



City Council and Budget Committee Joint Work Session Meeting

Tuesday, March 22, 2022

5:30 p.m. – Joint Work Session Meeting

Welcome! The public is strongly encouraged to participate remotely but there is seating at Civic Hall for those who are not able to participate remotely. However, if you are not feeling well, please stay home and take care of yourself.

*You can live broadcast the City Council Meeting on cable channels Xfinity 11 and 331,
Ziply Fiber 29 or webstream here:*

www.mcm11.org/live

Joint Work Session Meeting

You may join online via Zoom Meeting:

<https://mcminnvilleoregon.zoom.us/j/87337850766?pwd=SL3SmE0Z3U0OHp1MVq5TTlFaUhKQT09>

Zoom ID: 873 3785 0766

Zoom Password: 780715

Or you can call in and listen via zoom: 1-253- 215- 8782

ID: 873 3785 0766

5:30 PM – CITY COUNCIL & BUDGET COMMITTEE JOINT WORK SESSION – VIA ZOOM AND SEATING AT CIVIC HALL

1. CALL TO ORDER JOINT WORK SESSION
2. WASTEWATER RATE DISCUSSION WITH DEB GALARDI
3. CITY SERVICES FEE CONTINUED DISCUSSION
4. ADJOURNMENT OF JOINT WORK SESSION MEETING

Meeting Accessibility Services and Americans with Disabilities Act (ADA) Notice: Kent Taylor Civic Hall is accessible to persons with disabilities. A request for an interpreter for the hearing impaired or for other accommodations for persons with disabilities should be made a least 48 hours before the meeting to the City Recorder (503) 435-5702 or Claudia.Cisneros@mcminnvilleoregon.gov.



City of McMinnville
Public Works Department
Wastewater Services Division
3500 NE Clearwater Drive
McMinnville, OR 97128
(503) 434-7313
www.mcminnvilleoregon.gov

STAFF REPORT

DATE: March 10, 2022
TO: Jeff Towery, City Manager
FROM: Leland Koester, Wastewater Services Manager
SUBJECT: Wastewater Financial Plan Review

Report in Brief:

In 2020 the City of McMinnville last completed a sanitary sewer rate analysis. We contacted Deb Galardi to conduct a review on our current rates and review the needs of our wastewater financial plan.

Background:

The City had been on track to increase sewer rates every year at a rate of 2.5%. With the onset of the COVID-19 Pandemic it was decided to freeze the sewer rates. For 2020 through 2021 rates did not increase. In 2022, Deb Galardi was contacted to do a review of our Wastewater Financial Plan. She reviewed the current rate structure and an updated Wastewater Financial Plan with the new costs of our Solids handling changes figured in.

Based on this information it was determined that the financial plan would be able to remain at the present rates until July of 2023. At this point we would need to continue the 2.5% rate increases to support the needs of the Wastewater Financial Plan.

Attachments:

1. 2020 Rate Update Memo
2. 2022 Rate Update Memo

Recommendation:

Staff recommends that the City Council continue to freeze the sewer rates for the 2022/23 fiscal year.



MEMORANDUM

PREPARED FOR: Mike Bisset, Community Development Director
PREPARED BY: Deb Galardi, Galardi Rothstein Group
SUBJECT: FY2019-20 Wastewater Rate Study Findings
DATE: June 5, 2020

Introduction

The City of McMinnville (the City) has a long-standing practice of reviewing wastewater rates every two years and implementing rate increases to keep pace with cost escalation and system investment needs. The last rate analysis was conducted in Fiscal Year (FY) 2017-18. Based on the prior study findings, the City Council adopted rate increases of 2.8 percent for FY2018-19 and FY2019-20. However, prior to the implementation of the FY2019-20 increase, the City Council adopted a five (5) percent wastewater franchise fee, effective July 1, 2019. As a result, the sewer rates were increased by an additional five percent (Resolution 2019-08), bringing the total July 1, 2019 rate increase to 7.8 percent.

This memorandum presents the findings of the FY2019-20 rate analysis for the wastewater system. The financial analysis provides the framework from which to estimate future rate changes needed to support continued implementation of the wastewater system Capital Improvement Plan (CIP), and to fund ongoing operations, maintenance and capital replacement costs. The rate increases identified in this analysis are assumed to be applied across-the-board to the City's current wastewater rate structure. The rate structure was developed in 2015 as a result of a comprehensive rate equity review. The recommendations from the equity review were phased in over multiple years, with the final changes reflected in the FY2018-19 rates.

Financial Plan Development

The building blocks of the financial analysis are the projections of costs or "revenue requirements" that the wastewater system will incur during the 10-year planning period, and the revenues, under existing rates, projected during the same period.

Revenue Requirements

The primary components of revenue requirements are:

- Operation and maintenance (O&M) costs – Ongoing personnel and other costs associated with system operation and routine facility maintenance, and equipment replacement costs.
- Capital Transfers - Annual capital improvement projects funded by rates and reserves.

In addition, annual requirements include operating contingencies equal to 45 days of O&M (personnel and materials and services) costs. However, 100 percent of annual contingencies are assumed to be unspent and roll forward to subsequent year beginning balances.

Assumptions

Revenue requirements were projected based on data provided by the City, including actual results for FY2017/18 and FY2018/19, and budgeted expenses for FY 2019/20; future year projections are based on assumptions related to customer growth, inflation, and other factors, as well as the specific phasing of the wastewater system CIP.

The following general assumptions were used in developing the wastewater system financial plan:

- Customer growth will occur at an average rate of 0.4 percent annually.
- Operation and maintenance costs will escalate at annual rates of 2-6 percent, based on projected inflation and system growth, and historical trends. Specific escalation factors used are:
 - Salaries & Wages – 3%
 - Benefits – 6%
 - Materials and Services – 4%
 - Insurance & Utilities – 5%
- Interest earnings accrue at an annual average rate of 1.5%.
- Average annual SDC revenue = \$325,000.
- Capital costs escalate at an average annual rate of 3 percent.

Beyond the base escalation factors for salaries and benefits for existing personnel, the financial forecast includes the following additional staff positions:

- Operator II FY2020-21
- Facility Maintenance FY2022-23
- Pretreatment or Lab FY2023-24
- Operator II FY2025-26

Capital Improvement Plan

The 10-year CIP is summarized in **Table 1**. The total projected improvement costs are about \$65.8 million, including inflation. The first six years of the CIP include Water Reclamation Facility (WRF) liquids improvements, as well as a new one million gallon (mg) storage tank and mixer for solids. The final years of the plan are focused on WRF solids improvements, most notably dewatering process improvements. Ongoing improvements include collection system rehabilitation and equipment replacement.

Table 1

City of McMinnville

Wastewater Financial Plan

Summary of Capital Projects (FY2019/20 - FY2028/29)

Item	Total
Collection System	
Buildout Rehabilitation	\$ 13,993,000
3ml Ln Bridge Force Main	1,390,000
Water Reclamation Facility - Liquids	
Headworks -Grit system expansion	2,785,563
Tertiary Treatment - Filtration system expansion	4,201,875
Administration Building	3,512,492
Water Reclamation Facility - Solids	
New 1 MG Storage Tank and Mixer	5,987,219
Dewatering Process (Equipment and Building)	9,205,000
Dryer	16,100,000
Dry Biosolids Storage	1,190,000
Odor Control	410,000
Investigation and Consultant Services	
Model / master plan updates	600,000
Equipment Replacement	
Miscellaneous Treatment and Pump Stations	1,354,625
Miscellaneous Treatment and Pump Stations	5,100,000
TOTAL	\$ 65,829,774

The following key assumptions were made with respect to capital funding:

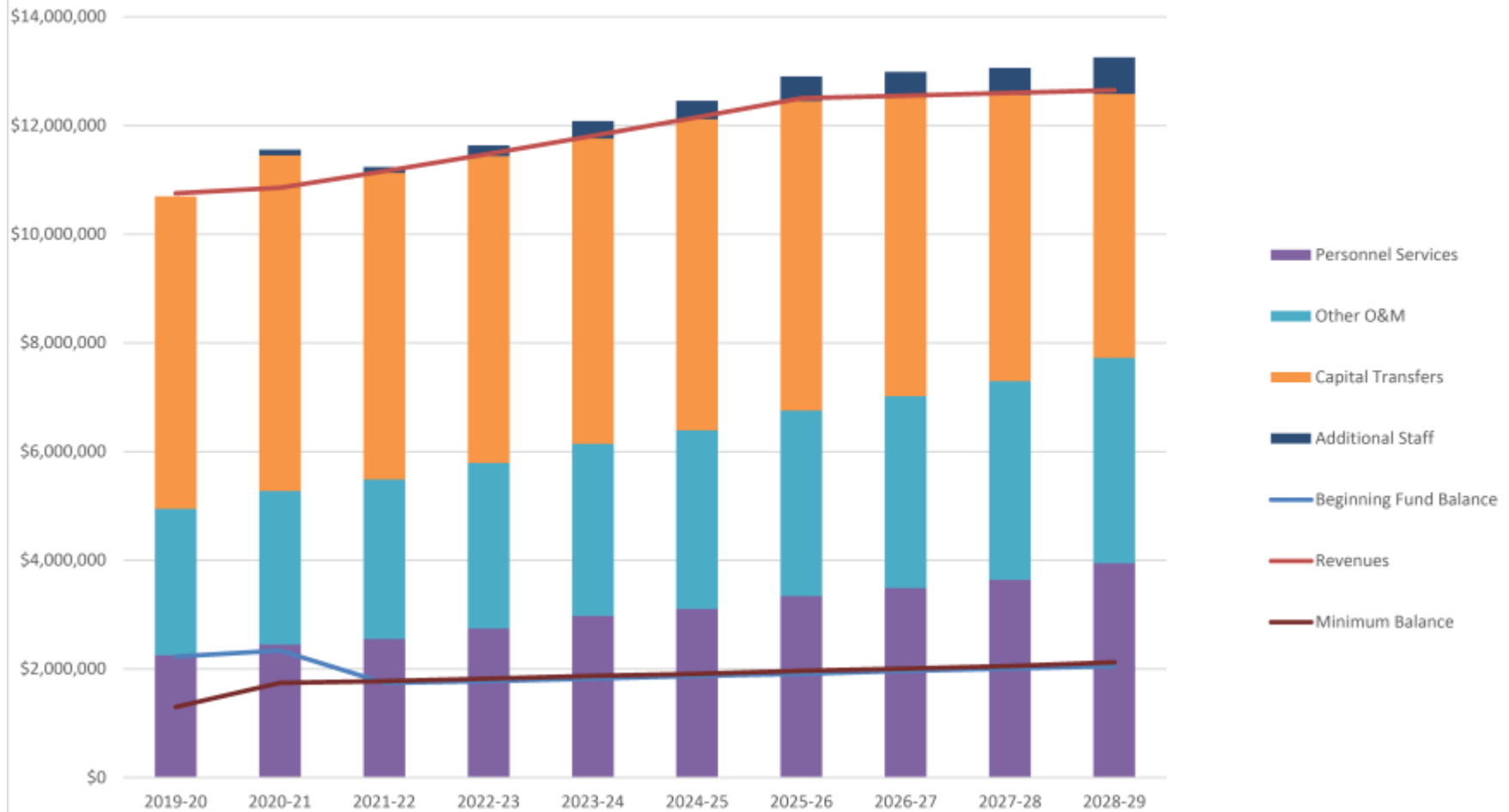
- The City will spend available system development charge (SDC) revenues on eligible capital projects, estimated to total about \$3.3 million through the study period.
- Annual revenue from rates available for capital expenditures will average about \$5.5 million (\$56 million total) over the study period.
- The remainder of CIP funding will come from interest earnings and capital reserves.

As in prior plans, the City anticipates continuing to fund the CIP on a pay-as-you-go basis, with no debt financing.

Projected Revenue and Rates

Figure 1 (next page) shows the projections of revenues, Wastewater Fund balance, and requirements from rates by major expense component, through FY2028-29.

Figure 1 - Projected Revenues, Fund Balance and Requirements from Rates



In FY2019-20, revenue from existing (July 1, 2019) rates is estimated to be about \$10.7 million. This estimate is based on the City's existing rate schedule and the current billing units (accounts and estimated billed water volumes) by customer class reported by McMinnville Water and Light's billing system. The number of accounts in the billing system for FY2019-20 is approximately 11,000. As the system grows, wastewater sales revenues at existing rates are projected to be slightly below \$11.0 million by FY2025-26, assuming continued modest customer growth and stable industrial revenue.

