to you with what you do with public outreach or trying to phase the rates in over time, what we've shown you the results if you take the recommendations in the plan and turn them in your rates in year one.

He introduced a little bit more about the utility concept, before he got to the numbers. A utility is a standalone business enterprise within the government. The rates are intended to recover the costs of that service and we hope to structure those rates equitably so that the people that are impacting the system more than others pay more in their monthly bills. Revenues can secure debt if you can issue debt. Because you can adjust the rates to respond to cost increases or decreases, you are well suited to meet regulatory requirements and programmatic requirements like Krista described. You do have to report revenues and expenses so that they are accountable to the public. They may make tax dollars or rate dollars for other uses, for example the sewer rates which have their own pressures from the sewer utility.

There are a lot more that this, these are the just the Storm Water Utilities that already exists in Oregon that I could think of. There are dozens and dozens, if not hundreds, in the Northwest. So Washington would look more like this if not more. You see a lot of them in the Portland Metro area.

The impervious rate approach that he proposed looked like this. This is the approach that we have taken in the financial plan. The rate is set as a dollar amount of the equivalent resident unit, and every single family dwelling is treated uniformly and charged that rate. It is in non-single family residential where things get interesting. Typically you measure the impervious surface area in all of your non-residential customers. If you picture a big-box store as compared to a 7-11, their bills are going to be dramatically different, so you need to know what their impervious coverage is, then you divide that by the value of an ERU (equivalent residential unit), and that tells you what their monthly bill would be. So in this case, we estimated the amount of an ERU to be 3000 square feet of impervious surface area based on a sample of family residences that we looked around at the city. That means the footprint of the building plus the parking lot. That means any other impervious surface on the property.

In our rate credit evaluation, we do recommend providing credits for onsite mitigation, and qualifying low income customers. Publicly owned property and tax exempt property create runoff just like any other property, and we recommend that it be charged without a credit or exemption. The only real exemption you will see is for undeveloped property.

One of the real critical pieces of information that we need is information about the customer base. How many Equivalent Residential Units are there who are going to help recover those costs? In order to establish the amount of ERUs, we looked at the water utility data to determine the number of residential accounts and commercial accounts, measure the amount of impervious surface on a sample of the commercial customers, then estimated the impervious on the rest of the commercial customers. We have an estimate of the total ERUs in system, that is that 5763, but that is a very imprecise estimate. We want to make sure that we stress is that over the next couple of years, the City should endeavor to measure the remaining impervious surface areas on the non-residential customers, so they are being

charged for a better estimate of their actual amount of impervious surface. You might have some pretty far off from our approach. That can be a pretty decent effort. That 5763 is going to be the denominator in the rate calculation, divided by twelve to get us a monthly result.

We ran the same two scenarios for Storm Water that we did for Water in generating rates. The first one assumes debt funding in the capital assets, and the second one uses cash funding. $13.09 per ERU per month would generate that $900K needed to cover cash operating expenses, some of which came from Sewer Utility, and some of which include the FTEs and operating costs that come out of the plan. You can see that debt services and the additions required to meet the minimum, that is the reserve requirement – that minimum requirement that we are going to install so that you have a cash cushion for emergencies. So the rates in this case would start out at $13.09 per ERU and then go up, so it will be a little over $17 in 2020.

Scenario two, the cash funded scenario, one thing that you notice is that the rate funded CIP line – this is the annual capital expenditures needed to execute the capital plan over the thirty year period. The initial rate in this case would be $19.16 going up to almost $21 in 2020.

Similar chart. Those lines look like they are going to cross a little earlier that they did for water. But you see the rates hover between $19 and $22 in the cash funded scenario. The same sampling of comparable communities; Milwaukie has had a rate of over $10 for a number of years now. We just did a study for the City of Troutdale, and recommended a significant increase from the $4.27 which they have not yet adopted, but we know that they are going to need more than that. Portland is over $20, though they are not really a comparable community. They are the only community over $20 in the Metro area.

We were able to track down some information about staffing and population. In storm water staffing now, so you can see how those numbers look. Interesting that West Linn is better staffing wise than storm water. And Troutdale at the lower end there among these. He opened the floor for questions.

Councilor Reisner asked if they would be returning in a couple of weeks for the Regular Council Meeting. He said that they can, it was not something that they had talked about. Councilor Reisner said that they got all of this material on Friday afternoon.

Mayor Byers canvassed for questions of Mister Giller. No responses.

Mayor Byers announced that the next step would be that staff would provide an evaluation. City Administrator Boyce said that staff had reviewed the report and that everything they had requested was in the report. The next steps, I would like to talk about it at the next Council Meeting and these folks about attending. He thinks that the next step City Council should take is to accept the report if it is deemed complete. After that discussion, then we can discuss how to do public outreach and what-not, and consider how to implement the plans. Those are the next steps that he sees.