Rate Increases

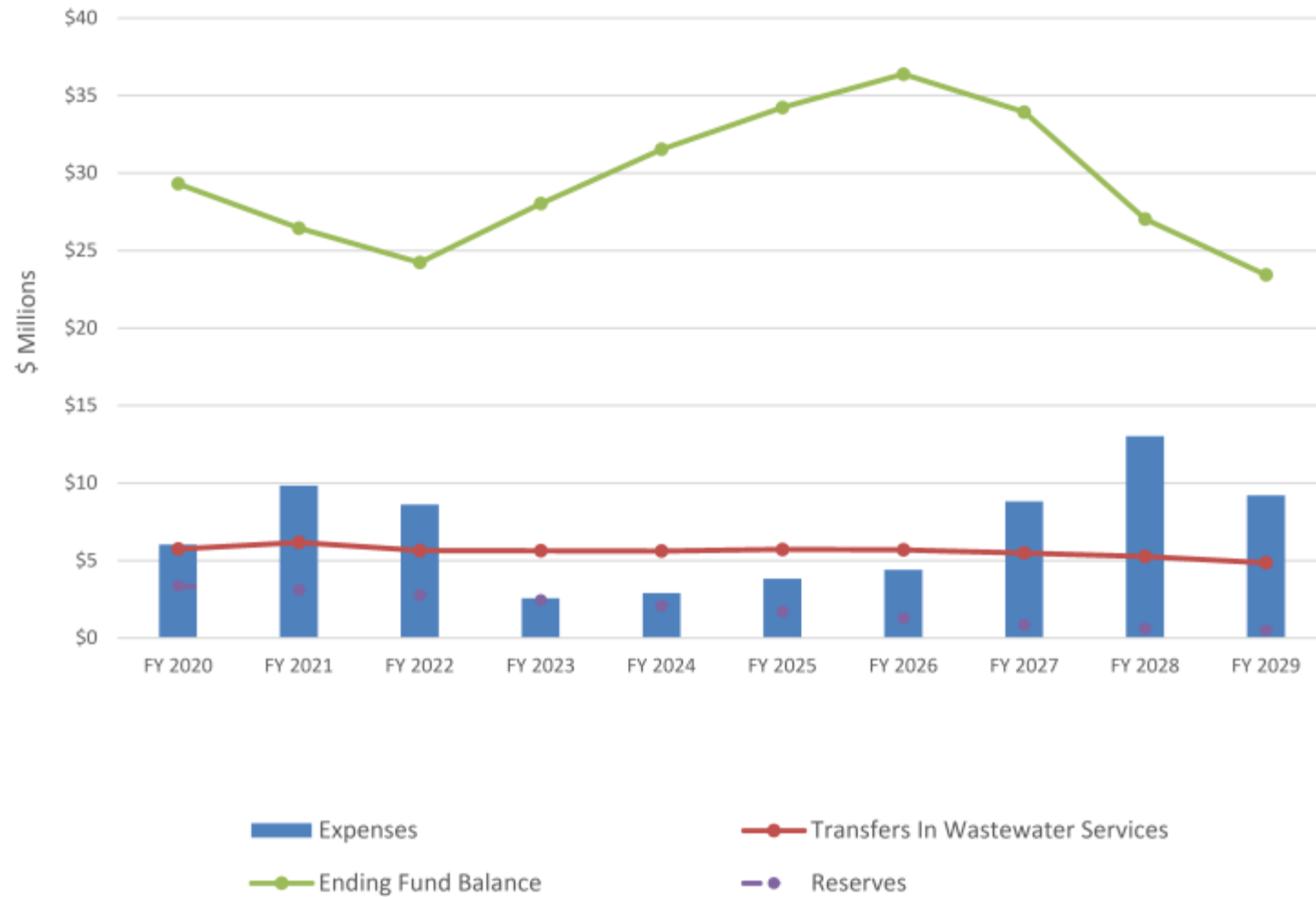
In order to fund the projected revenue requirements shown in Figure 1, and to maintain cash reserves consistent with past practices, projected annual rate increases are as follows:

- FY2020-21 – 0 percent
- FY2021-22 through FY2025-26 = 2.5 percent

Given the 7.8 percent rate increase implemented July 1, 2019 and the planned deferral of some CIP expenditures to later years of the plan, the City has flexibility to go without a rate increase in the next fiscal year (FY2020-21). However, it is recommended that inflationary-level increases resume in subsequent years to keep pace with general cost inflation, and to build extra capacity in the rates to fund the needed capital improvements that are more significant in the second half of the plan. In subsequent years, the City may be able to forego additional rate increases in one or more years again, depending on actual cost and revenue growth, and the results of the next facility plan update (anticipated within a couple of years).

Figure 2 shows projected CIP costs, reserves, and ending fund balances for the City's Capital Projects Fund. Reserves include required balances associated with the City's Public Employee Retirement System (PERS) obligations (which decrease over the planning period), as well as a minimum \$0.5 million capital reserve. Based on the projected CIP phasing and wastewater fund transfers, the Capital Projects Fund balance is projected to fluctuate throughout the plan, ending slightly (\$5 million) lower than the current level.

Figure 2 - Projected Capital Costs and Reserves



Rates

Table 2 provides the City's existing rate schedule and recommended rates for FY2020-21 (no increase) and FY2021-22 (including 2.5 percent increase). Rates are based on a fixed monthly charge (assessed per equivalent dwelling unit) and volume rate applied to billable water volumes (winter water use for all residential and some commercial customers). Industrial customers are charged based on their strength class based on wastewater sampling data.

Table 2
City of McMinnville
Wastewater System Plan
Rate Schedule

	FY 2019-20	FY 2020-21	FY2021-22
Customer Charge (\$/month)			
Residential	\$22.38	\$22.38	\$22.94
Residential Flat	\$64.86	\$64.86	\$66.48
Commercial	\$22.38	\$22.38	\$22.94
Industrial	\$22.38	\$22.38	\$22.94
Volume Charge (\$/ccf)			
Residential	\$6.07	\$6.07	\$6.22
Commercial	\$7.51	\$7.51	\$7.70
Industrial Low	\$6.24	\$6.24	\$6.39
Industrial Medium	\$7.52	\$7.52	\$7.71
Industrial High	\$9.70	\$9.70	\$9.95
Industrial Very High	\$11.42	\$11.42	\$11.71
Industrial Super High	\$14.43	\$14.43	\$14.79

Conclusions

The financial analysis is based on available information on revenue, expenditures, customer accounts, and water use as of December 2019. There will usually be differences between assumed and actual conditions because events and circumstances frequently do not occur as expected, and those differences may be significant. Among the variables that could impact future rate increases are changes in customer growth, and economic and other factors impacting water consumption patterns.

Furthermore, any changes to capital improvement funding or other key assumptions would likely necessitate changes to the recommended rate increases. Therefore, it is important that the City continue to update the financial plan every two years and revise as needed.



MEMORANDUM

PREPARED FOR: Leland Koester, Wastewater Services Manager

PREPARED BY: Deb Galardi, Galardi Rothstein Group

SUBJECT: Fiscal Year 2021-22 Wastewater Rate Study Findings

DATE: March 9, 2022

Introduction

The City of McMinnville (the “City”) has a long-standing practice of reviewing wastewater rates every two years and implementing rate increases to keep pace with cost escalation and system investment needs. The last rate analysis was conducted in Fiscal Year (FY) 2019-20. Based on the prior study findings, annual rate increases of 2.5 percent were recommended for the five-year period FY 2021-22 through FY 2025-26. However, in response to affordability concerns brought on by the COVID-19 pandemic, the City has not raised rates since July 1, 2019.¹

This memorandum presents the findings of the FY 2021-22 rate analysis for the wastewater system. The financial analysis provides the framework from which to estimate future rate changes needed to support continued implementation of the wastewater system Capital Improvement Plan (CIP), and to fund ongoing operations, maintenance, and capital replacement costs. The rate increases identified in this memorandum are assumed to be applied across-the-board to the City’s current wastewater rate structure. The rate structure was developed in 2015 as a result of a comprehensive rate equity review. The recommendations from the equity review were phased in over multiple years, with the final changes reflected in the FY 2018-19 rates.

Financial Plan Development

The building blocks of the financial analysis are the projections of costs or “revenue requirements” that the wastewater system will incur during the 10-year planning period (FY 2021-22 through FY 2030-31, and the revenues under existing rates projected during the same period.

Revenue Requirements

The primary components of revenue requirements are:

- Operation and maintenance (O&M) costs – Ongoing personnel and other costs associated with system operation and routine facility maintenance, and equipment replacement costs.

¹ City of McMinnville Resolution 2019-08.

- Capital Transfers - Annual capital improvement projects funded by rates and reserves.

In addition, annual requirements include operating contingencies equal to 120 days of O&M (personnel and materials and services) costs. However, 100 percent of annual contingencies are assumed to be unspent and roll forward to subsequent year beginning balances.

Assumptions

Revenue requirements were projected based on data provided by the City, including actual expenses for FY 2019-20 and FY 2020-21, and budgeted expenses for FY 2021-22. Future year projections are based on assumptions related to customer growth, inflation, and other factors, as well as the specific phasing of the wastewater system CIP.

The following general assumptions were used in developing the wastewater system financial plan:

- Customer growth will occur at an average rate of 0.4 percent annually.
- Operation and maintenance costs will escalate at annual rates of 3-6 percent, based on projected inflation, system growth, and historical trends. Specific escalation factors used are:
 - Salaries & Wages – 5.5% (FY 2022-23); 4% in subsequent years
 - Benefits – 6%
 - Materials and Services – 4%
 - Insurance & Utilities – 5%
- Interest earnings accrue at an average annual rate of 1.0%.
- Average annual SDC revenue = \$325,000.
- Capital costs escalate at an average annual rate of 4%.

Beyond the base escalation factors for salaries and benefits for existing personnel, the financial forecast includes the following additional staff positions:

- Pretreatment or lab FY 2021-22
- Operator II FY 2022-23
- Facility maintenance FY 2024-25
- Pretreatment or lab FY 2025-26
- Operator II FY 2027-28

Operation and Maintenance Costs

Table 1 shows actual O&M costs for the wastewater system for FY 2019-20 and FY 2020-21, as well as estimated costs for the budget year (FY 2021-22).

Table 1

Wastewater Financial Plan
Operations and Maintenance Costs

Item	Actual 2019-20	Actual 2020-21	Budget 2021-22
Personnel Services	\$2,044,366	\$2,192,813	\$2,311,191
Material & Services	1,394,563	1,437,388	1,709,264
Other Expenditures			
Franchise Fees	541,666	522,027	524,835
Transfers (General Fund)	378,648	405,363	415,573
Capital Outlay	168,100	60,643	127,826
Total O&M Costs	\$4,527,343	\$4,618,234	\$5,088,689

Projections of O&M costs are shown in Attachment 1 and include general cost escalation discussed previously.

Capital Improvement Plan

The 10-year CIP is summarized in **Table 2**. The total projected improvement costs are about \$75.0 million, including inflation. The first half of the plan includes about two-thirds of the anticipated spending driven by the administration building improvements, next generation autothermal thermophilic aerobic digestion (ATAD), and ongoing system rehabilitation. The City plans to update the wastewater facility plan over the next couple of years which is likely to result in identification of improvements at the end of the planning period. The current CIP includes potential expenditures of \$10-\$15 million in FY 2030-31 pending completion of the updated plan.

Table 2

Wastewater Financial Plan
Summary of Capital Projects (FY2019/20 - FY2028/29)

Item	Total
Collection System	
Buildout Rehabilitation	\$13,727,659
3ml Ln Bridge Force Main	75,000
WRF - Liquids	
Administration Building ¹	12,984,192
Pre-Screening Structure/ Diversion Structure	3,442,084
WRF - Solids	
Next Generation ATAD	21,078,656
Dewatering Process (Equipment and Building)	1,423,312
Odor Control	540,800
Facility Plan Projects (TBD)	14,233,118
Investigation and Consultant Services	
Model / master plan updates	1,452,400
Equipment Replacement	
Miscellaneous Treatment and Pump Stations	6,179,625
TOTAL	\$75,136,845

¹Total estimated costs (includes some funding from other city funds).