Mayor Byers said that one of the things that he would like to see is the background – the retirements for doing these things, mostly federal unfunded mandates. There is some sticker shock for people, and he can understand that. We didn't have a plan because 10 years ago,

nobody talked about storm water. It is a relatively new phenomenon of interest, so he thinks that part of this is that they show the origin of these requirements.

Councilor Reisner said that he did have one question about a graph that he held up. It has several red dots about public outreach. Are we now kind of here at the bottom? Krista answered that we are now kind of near the bottom. He asked what kind of public outreach had they used because it shows 5 or 6. Krista said that she thought the public outreach was up to the Council and staff. City Administrator Boyce said that is why one of our future steps is how to engage the public in this debate. Mayor Byers said that was kind of his point, was how the regulatory information got in the report. Individual citizens are not aware of that. What was the source?

Krista said that on the Storm Water side, the Water Quality piece is regulatory. The flood control piece is policy decision form the City standpoint, and depends on what type of protection you want to provide for the City.

This is the reason that Portland spent a Billion dollars on their big pipe. It was regulations from outside the city. Krista was quoting regulations in the background. It still was not a local requirement; it was a national requirement.

Councilor Martinez wanted to know what our alternative is. So if we don't do the federally mandated, not funded project for water quality, then we just don't care about our water quality. Is that what it is? At one point we did not know that much about water quality; now we do. We are kind of looking after things and we need to. Whether it is funded or not.

Krista said that on the Storm Water side, she actually took out all of the water quality projects to see what that would do, and to be honest, the water quality projects are the cheapest projects on the list. It is the larger flood control projects, in extending the capacity of the system that is pretty expensive. So the alternative is to provide a lower level of flood protection for your city and that is the alternative on the flood control side, and on the water quality side, is to risk violations of your permit and the chance to have extensive fines as well. On the Water side, it is providing the Fire Flow Demand for your city as well. So the other alternative is to really focus on priorities and extend the timeline for implementation. There is a little bit of subjectivity in the water quality piece of it. But when she was playing around with the numbers they were so much smaller that they just did not have much impact.

Mayor Byers recalled that several years ago that there were a hundred and something compounds that were discovered in water, and the local municipalities are supposed to keep them out. Some of them were naturally occurring – it was a nightmare. Most of that went away, some of it was prescription drugs, pharmaceuticals etc. Just because we can measure something does not mean it is a problem. Now we are measuring it in parts per billion, we used to measure it in parts per million. I think we need some explanation for the residents of Gladstone of how we got here and if we are looking at adding fees for these things, the residents should have an explanation. We are not creating this; it is being exacted on us. Krista added for the water quality portion of it. Mayor Byers said that it was in some of the other ones too.

Councilor Sieckmann said that on the storm water part of it, the water part of it was just old failing infrastructure. Mayor Byers said that was part of it, but it also still functions;

everybody is getting water. We are looking at expensive; twenty dollars a month twice is a lot of money. It is $500 dollars a year.

Councilor Sieckmann said he thinks when it actually get imposed, you are going to find out it is a lot more that just $20 per month. He said it will probably be more like $30 per month. Mayor Byers said that is just where it starts. He doesn't remember what it was for Portland. Krista said that Portland was $25 for storm. Mayor Byers asked if that covered the big pipe. Krista and someone else both answered that it does. Mayor Byers said that 10 years ago, nobody had storm water fees, maybe 15 years ago now, but now it was the new phenomenon. Someone in the audience said that there had been a few, but in that past few years they were getting common place. Mayor Byers said that they have relatively low rates now – our residents have come to expect that. One of the benefits of the plan is that it will allow you to look at your infrastructure in a more proactive manner. Mayor Byes said that this is a lot of information that we did not have. If we are going to be proposing $20 times two, or as Councilor Sieckmann says it; more that $20 per month, that will catch people's attention.
Commissioner Busch said that at least we are in a position to make an informed decision. In the past, we made a decision when something broke, now at least we can make some decisions going forward, that's the benefit of having the work in front of us. We don't have to make decisions just off our minds; we certainly have something to work with now. That is the benefit. Krista said that the public can see what they are buying and decide if they want that level of service. Mayor Byers said that is the one thing about our system, it is a pressure system, – people are still getting their water.

Mayor Byers said that he has heard that 10% water loss is common, that is not catastrophic. 25% to 30% is catastrophic. Councilor Sieckmann said that 15% or 16% is 50% more. Mayor Byers acknowledge that and then said it was still not catastrophic. Councilor Busch said that if you figure that we are pumping about 4 or 5 million gallons a day, which is 500,000 gallons a day, at $13.05 per gallon. That is a pretty big number – that is lost revenue. Mayor Byers said that that was retail. Councilor Busch said that it is still lost income, and it is a large sum that cannot be sold – it is lost. So if you have that kind of loss in the system, and you add it up every day for over a year, at 365 days a year, it is a BIG number – and it is kind of getting bigger. Mayor Byers said that a lot of people are going to be asked to pay for something they will not get for 20 years – that could be a tough sale.