The following key assumptions were made with respect to capital funding:

- The City will spend available system development charge (SDC) revenues on eligible capital projects, estimated to total about \$3.3 million through the study period.
- Annual revenue from rates available for capital expenditures will average about \$5.6 million (\$56 million total) over the study period.
- A portion of the administrative building will be funded by other City departments through a loan from the wastewater fund.
- The remainder of CIP funding will come from interest earnings and capital reserves (which as of July 1, 2021, were about \$36.1 million).

As in prior plans, the City anticipates continuing to fund the CIP on a pay-as-you-go basis, with no debt financing.

Projected Revenue and Rates

Figure 1 shows the projections of revenues and requirements from rates by major expense component for the current year and first five years of the financial forecast. Projected ending fund balances for the wastewater fund (Fund 75) are also shown.

In FY 2021-22, revenue from existing rates is estimated to be about \$10.5 million. This estimate is based on the City's existing rate schedule and the current billing units (accounts and estimated billed water volumes) by customer class reported by McMinnville Water and Light's billing system. The number of accounts in the billing system for FY 2021-22 is approximately 11,300. As the system grows, wastewater sales revenues at existing rates are projected to be slightly above \$11.0 million by FY 2025-26, assuming continued modest customer growth and stable industrial revenue.²

Rate Increases

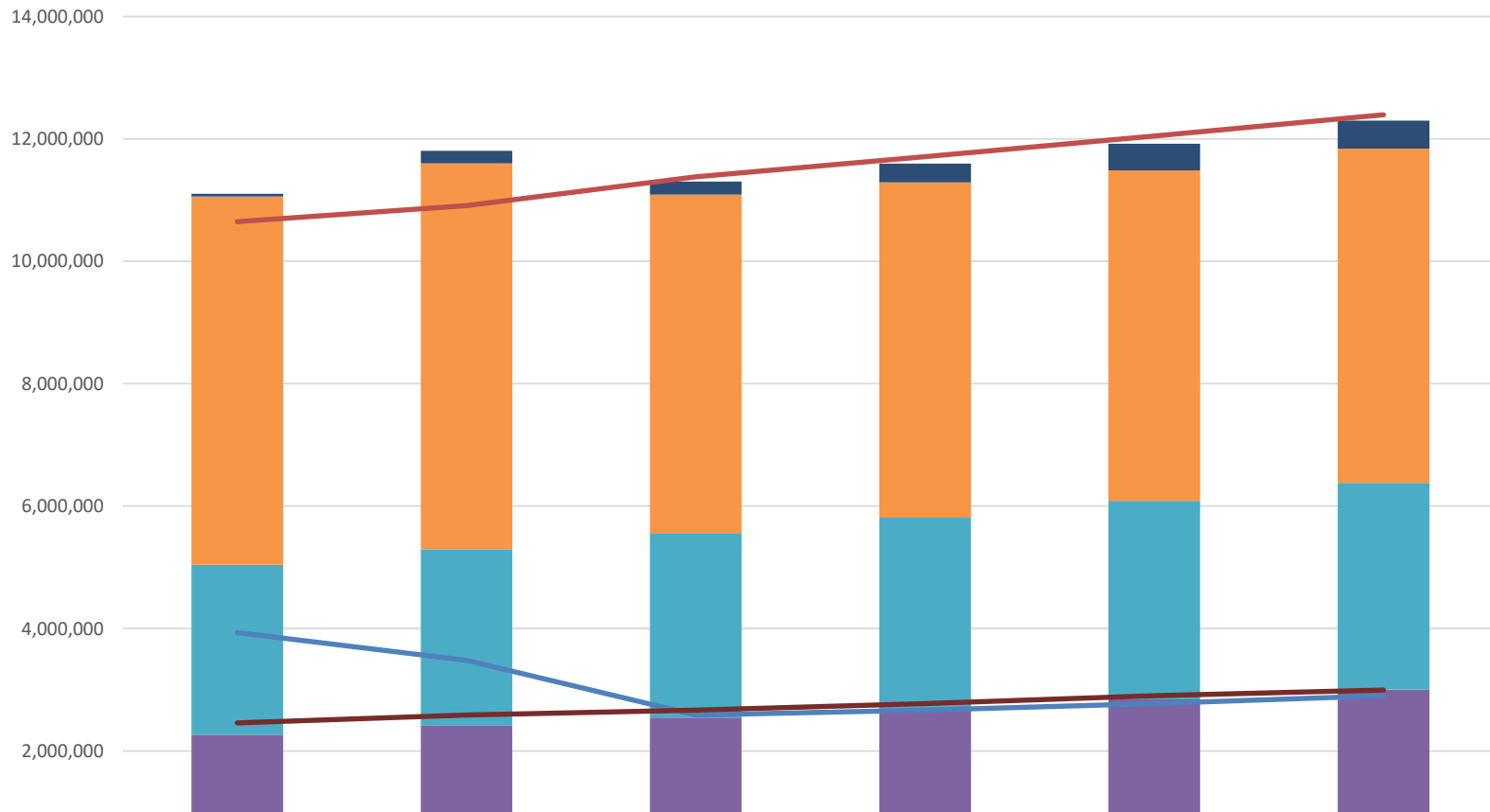
In order to fund the projected revenue requirements shown in Figure 1, and to maintain cash reserves consistent with past practices, rate recommendations are as follows:

- FY 2021-22 and FY 2022-23: no rate increases
- Beginning July 1, 2023 (FY 2023-24) and annually thereafter: 2.5 percent rate increases

The current analysis indicates that the City has flexibility to continue without a rate increase through FY 2022-23, due to both: (1) higher than projected water sales and customer growth, and (2) an overall reduction in projected capital and O&M expenses, compared to the prior plan. Updated expenses are projected to be about \$17 million lower over the FY 2020-21 to FY 2028-29 period (the common years of the two plans). In the short-run O&M "savings" resulted from deferred increases in staffing positions and reduced routine capital and vehicle replacements. More significantly, while the current CIP is higher in the first five years, it is about \$13 million lower overall compared to the prior plan.

² The financial plan considers a reduction in production at one of the City's largest industrial customers (Organic Valley) in FY 2021-22; however, wastewater flows are assumed to return to pre-2022 levels by FY 2023-24.

Figure 1 -- Forecast Rate Revenue, Requirements and Wastewater Fund Balances

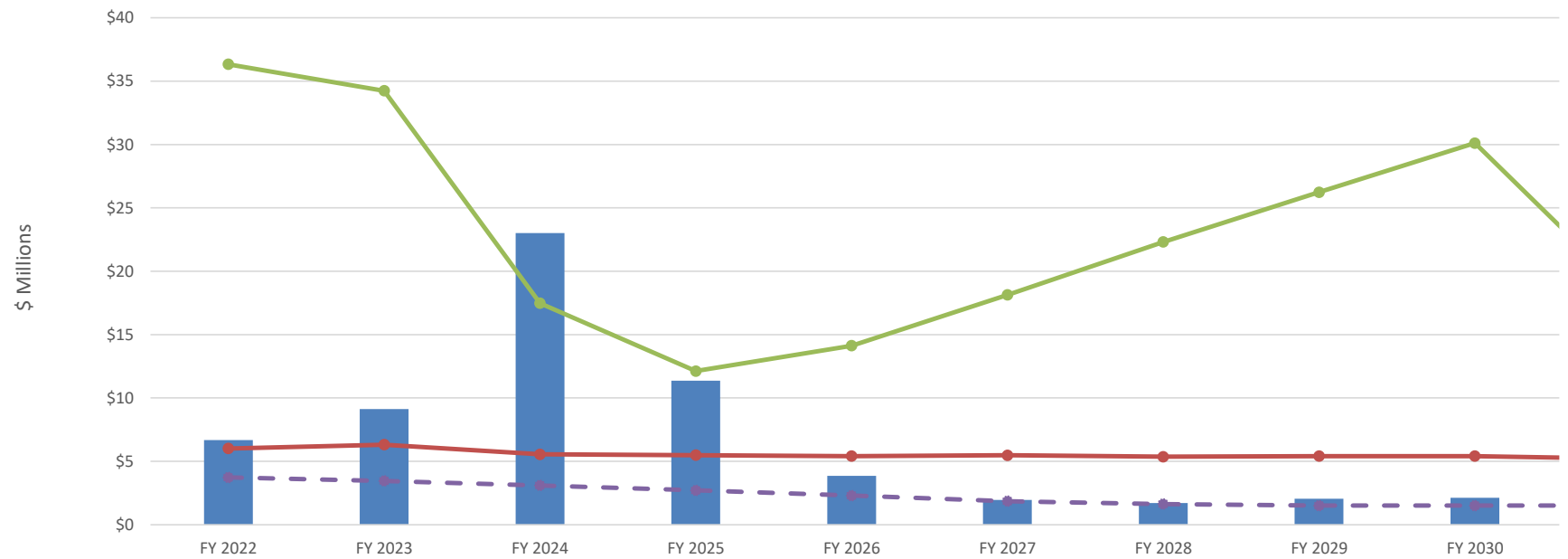


It is recommended that annual inflationary-level increases resume in FY 2023-24 years to keep pace with general cost inflation, and to maintain capacity in the rates to fund future capital improvements. Future rate increases should be further evaluated in the context of continued expense and revenue growth, and the results of the upcoming facility plan update.

Figure 2 shows projected CIP costs, designated reserves, and ending fund balances for the City's capital projects fund (Fund 77) over the planning period. Reserves include required balances associated with the City's Public Employee Retirement System (PERS) obligations (which decrease over the planning period), as well as a \$1.5 million capital contingency.

Based on the projected CIP phasing and wastewater fund transfers, the capital projects fund balance is projected to fluctuate significantly throughout the plan. While the projected fund balance at the end of the plan is \$20 million lower than current levels, it is within the range historically maintained by the City, and at a level sufficient to provide flexibility for cash funding large capital projects. However, rate increases and capital reserve targets should be considered further following refinement of the administrative building cost estimate and funding contributions from other City departments, and completion of the wastewater facilities plan update which will result in an updated long-term CIP.

Figure 2 - Projected Capital Costs and Reserves



Rates

Table 2 provides the City's existing rate schedule and recommended rates for FY 2022-23 (no increase) and FY 2023-24 (including a 2.5 percent increase). Rates are based on a fixed monthly charge (assessed per equivalent dwelling unit) and volume rate applied to billable water volumes (winter water use for all residential and some commercial customers). Industrial customers are charged based on their strength class which is determined for each customer from wastewater sampling data.

Table 2
City of McMinnville
Wastewater System Plan
Rate Schedule

	FY 2021-22	FY 2022-23	FY2023-24
Customer Charge (\$/month)			
Residential	\$22.38	\$22.38	\$22.94
Residential Flat	\$64.86	\$64.86	\$66.48
Commercial	\$22.38	\$22.38	\$22.94
Industrial	\$22.38	\$22.38	\$22.94
Volume Charge (\$/ccf)			
Residential	\$6.07	\$6.07	\$6.22
Commercial	\$7.51	\$7.51	\$7.70
Industrial Low	\$6.24	\$6.24	\$6.39
Industrial Medium	\$7.52	\$7.52	\$7.71
Industrial High	\$9.70	\$9.70	\$9.95
Industrial Very High	\$11.42	\$11.42	\$11.71
Industrial Super High	\$14.43	\$14.43	\$14.79

Conclusions

The financial analysis is based on available information on revenue, expenditures, customer accounts, and water use as of December 2021. There will usually be differences between assumed and actual conditions because events and circumstances frequently do not occur as expected, and those differences may be significant. Among the variables that could impact future rate increases are changes in customer growth and economic and other factors impacting water consumption patterns.

Furthermore, any changes to capital improvement funding or other key assumptions would likely necessitate changes to the recommended rate increases. Therefore, it is important that the City continue to update the financial plan every two years and revise as needed.

Attachment 1

Wastewater Fund Forecast Sources:

Fund 75 - Wastewater Fund

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Sources of Funds										
Beginning Fund Balance	\$3,934,952	\$3,479,641	\$2,586,443	\$2,664,522	\$2,774,957	\$2,900,375	\$2,995,678	\$3,128,833	\$3,236,969	\$3,351,361
Property Rentals House	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200
Property Rentals Farm	13,128	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000
Sewer User Charges	10,494,927	10,756,539	11,233,246	11,558,214	11,892,527	12,236,804	12,591,005	12,955,446	13,331,153	13,717,757
Septage Fees	90,000	90,000	92,250	94,556	96,920	99,343	101,827	104,372	106,982	109,656
Interest	20,000	34,796	25,864	26,645	27,750	29,004	29,957	31,288	32,370	33,514
Other Income	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Transfers In Insurance Services	14,442	-	-	-	-	-	-	-	-	-
Total Sources of Funds	\$14,581,649	\$14,388,177	\$13,965,004	\$14,371,138	\$14,819,354	\$15,292,726	\$15,745,666	\$16,247,139	\$16,734,674	\$17,239,488
Uses of Funds										
Salary Expenses	\$1,406,028	\$1,637,109	\$1,704,625	\$1,860,145	\$2,050,077	\$2,136,451	\$2,325,130	\$2,423,940	\$2,526,993	\$2,778,747
Benefits	905,163	976,337	1,053,467	1,137,080	1,227,750	1,326,106	1,432,831	1,548,676	1,674,460	1,811,076
Material & Services	1,709,264	1,775,635	1,846,660	1,920,526	1,997,347	2,077,241	2,160,331	2,246,744	2,336,614	2,430,079
Franchise Fees	524,746	537,827	561,662	577,911	594,626	611,840	629,550	647,772	666,558	685,888
Capital Outlays	127,826	132,939	138,257	143,787	149,538	155,520	161,741	168,210	174,939	181,936
Transfers Out General Fund	361,697	379,782	398,771	418,709	439,645	461,627	484,709	508,944	534,391	561,111
Transfers Out Wastewater Capital	6,013,408	6,305,535	5,537,642	5,475,654	5,394,509	5,459,502	5,350,343	5,390,074	5,389,759	5,187,207
Transfers Out Information Systems	53,876	56,570	59,398	62,368	65,487	68,761	72,199	75,809	79,599	83,579
Ending Fund Balance -- June 30										
Fund Balance	1,021,221	-	-	(0)	-	-	-	0	-	-
Contingency (120 Days)	1,458,420	1,586,443	1,664,522	1,774,957	1,900,375	1,995,678	2,128,833	2,236,969	2,351,361	2,519,866
Reserves	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Total Uses of Funds	\$14,581,649	\$14,388,177	\$13,965,004	\$14,371,138	\$14,819,354	\$15,292,726	\$15,745,666	\$16,247,139	\$16,734,674	\$17,239,488

STAFF REPORT

DATE: March 22, 2022

TO: Jeff Towery, City Manager

FROM: Jennifer Cuellar, Finance Director

SUBJECT: Work Session: City Services Charge and Sustainable Resources

Strategic Priority and Goal:



CITY GOVERNMENT CAPACITY

Strengthen the City's ability to prioritize & deliver municipal services with discipline and focus.

Report in Brief:

At the Council's 6/22/2021 meeting, the governing body adopted its 2021 Annual Goals; included among them is the following goal under City Government Capacity:

Right-Size Services: Address insufficient resources by finding new sustainable funding sources: Looking for ways to bring additional revenue into the City's general fund

This work session is a continuation of the discussion of the City Services Charge options presented to Council, the Budget Committee and McMinnville Water and Light's Commission in joint session on 2/16/2022. It also incorporates information regarding other funding sources which can complement this new funding source to achieve a sustainable package of resources that balances impact on the residents and commercial enterprises of McMinnville.

These new sustainable resources are being brought online so the City of McMinnville continues to provide vital services and community leadership. The general fund provides McMinnville residents and businesses:

1. dependable first responder coverage from police, fire and emergency medical teams along with investments in emergency preparedness
2. engaging programming at the library and from parks and recreation that nurture the health and spirit of the community
3. thoughtful short- and long-range planning to support the growth of McMinnville and create conditions that serve residents and local businesses now and into the future
4. access to justice in municipal court and equitable treatment with code enforcement
5. responsiveness to larger challenges such as addressing historic inequities faced by many members of our community, affordable housing and climate change

Work Session Objectives:

The work session include a presentation from Deborah Galardi, our rate study consultant, and staff, regarding:

1. Answers to questions from the 2/16/2022 meeting regarding the City Services Charge and impact on commercial organizations in the community
2. Other related funding sources

Staff is seeking policy guidance on the following questions:

1. Total revenue target for new funding source(s) starting in FY 2022-23
 - o City Services Charge component
 - o Adjustments to current payment in lieu of tax level
 - o Adjustments to current wastewater franchise fee percentage
 - o Implement a new water utility franchise fee percentage
2. City Services Charge elements
 - o Preferred charge structure
 - o Billing policies such as exemptions, discount program

This guidance will allow staff to finish the FY2022-23 budget proposal that will be brought to the budget committee later this spring and work with McMinnville Water and Light and our consulting team to carry out implementation work on this sustainable resources project.

Council will see formal ordinances and resolutions on any resource addition or update chosen over the course of the next several months.

Background:

At the 2/16/2022 work session, a preference for options 3 and 4 of the rate structures presented emerged from the discussion.

This work session will focus on these two options and provides information on what they look like if designed to raise \$2 million or \$3.5 million. Implementing a City Services Charge that raises less than \$2 million wouldn't be recommended given the level of effort required to build and maintain the program. The upper end of \$3.5 million was chosen because it can be combined with other revenue options to achieve the highest resource total of \$6 million contemplated in this staff report.

Comparison of Options

Criteria	Option 3 \$2 M	Option 4 \$2 M	Option 3 \$3.5 M	Option 4 \$3.5 M
Single Family Bill	\$11.25	\$9.41	\$19.69	\$16.46
Small Commercial Bill	\$11.25	\$19.89	\$19.69	\$34.80
Large Commercial Bill	\$375.00	\$662.90	\$656.25	\$1,160.08
Preliminary Revenue Allocation (%)				
Residential	67%	56%	67%	56%
Multifamily	15%	13%	15%	13%
Commercial/Ind.	18%	31%	18%	31%

Descriptions of other resource options available that could be implemented in tandem with the City Service Charge to raise resources to support existing or expanded services follows.

Payment in Lieu of Tax (PILOT)

This is a charge based on electric sales that municipal electric utilities pay municipal organizations in lieu of property taxes. State law (ORS 225.270) establishes a 3% minimum PILOT payment for municipal electric utilities. The City of McMinnville currently receives a 6% PILOT distribution from residential and commercial customers; industrial customers contribute at a 3% level. From 1961 until 1989, all customers paid the same PILOT percentage. After a two-year transition, industrial customers began to receive this discount relative other electric users/payers.

According to the Oregon Department of Energy, there are 12 municipal electric utilities in the state. Staff was able to find the PILOT rates for 11 of these public utility companies and in every case, there was not a differential of PILOT rates by customer class reported.

Four of the 11 cities charged 5% payment in lieu of property tax, three charged 6% and three charged from 6.9% to 25%.

Wastewater and water franchise fees

According to the latest report from the League of Oregon Cities on franchise fees from 2019, cities report having franchise fees in the following areas:

- Cable and telecom
- Electric
- Natural gas

- Solid waste
- Water
- Wastewater
- Other (universities, oil and gas pipelines, cement production, sustainable energy)

As part of Resolution 2021-55, the City included reviewing and updating franchise agreements as a sustainable funding source. The City of McMinnville's wastewater franchise fee of 5% was initiated in 2019.

The City does not currently have a water franchise fee nor does the City pay water bills for its use of water in city parks, offices and other facilities. Establishing a water franchise fee and moving to full cost recovery for McMinnville Water and Light's water services delivery to the City is an option available for consideration as well.

Policy Decision 1: Revenue Target

What amount of new resources does the city want to bring online to support its services?

\$2 million

This amount of funding represents the approximate persistent budget funding gap for current services. Making progress on building up the reserve and addressing deferred maintenance for existing assets would not be achievable at this level of additional funding. Addressing deficits in core services and investing in the MacTown 2032 initiatives would also be limited and/or would require reductions in services in some other area.

Raising \$2 million can be done in a number of ways:

- instituting the CSC at the \$2 million level
- increasing the PILOT rate collected on all accounts to 10%
- increasing the PILOT rate to 7% or 8% and doing a combination of increasing the wastewater franchise fee and instituting a water franchise fee

\$3 million

This amount of funding would address the persistent budget gap, build back the reserve and either make some inroads in addressing deferred maintenance or modestly addressing core services. It would not stretch to fully addressing deferred maintenance (\$32 million of repairs needed over 10 years according to the 2019 Facility Condition Assessment). Spending on existing capital assets would require trading off investing in core services or programming the community aspires to from MacTown 2032.

Raising \$3 million can be done in a number of ways:

- instituting the CSC at the \$3 million level
- instituting the CSC at a \$2.1 million level and increasing the PILOT rate collected on all accounts to 7%

- some mix of the CSC, increasing the PILOT rate and increasing the wastewater franchise fee
- some mix of the CSC, increasing the PILOT rate and instituting a water franchise fee

Note: given the level of effort required to implement the CSC, a \$2 million minimum revenue level for that instrument is recommended.

\$4 million

This amount of funding would address the persistent budget gap, build back the reserve, make inroads in addressing deferred maintenance and invest in targeted core services and/or MacTown 2032 programming. It would not stretch to fully addressing deferred maintenance (which requires an average annual investment of over \$3 million) Again, spending on existing capital assets would still require trading off investing in raising the level core services and programming the community aspires to as described in MacTown 2032.

Raising \$4 million can be done in a number of ways:

- instituting the CSC at a \$2.25 million level and increasing the PILOT rate collected on all accounts to 9%
- some mix of the CSC, increasing the PILOT rate and increasing the wastewater franchise fee
- some mix of the CSC, increasing the PILOT rate and instituting a water franchise fee

\$5 million

This amount of funding would address the persistent budget gap and build back the reserve as well as provide some ability to invest in a number of base or below base core services and MacTown 2032 programming while addressing some deferred maintenance. Trade-offs across these competing priorities and worthy core services enhancements and special projects would still be required.

Raising \$5 million can be done in a number of ways:

- instituting the CSC at a \$2.8 million level and increasing the PILOT rate collected on all accounts to 10%
- instituting the CSC at a \$3.25 million level and increasing the PILOT rate collected on all accounts to 9%
- some mix of the CSC, increasing the PILOT rate and increasing the wastewater franchise fee or instituting a water franchise fee

\$6 million

This amount of funding would address the persistent budget gap and build back the reserve as well as provide resources to invest more broadly in base or below base core

services and MacTown 2032 programming while addressing some deferred maintenance. Trade-offs across these competing priorities and worthy core services enhancements and special projects would still be required (as noted in the 1/11/22 Core Services overview presentation to Council, moving the top 25 base and below base core services up one service level would cost an estimated \$3.18 million).

Raising \$6 million can be done in the following ways:

- instituting the CSC at a \$3.5 million level, increasing the PILOT rate collected on all accounts to 10% and increasing the wastewater franchise fee and/or instituting a water franchise fee
- instituting the CSC at a \$3.5 million level, increasing the PILOT rate collected on all accounts to 9.5%, increasing the wastewater franchise fee to 7% and instituting a 6% water franchise fee

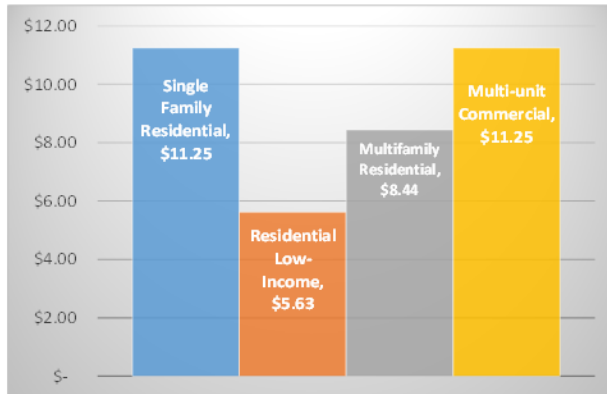
Policy Decision 2: City Services Charge elements

Preferred charge structure

The four structures presented at the 2/16/2022 work session are summarized below. Is structure option 3 or 4 the better way to go?