Councilor Sieckmann said that we are not done yet, we don't have the sewer yet either - or the street. Councilor Mersereau said that this is one chunk of information to know where we are at, and he would like to look at it like it is an area we need to improve, things look like they need to get better in a lot of spots. But I don't think we take it face value and say gee whiz, we need to spend, in this case $26M or more. So let's just go do that. Things have got to be prioritized as you have shown us; there can be alternatives to doing things – we need to look at that closely and not just add the sticker shock to people and say, "Guess what. You are going to get to pay this much more." How do we figure out how to? But the report says that this is in 30 years – well I may not be around in 30 years. I'd like to see it getting done a lot quicker than that. What is real? The rates would indicate, "Can we go 40 years?" My thought is that I wouldn't mind seeing it done in 10 years. So if we keep our minds open, maybe that is possible.

Councilor Nelson said that he thought this is a good plan. He said that we have a lot of people in Gladstone on fixed income, and they are going to ask a lot of questions. We have

a lot of answers here about why we have to do this and what our plan is. They are not just going to take this point blank and say OK. They have very little money to live on, and if it means that they are going to have to go without food for a week to pay bills, you know that they are going to ask some serious questions from us as to why we decided to go this route. He told the Brown and Caldwell and FCS people that he thought they did a great job and that he appreciated it. We need to simplify it when we take this out to the public, but I think they will do it.

Councilor Sieckmann asked if everyone had a chance to go through this since we just got it on Friday. Councilor Nelson said that he got his on Saturday afternoon. Mayor Byers said that he did, but he is going to go through it again. Councilor Sieckmann said that the reason he is asking is because he thinks he knows what Pete (City Administrator Boyce) is looking for is to deem whether this is complete or not. If all the information is there, and his question is "Has everyone had a chance to get through it?" He said that he knows that there were things that were technically incomplete, but Scott says he is still working on some of it and it can be added. I think over all it is pretty much there; we may have some email questions back and forth. The public might have some questions that we can get faster than just thumbing through the books. Do we as a Council believe that we have had adequate time to go through it and make a decision as to whether it is complete or not. City Administrator Boyce said that they are not asking that question tonight. Tonight was just to hear the presentation and ask questions. That will be for a future meeting. Councilor Sieckmann said that he was glad that he clarified that then. Councilor Reisner said that he had not gone through it, but planned to in the next two week. That is why I was hoping that they can return to answer any questions.

Mayor Byers said that if there were not any more questions or comments on the study. If not we can move to Business from the Council.

BUSINESS FROM THE COUNCIL:

Mayor Byers solicited business from each of the Councilors:

- Councilor Nelson – nothing
- Councilor Mersereau – nothing
- Councilor Martinez – nothing
- Councilor Sieckmann – he said that he went to the Clackamas Cities Dinners. It was a nice event. He met with another couple of County Commissioners and got to know them. He thinks he is building good rapport.
- Councilor Busch - nothing
- Councilor Reisner – he said he had a couple of questions. He was curious if they had any overflows in the last week during any of the downpours. Someone in the audience indicated that we had not. We had a little wind on Saturday, did we experience any damage? Someone in the audience said just the regular outages and some cleaning up. He said that he went to the Clackamas Cities Association Dinner and they had a really good presentation from the Oregon Institute of Technology, where they partnering with community colleges, school districts, and manufacturers in trying to get people matched up with careers. He did not realize the extent of the partnerships that they had grown since they had moved to Wilsonville, mostly on the West side and down to Salem.
- Mayor Byers said that he and Kim had gone down to Lake Oswego/Tigard Water Project down at Meldrum Bar Park where it looked like they were beginning to pull pipe through, though it

looked more like they were pushing it than pulling it. They were inserting the 42 inch pipe through the bored tunnel. Scott told me that they didn't actually get started until 11:30 because they had to bring a big crane up there. There are four big cranes down there – it is proceeding. He said that he also had the opportunity to go to Somerset Lodge today to attend someone's 100 birthday celebration. It turns out that the woman name was Vera Benfield, and that she and his mom had been very good friends. By his observation she was in very good spirits and shape for someone a hundred year old. They had a cake with 100 candles on it – they had Mike and Jeff from the Fire Department come up and help blow out the candles. The Mayor told them that because Vera had enough breath to blow it out, they could cancel the second alarm. Nice lady; she has been up at Somerset for 12 years.

ADJOURN:

Mayor Byers adjourned the meeting at 9:23 pm.

Approved by the Mayor this 9 day of December, 2014.

Attest:

Wade Byers
Mayor

Assistant City Administrator