Preliminary City Services Charge Structure Options			
Option	Charge Basis by Class		Pricing by Class
	(Residential & Multi-unit Commercial)	Nonresidential (Single Unit)	
1	Number of Units	Per Account	Varies
2	Meter size**	Meter Size	Uniform
3	Number of Units	Meter Size	Varies by type of unit for single family & multifamily
4	Number of Units	Meter Size	Varies by type of unit for all classes
Options for further consideration			

REVISED* Option 3 (\$2 M): Residential & Multi-Unit \$/Unit; Commercial by Meter Size



Commercial/Industrial	\$/Meter
5/8" - 3/4" Meter	\$ 11.25
1" Meter	18.75
1.5" Meter	37.50
2" Meter	60.00
3" Meter	120.00
4" Meter	187.50
6" Meter	375.00

**Rates have been updated to reflect 3/4" meter equivalency factors and continued billing data analysis*

REVISED* Option 4 (\$2 M): Residential & Multi-Unit \$/Unit; Commercial by Meter Size



Commercial/Industrial	\$/Meter
5/8" - 3/4" Meter	\$ 19.89
1" Meter	33.15
1.5" Meter	66.29
2" Meter	106.06
3" Meter	212.13
4" Meter	331.45
6" Meter	662.90

Nonresidential revenue = 31% (based on employees as a percent of population + employees)

**Rates have been updated to reflect 3/4" meter equivalency factors and continued billing data analysis*

Sample Bill Comparison

Customer Class	Units	Meter Size (")	Option 3 (\$2M)	Option 4 (\$2M)	Option 3 (\$3.5 M)	Option 4 (\$3.5 M)
Residential (All Customers)	1	3/4	\$ 11.25	\$ 9.41	\$ 19.69	\$ 16.46
Residential Low Income	1	3/4	5.63	4.70	9.84	8.23
Multi Family						
Small complex	4	1	33.75	28.22	59.06	49.39
Large complex	88	4	742.50	620.90	1,299.38	1,086.57
Commercial/Industrial						
Small	1	3/4	11.25	19.89	19.69	34.80
Medium	1	2	60.00	106.06	105.00	185.61
Large	1	6	375.00	662.90	656.25	1,160.08
Commercial - Multi-Unit						
Small	2	3/4	22.50	39.77	39.38	69.60
Medium	9	2	101.25	178.98	177.19	313.22
Estimated Total Revenue (\$M)			\$2.0	\$2.0	\$3.5	\$3.5

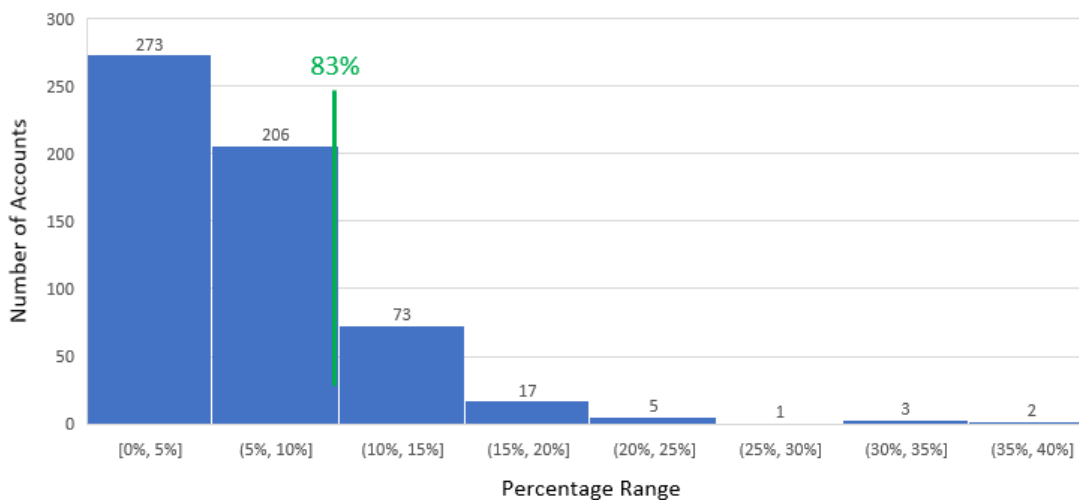
Sample Bill Increases – Average Bills* (Electric/Water/Sewer Combined)

	Average Bill (E/W/S)	\$2.0 Million		\$3.5 Million	
		Option 3	Option 4	Option 3	Option 4
Single Family Average	\$183.43	6.1%	5.1%	10.7%	9.0%
General Service					
5/8" - 3/4"	\$192.95	5.8%	10.3%	10.2%	18.0%
1"	\$746.74	2.5%	4.4%	4.4%	7.8%
1 1/2"	\$863.00	4.3%	7.7%	7.6%	13.4%
2"	\$2,005.97	3.0%	5.3%	5.2%	9.3%
3"	\$4,844.35	2.5%	4.4%	4.3%	7.7%
4"	\$12,414.50	1.5%	2.7%	2.6%	4.7%
6"	\$4,837.13	7.8%	13.7%	13.6%	24.0%

**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available. 6" meter based on only 1 customer and may not reflect total bill.*

Sample Range of Bill Increases (General Service Customers)

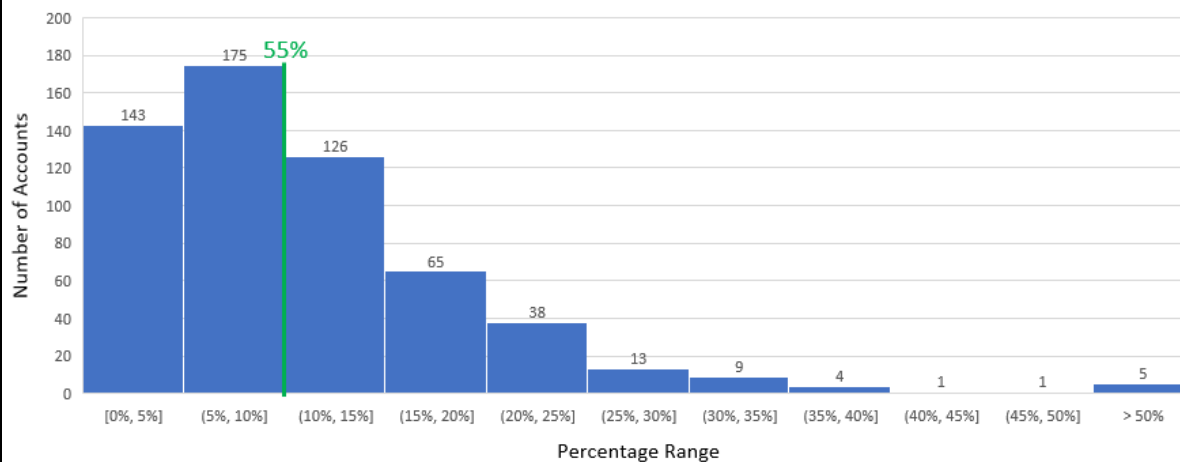
Option 3 - \$2.0 Million % Bill Increase Distribution



**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*

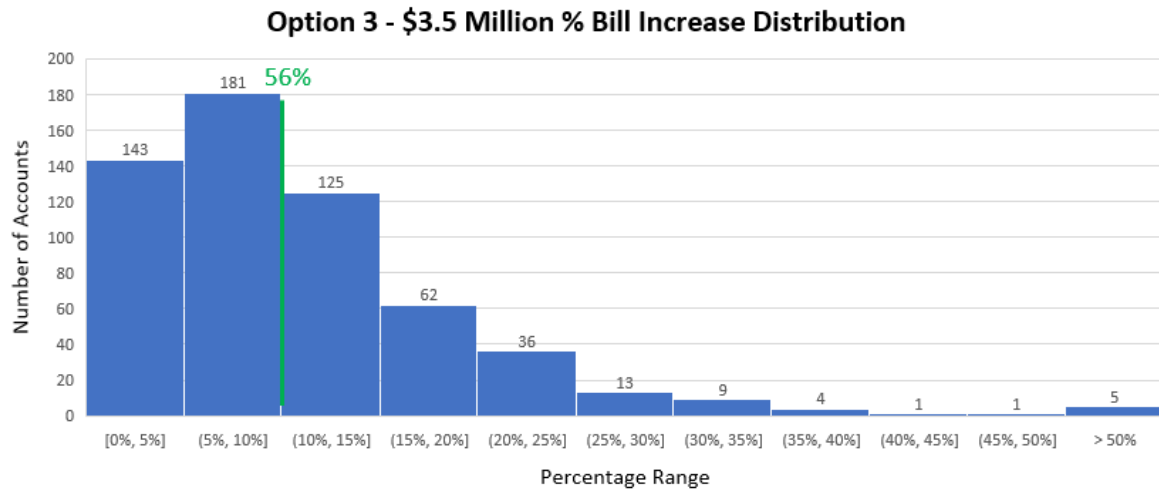
Sample Range of Bill Increases (General Service Customers)

Option 4 - \$2.0 Million % Bill Increase Distribution



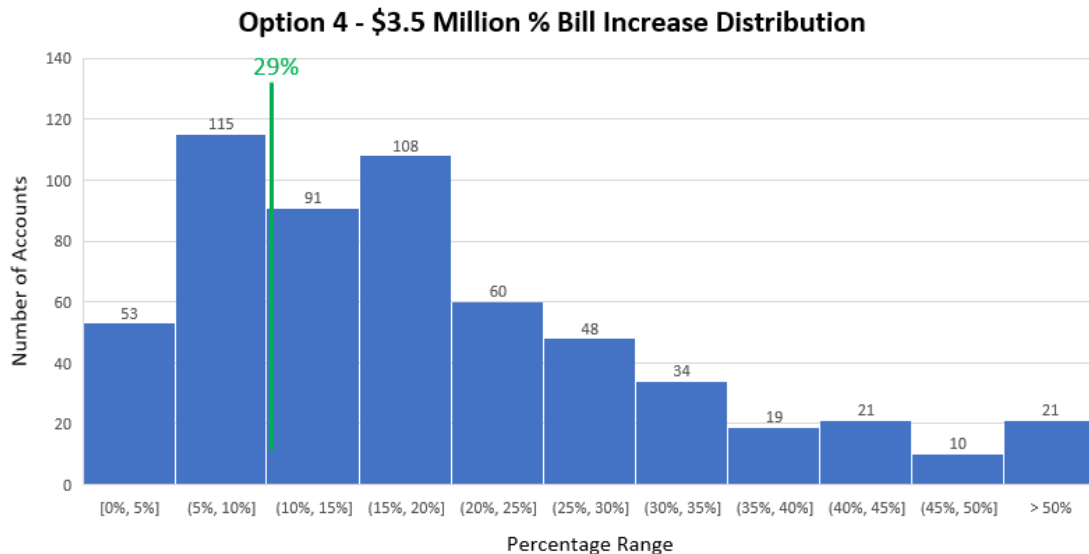
**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*

Sample Range of Bill Increases (General Service Customers)



**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*

Sample Range of Bill Increases (General Service Customers)



**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*

Billing policies such as exemptions, discount program

Are there any exemptions that would be of particular interest? Note that exemptions reduce the amount of revenue raised and can increase complexity of implementation and ongoing administration of the program, particularly if a variety of exemptions are desired.

Staff is continuing to work with McMinnville Water and Light to assess the best way to identify low-income residents and include them in a discount or waiver program. What is council's preference? A small flat amount \$2, \$5? Or a CSC waiver? We anticipate establishing a validation cycle for qualified residents, likely on an annual basis.

City Council Next Steps

Ordinance will be crafted to reflect the rate structure and other pertinent details for the service charge

Resolution(s) to address updates in the City's payment in lieu of tax (PILOT) for electric utility customers, wastewater franchise fee adjustment or establishment of a water franchise fee

FY2022-23 Proposed Budget will include the anticipated revenue and direct costs associated with the City Service Charge

Fiscal Impact:

These discussions will have an impact on the City's financial sustainability and ability to maintain services in the FY23 budget cycle and beyond.

Attachments:

1. Staff report from 2/16/2022 work session



STAFF REPORT

DATE: February 16, 2022
TO: Jeff Towery, City Manager
FROM: Jennifer Cuellar, Finance Director
SUBJECT: Work Session: City Services Charge

Strategic Priority and Goal:



CITY GOVERNMENT CAPACITY

Strengthen the City's ability to prioritize & deliver municipal services with discipline and focus.

Report in Brief:

At the Council's 6/22/2021 meeting, the governing body adopted its 2021 Annual Goals; included among them is the following goal under City Government Capacity:

Right-Size Services: Address insufficient resources by finding new sustainable funding sources: Looking for ways to bring additional revenue into the City's general fund

- *Create strategic plan for \$2-3 million of new revenue streams*

This work session focuses on the City Services Charge, the latest in a series of discussions by the Council and Budget Committee to evaluate and make choices on sustainable resource options for McMinnville. This work session also includes McMinnville Water and Light's Commission in joint session.

These new sustainable resources are being brought online so the City of McMinnville continues to provide vital services and community leadership. The general fund provides McMinnville residents and businesses:

- dependable first responder coverage from police, fire and emergency medical teams along with investments in emergency preparedness
- engaging programming at the library and from parks and recreation that nurture the health and spirit of the community
- thoughtful short- and long-range planning to support the growth of McMinnville and create conditions that serve residents and local businesses now and into the future
- access to justice in municipal court and equitable treatment with code enforcement
- responsiveness to larger challenges such as addressing historic inequities faced by many members of our community, affordable housing and climate change

Work Session Objectives:

The work session will include a presentation from Deborah Galardi, our rate study consultant, and staff, an opportunity for questions and answers and discussion by the elected and appointed officials present.

Staff is seeking policy guidance on the following questions:

- Preferred charge structure
- Pricing and revenue targets
- Other related funding sources
- Billing policies such as exemptions, discount program

We will also be collecting a list of any additional data or information needed to make choices on the above policy questions.

Discussion:

The city is required by law to adopt and operate within a balanced budget. The new sustainable resources will be used to maintain existing staffing, programs, and services in our fire, library, parks and recreation, police, and administration – which are all funded by our General Fund. The City Services Charge will fund these “core services” – what we do and how we do it.

MacTown 2032 includes new work that the community aspires to. New resources are also needed to allow the city to make meaningfully advance those goals as well.

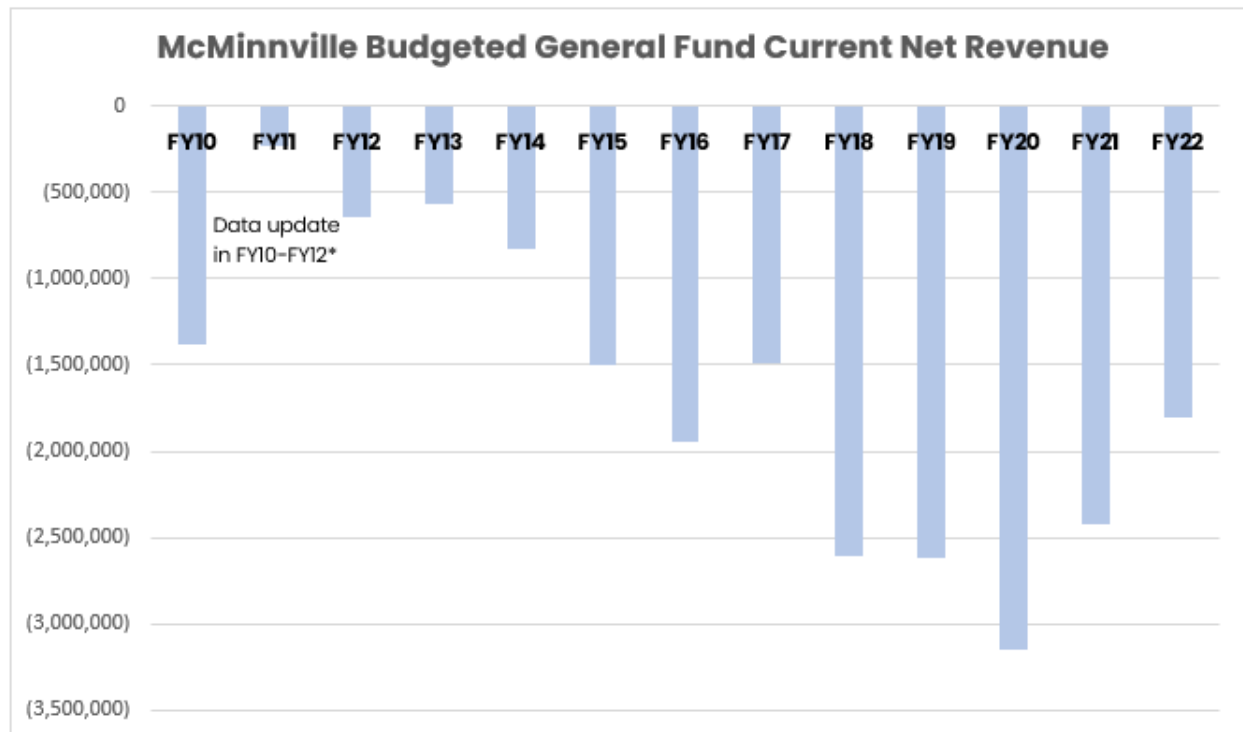
Background

The cost of current City of McMinnville services provided in the general fund exceeds the amount of annual revenues it collects. This gap is addressed each year in the budget process by a combination of utilizing reserves, reductions in service levels, postponing capital investments and deferring maintenance on city assets.

McMinnville Council and staff have been working together for a number of years to address this sustainability imbalance with the implementation of a wastewater franchise fee starting in FY19-20 and the work devoted to exploring the feasibility of creating a fire district with the potential of improving fire and ambulance service delivery across the community while also freeing up property tax revenue for other vital uses within the city. Attention has been given to establishing cost recovery programs for services provided that accrue a specific benefit to a user.

Despite these efforts, McMinnville faces a persistent general fund budget gap of approximately \$2 million between revenues received each year and the cost of city services.

This situation is rooted in property tax ballot measures from the early 1990s when voters chose to cap property tax rate increases. Without other revenue sources (like a sales tax), jurisdictions in all 36 Oregon counties have been faced with the challenge of addressing budget shortfalls. The budget problem is a result of funding City services with property taxes that increase a little while living in a world where expenses increase by a lot.



* This chart was first shown at the 7/13/2021 sustainable resources work session. Upon review, an error was found in data presented for FY2009-10, FY2010-11 and FY2011-12 that is corrected in this version

McMinnville's services rely on people, and we often face the budget reality of health insurance and pension costs that increase faster than inflation. Cost of living adjustments also affect labor costs and general costs of doing business with the purchase of materials, supplies, contracted services, etc.

Many Cities have addressed this funding gap through a combination of levies (charged based on assessed value and paid with property tax bills) or operating fees (charges based on a set methodology and paid with utility bills).

Process to date regarding sustainable resource options

After the Council adopted the 2021 annual goal on sustainable resources, staff began pulling together information on lawful options available to cities for generating and sharing reports from other cities that have grappled with this question before us.

To strengthen the community engagement component of looking at this key question, the Council chose to bring the full Budget Committee into the conversation.

From the original list of three dozen possibilities, the Budget Committee asked staff to look more in depth at 17 resource options. Each option was evaluated by the following criteria:

1. **Council policy goals.** Supports or is an obstacle to other policy goals.
2. **Revenue raising capability.** Amount of funds likely to be generated, including assessment of service demand impacts associated with revenue

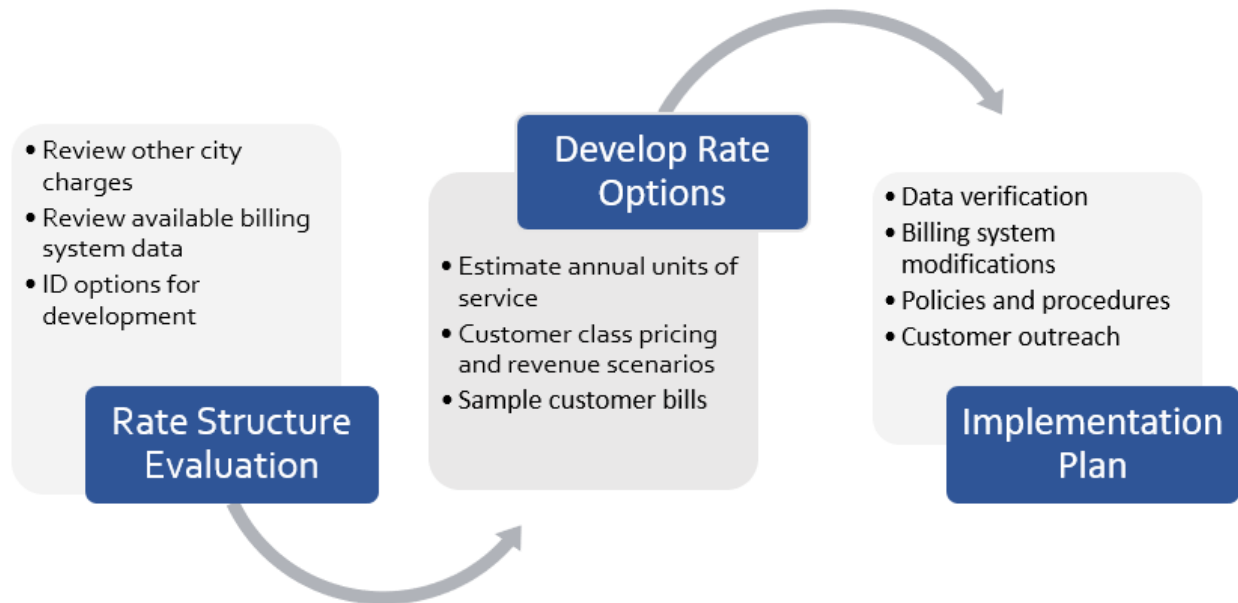
stream.

3. **Revenue stability.** The reliability of resource levels under different conditions.
4. **Household equity.** Directly or indirectly serves to reduce or exacerbate structural, historic inequities in how the city funds its services.
5. **Healthy Business Climate.** Impact on local businesses.
6. **Environmental impact.** Are sustainable practices incentivized.
7. **Administrative effort.** How expensive to implement and manage.

The Budget Committee recommended the city follow up on initiating a service fee, among other actions, to support general city services at its October 20, 2021, meeting.

Resolution 2021-55 regarding sustainable funding sources was adopted by the City Council on November 9, 2021. The City Services Charge paid via utility billing is included in resolution. Other strategies are also noted including review of franchise agreements.

The work plan for developing the City Services Charge is described in the following graphic:

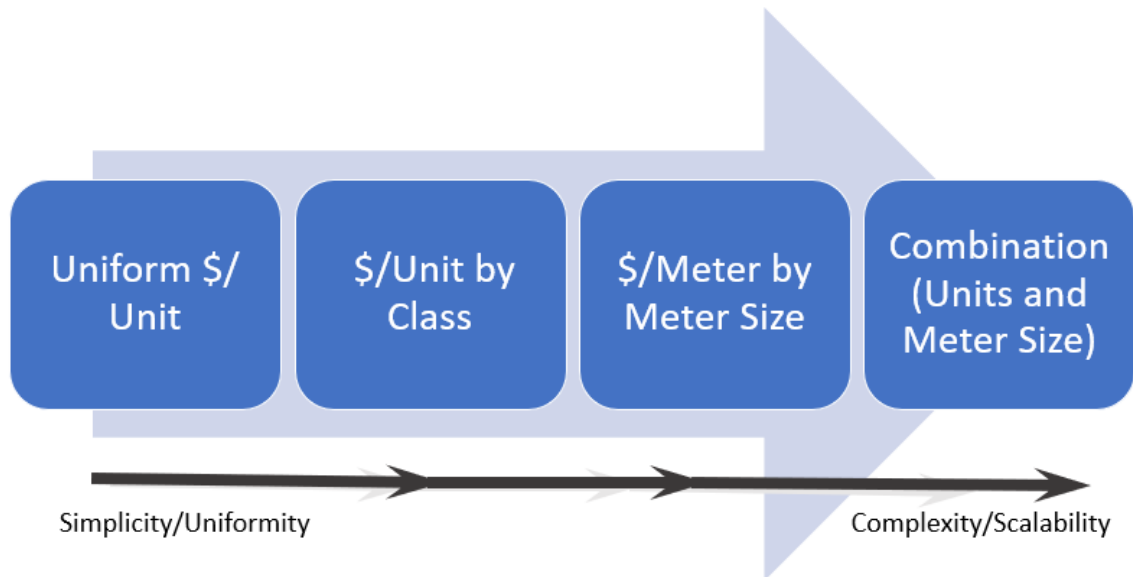


These encapsulate three of the four policy areas staff are seeking guidance on. The fourth is regarding related funding options that have come up in the sustainable resource discussions over the summer and fall of 2021: franchises and McMinnville's current payment in lieu of tax (PILOT) structure.

Policy Decision 1: Charge Structure

Guidance sought by staff on the charge structure includes the basis for the charge (accounts, units, meters, etc.) and establishing a uniform rate versus class-specific pricing. Choices on rate structures will have a significant impact on the balance of community participation – residential and commercial organizations - in supporting city services.

Rate structure types under consideration:



Rate structure types in practice:

Structure Type	Example City(ies)
Uniform \$/Unit	Gresham, Medford
\$/Unit by Class	Keizer, Salem, Sandy
\$/Meter by Size	Corvallis, Newberg
Combination (\$/Unit and Meter Size)	Albany

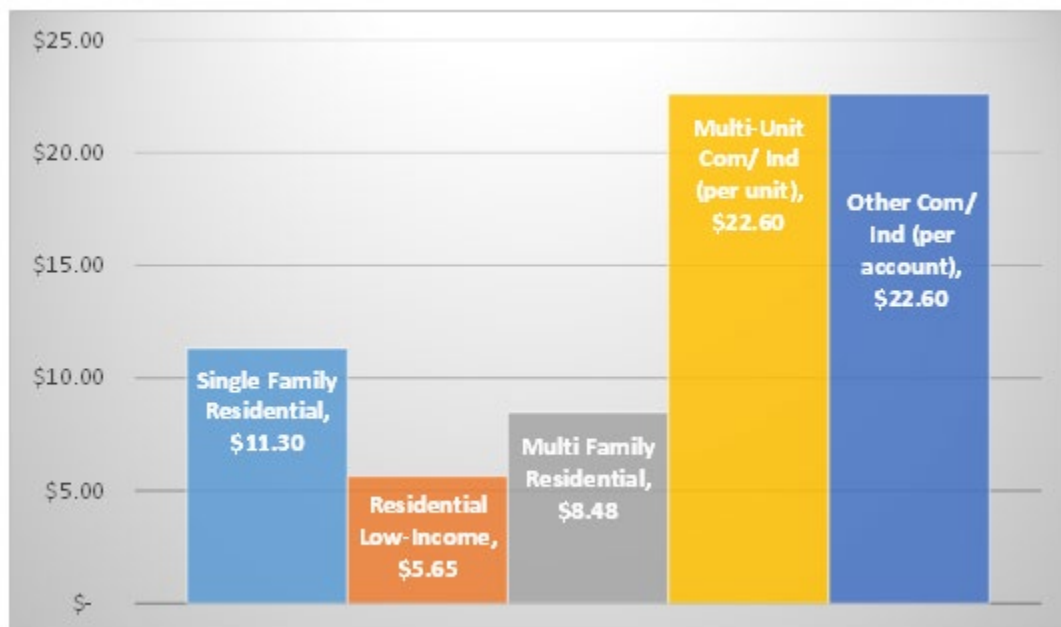
Preliminary City Services Charge Structure Options:

Option	Charge Basis by Class		Pricing by Class
	(Residential & Multi-unit Commercial)	Nonresidential (Single Unit)	
1	Number of Units	Per Account	Varies
2	Meter size	Meter Size	Uniform
3	Number of Units	Meter Size	Varies by type of unit for single family & multifamily
4	Number of Units	Meter Size	Varies by type of unit for all classes

All four options that follow:

- include low-income residential discount
- are based on \$2 million projected revenue for illustration
- project revenue estimates based on preliminary data available

Option 1: Charges per Unit or Account (\$/unit varies by class)



Multifamily \$/unit = 75% single family reflecting lower average dwelling unit occupancy.

Nonresidential pricing a policy decision (2 X single family for illustration).

Option 2: Charges by Meter Size *(Uniform charges by class)*

Meter Size	Meters	Meter Factor	Option 2 \$/Month
Residential & Gen Svc 3/4"	10,651	1.0	\$11.40
1"	237	2.5	\$28.50
1 1/2"	158	5	\$57.00
2"	182	8	\$91.20
3"	30	16	\$182.40
4"	23	25	\$285.00
6"	7	50	\$570.00

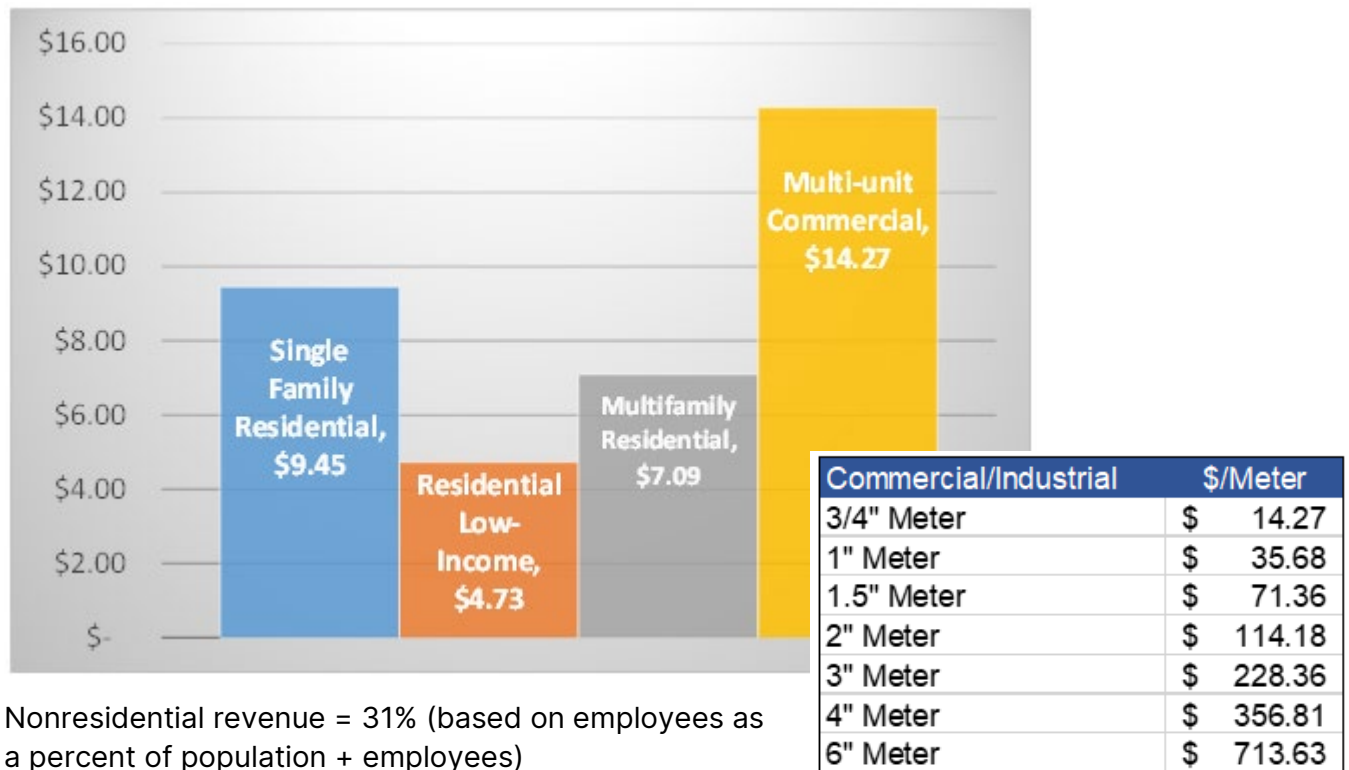
All single-family residential charged based on 3/4" meter.

Meter factors reflect hydraulic capacity factors.

Option 3: Residential & Multi-Unit Commercial \$/Unit; Nonresidential by Meter Size *(Different \$/unit by dwelling type)*



Option 4: Residential & Multi-Unit Commercial \$/Unit; Nonresidential by Meter Size
(Different \$/unit for all classes)



Policy Decision 2: Pricing and Revenue Targets

Guidance is sought on the level of annual revenue to be raised through the City Service Charge, any pricing by class details and overall proportions of funds raised by class.

The first two graphics show data based on the above four options that will raise \$2 million in gross revenue. The third shows a summary that extrapolates the \$2 million base case to \$4 million and \$6 million. The final table shows examples of similar charges that are already in place in other cities.

Sample Bill Comparison:

Customer Class	Units	Meter Size (")	Option 1: Rate per Unit & Class	Option 2: Meter Size	Option 3: Units/Meter Size	Option 4: Units/Meter Size
Residential (All Customers)	1	3/4	\$ 11.30	\$ 11.40	\$ 10.60	\$ 9.45
Residential Low Income	1	3/4	\$ 5.65	\$ 5.70	\$ 5.30	\$ 4.73
Multi Family						
Small complex	4	1	\$ 33.90	\$ 28.50	\$ 31.80	\$ 28.36
Large complex	88	4	\$ 745.80	\$ 285.00	\$ 699.60	\$ 623.88
Commercial/Industrial						
Small	1	3/4	\$ 22.60	\$ 11.40	\$ 10.60	\$ 14.27
Medium	1	2	\$ 22.60	\$ 91.20	\$ 84.80	\$ 114.18
Large	1	6	\$ 22.60	\$ 570.00	\$ 530.00	\$ 713.63
Commercial - Multi-Unit						
Small	2	3/4	\$ 45.20	\$ 11.40	\$ 21.20	\$ 28.55
Medium	9	2	\$ 203.40	\$ 91.20	\$ 95.40	\$ 128.45
Large	20	2	\$ 452.00	\$ 91.20	\$ 212.00	\$ 285.45
Estimated Total Revenue (\$M)			\$2.0	\$2.0	\$2.0	\$2.0

Comparison of Options:

Criteria	Option 1 \$/Unit (Class)	Option 2 \$/Meter (Size)	Option 3 \$/Unit and Meter Size	Option 4 \$/Unit & Meter Size
Single Family Bill	\$11.30	\$11.40	\$10.60	\$9.45
Large Nonresidential Bill	\$22.60	\$570.00	\$530.00	\$713.63
Preliminary Revenue Allocation (%)				
Residential	67%	68%	63%	57%
Multifamily	15%	7%	14%	12%
Commercial/Ind.	18%	25%	23%	31%
Scalability	Low	Med	High	High
Administrative Complexity	Med	Low	Med	Med

The Comparison of Options graphic gives an indication of the balance of funding generated from residential and commercial payers of the City Services Charge in the rate structures presented based on the data available at this time.

Guidance from the Budget Committee on the balance between residential and other recipients of city services (businesses, non-profits, public entities that operate within the city) will help in creating a charge structure that is equitable on this metric.

Comparison of Charges and Revenues beyond \$2 million base case:

Option	Class	\$2 M	\$4 M	\$6 M
Option 1	Single Family Residential	\$11.30	\$22.60	\$33.90
	Large Nonresidential	\$22.60	\$45.20	\$67.80
Option 2	Single Family Residential	\$11.40	\$22.80	\$34.20
	Large Nonresidential	\$570.00	\$1,140.00	\$1,710.00
Option 3	Single Family Residential	\$10.60	\$21.12	\$31.68
	Large Nonresidential	\$530.00	\$1,056.00	\$1,584.00
Option 4	Single Family Residential	\$9.45	\$18.91	\$28.36
	Large Nonresidential	\$713.63	\$1,427.26	\$2,140.88

Example Other City Charges:

City	Parks	Public Safety Fees	General Operations Fee	Residential Total ¹
West Linn	\$19.26			\$19.26
Gresham ²			\$15.00	\$15.00
Medford	\$5.35	\$9.42		\$14.77
Corvallis ³	\$0.50	\$13.04		\$13.54
Cornelius			\$9.75	\$9.75
Albany			\$9.00	\$9.00
Salem ⁴			\$8.34	\$8.34
Keizer ⁵	\$4.00	\$4.00		\$8.00
Oregon City		\$6.50		\$6.50
Tigard	\$6.16			\$6.16
Newberg ⁶		\$5.26		\$5.26
Sandy		\$4.50		\$4.50
Average				\$10.01
Median				\$8.67
¹ Excludes utility fees for water, wastewater, and stormwater and streets				
² Single multi-services fee for police, fire, parks				
³ Public Safety fee includes two separate fees for police and fire				
⁴ Single multi-services fee for public safety, parks and libraries.				
⁵ Sr. And Low Income = \$2.24				
⁶ Public safety fees include two different public safety fees for staff positions				

Data Verification Steps

Further work with the data is required to refine the financial projections associated with the charge structure and the impacts of pricing by class to achieve the desired revenue target.

- Confirm billing data includes all accounts that should be billed and excludes other accounts:
 - Include water only accounts (primary service)
 - Exclude secondary meters (irrigation, fire, etc)
 - Exclude? city currently pays electric but not water or sewer
 - Validate against property tax data or other sources to identify accounts to be added
- Verify customer class assumptions if selected structure includes variable charges by class
 - Residential vs. nonresidential
 - Multi-unit residential vs. nonresidential (dwelling units vs. multi-tenant commercial)

Costs of City Services Charge

Revenue projections discussed above are estimates for gross revenue and are not reduced by the carrying cost of managing the new program. Further study of these costs is needed and will depend on implementation planning still underway.

- Identify one-time costs to establish program
 - Invoice redesign and programming (\$10,000 to \$15,000 estimate)
 - Education campaign (\$8,000 initial estimate)
 - Cost of McMinnville Water and Light staff (have requested initial invoice for time spent to date)
 - Consultant support (\$30,000 estimate)
- Identify carrying costs of program
 - Customer service support
 - Accounting, reporting and compliance

Policy Decision 3: Other Funding Sources

During discussions on sustainable resources, the suggestion to review the payment in lieu of tax (PILOT) on electric services was made. In addition, review of franchise agreements was called out in Resolution 2021-55 regarding sustainable actions to take. Staff felt it made sense to include information and initial thinking on these two related revenue funding sources as a part of the discussion on the City Services Charge.

PILOT – Payment in Lieu of Tax

Electric services are categorized in a way that allows city staff to analyze the current PILOT percentage applied for each.

	Total FY21	PILOT %	PILOT Rev	
cat 1 - Gen Srv Ph3	9,702,753	6%	582,165	27.43%
cat 2 - Gen Service	2,430,190	6%	145,811	6.87%
cat 3 - Lrg Industrial	16,555,945	3%	496,678	23.40%
cat 4 -Residential	<u>14,958,586</u>	6%	<u>897,515</u>	42.29%
	43,647,475		2,122,170	

While the City's revenue received during FY2020-21 was slightly under \$2 million (further research into timing and base charges subject to PILOT will be conducted), the amount of PILOT generated by customer class are reasonable figures.

If City adjusts rate structure so that all payers contribute a **uniform 6%** level, revenues will increase approximately **\$500,000** per year. The balance of residential electrical users to commercial, industrial and institutional users will shift from 42%/58% to 34%/66%.

If City adjusts rate structure so that all payers contribute at a **new 7%** level, revenues will increase approximately **\$930,000** per year. The balance of residential electrical users to commercial, industrial and institutional users would remain 34%/66% in this scenario.

Guidance is sought as to whether staff should include a change in the current rate structure that gives a 100% discount to one rate class and bring forward options for such a change to be implemented as part of the FY2022-23 budget development process that is just getting underway.

Franchise fees

Currently, the City of McMinnville does not pay water utility bills. To offset that revenue impact on McMinnville Water and Light, the City does not currently require a franchise and associated franchise fee from McMinnville Water and Light.

A component of the implementation work that staff is undertaking includes assuring that

the City is paying full freight on the cost of implementing the City Services Charge and updating a variety of billing procedures.

Discussion of making a move towards full cost recovery for McMinnville Water and Light on water and related franchise work has also been flagged as an important topic to address for the future.

Policy Decision 4: Policies related to Implementation

A number of policies and procedures will need to be established that will impact the City of McMinnville and its component unit operation at McMinnville Water and Light.

Guidance on City Service Charge exemptions and our approach to low-income discounts are of special interest of staff to receive from the Council and Budget Committee. Staff proposes that the detailed business practices and the resulting policies and procedures in that area be developed based on best practices and in collaboration with McMinnville Water and Light staff.

High level policy questions

Exemptions:

- Outside city
- Secondary service (fire or irrigation)
- Undeveloped or unoccupied properties (with conditions)

Low Income Discount:

- Applies to total utility service bill
- Specific to City Services Charge

City Services Charge Updating:

- Update interval
- Annual Inflation adjustment
- Sunset clause

Other policy questions

Delinquencies:

- Public safety may be given preference over other services in cases of partial payment
- Generally, no lien on property or water disconnect for nonpayment of public safety or parks fees

Appeals Process

Implementation Plan

Work with McMinnville Water and Light staff

- Have charge in place for the July 2022 billing cycle
Latest information from MWL staff indicates they now believe a 6- to 9-month implementation timeline is required to incorporate the new charge into the utility

billing software

- Collaborate on data available to refine revenue projections and assure all beneficiaries of city services are included as payers of the charge

Business process needs include:

- Cost recovery methodology
- Payment application across three utilities and new fee
- Bill dispute procedures and authorities
- Accounting, revenue recognition, funds transfers

Communications plan includes:

- Education campaign through billing inserts and informational sessions with local groups
- Website update
- Social Media Video campaign (councilors and staff)
- FAQs and customer service representative support

City Council Next Steps

Ordinance will be crafted to reflect the rate structure and other pertinent details for the service charge

Resolution to address updates in the City's payment in lieu of tax (PILOT) for electric utility customers

FY2022-23 Proposed Budget will include the anticipated revenue and direct costs associated with the City Service Charge

An additional work session will likely be needed to provide any additional information requested that will allow staff guidance to be provided on the various policy choices before you. We would look to schedule that in March 2022.

Fiscal Impact:

These discussions will have an impact on the City's financial sustainability and ability to maintain services in the FY23 budget cycle and beyond.

Attachments:

1. Resolution 2021-55 regarding sustainable funding actions

RESOLUTION NO. 2021 - 55

A Resolution of the Common Council of the City of McMinnville preliminarily adopting certain sustainable funding sources.

RECITALS:

Whereas, in 2021, the McMinnville City Council established an objective to "address insufficient resources by finding new sustainable funding sources;" and

Whereas, the Budget Committee of the City of McMinnville held several work sessions to discuss options for new, sustainable resources; and

Whereas, the resources were evaluated based on seven (7) criteria, which evaluation was included in the September 22, 2021 staff report; and

Whereas, based on that evaluation, staff recommended that a service fee paid via utility billing be established; and

Whereas, staff also recommended that the City continue working toward establishing a new fire district, creating a business license program, and utilizing a program of interfund borrowing for capital investments; and

Whereas, staff further recommended that the City continue exploring a construction excise tax; and

Whereas, staff indicated an intent to continue iterative advancements regarding systems development charges, franchise fees, and cost recovery; and

Whereas, the Budget Committee reviewed the staff recommendations and supporting materials provided throughout the Budget Committee's discussions on new, sustainable resources and its recommendation regarding the adoption of certain sustainable funding sources at its meeting on October 20, 2021; and

Whereas, the Council has reviewed the Budget Committee's recommendation; and

Whereas, the Council understands that further discussions and approvals must occur to determine the scope and implementation of any new, sustainable resources.

NOW, THEREFORE, BE IT RESOLVED BY THE COMMON COUNCIL OF THE CITY OF McMinnville, OREGON, as follows:

1. The Council hereby preliminarily adopts a new service fee to support the general fund with a formal review after X years, subject to needed future approval by the Council regarding the scope and implementation of the service fee.
2. The Council preliminarily adopts a business license program, also subject to needed future approval by the Council regarding the scope and implementation of the business license program.
3. The Council instructs staff to continue the effort of creating a new fire district and utilizing interfund borrowing for capital investments.
4. This resolution shall take effect immediately upon passage and shall continue in full force and effect until revoked or replaced.

Adopted by the Common Council of the City of McMinnville at a regular meeting held the 9th day of November, 2021 by the following votes:

Ayes: Drabkin, Garvin, Geary, Menke, Peralta

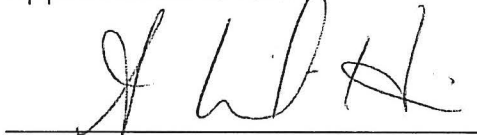
Nays: Chenoweth

Approved this 9th day of November 2021.



MAYOR

Approved as to form:



City Attorney

Attest:



City Recorder

McMinnville Sustainable Resources and the City Services Charge

McMinnville City Council Meeting
Including McMinnville Budget Committee

March 22, 2022

Sustainable Resources and City Services Charge

Presentation

Deborah Galardi, Galardi Rothstein Group
McMinnville staff

Policy guidance conclusions

1. Annual Resource Total Target
 - Amount to raise
 - Mix of resource options
2. City Services Charge Elements
 - Charging structure
 - Exemptions, discount program

Annual Resource Target

[City Staff]



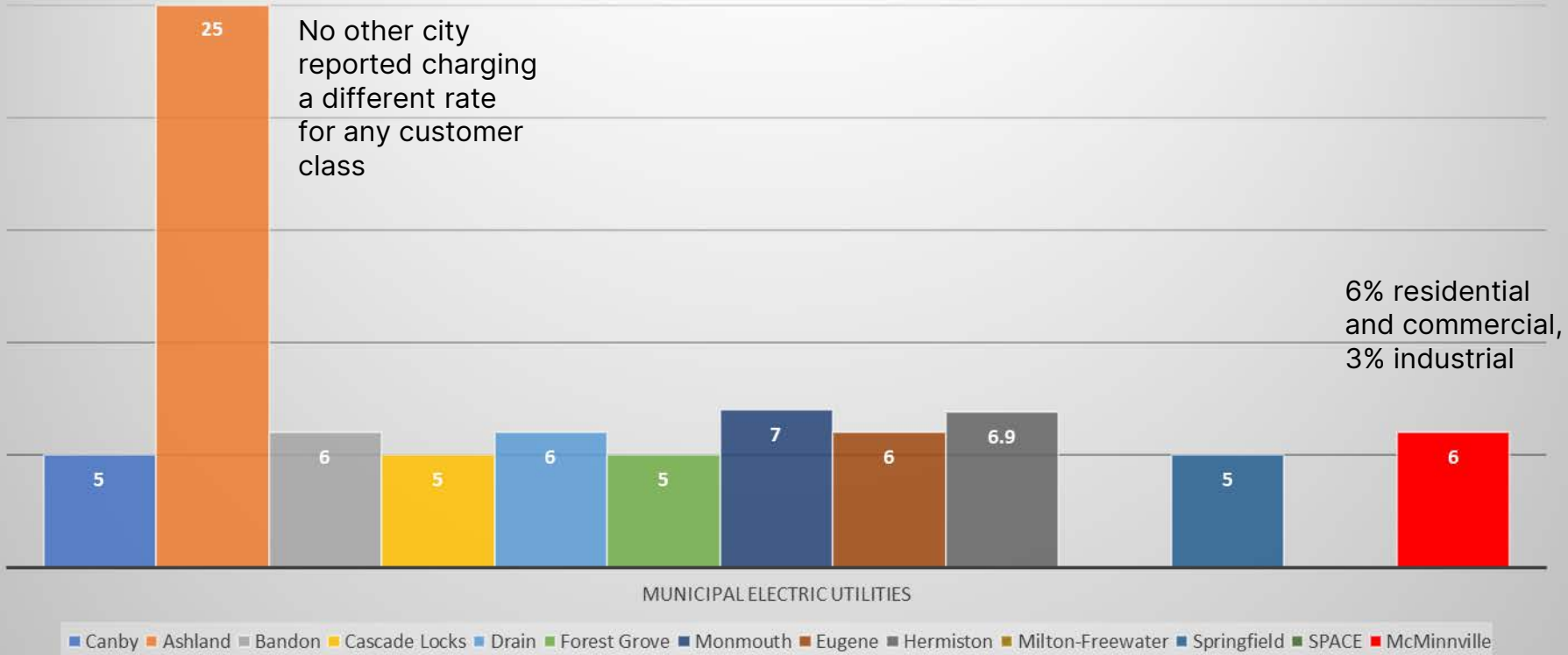
Sustainable Resource Options

	Low	High	Low	High	Resid %	Biz-Industrial %
City Services Charge	2,000,000	3,500,000	Res \$9.41 to 11.25 Biz \$11.25 to 662.90	Res \$16.46 to 19.69 Biz \$19.69 to 1160.08	Option 3: 82% Option 4: 69%	Option 3: 18% Option 4: 31%
Payment in Lieu of Tax (PILOT)	500,000	2,175,000	all pay 6%	all pay 10%	34%	66%
Water Franchise Fee*	190,000	585,000	5% franchise net revenue	10% franchise net revenue	58%	42%
Wastewater Franchise Fee	105,000	535,000	6% franchise fee	10% franchise fee	77%	23%
Total	2,795,000	6,795,000				

*Net amount noted, assumes \$200k annual water costs



Municipal Electric Utilities



Additional \$2 million

\$2 million represents approximate persistent annual budget funding gap for current city services in general fund.

Making progress on building up the reserve, addressing deferred maintenance for existing assets or improving below base core services would not be achievable without service reductions in other service areas.

Options for raising \$2 million

- institute City Services Charge at the \$2 million level
- increase PILOT rate collected on all accounts to 10%
- Increase PILOT rate to 7% or 8% and a combination of wastewater franchise fee increase and add water franchise fee



Additional \$3 million

\$3 million addresses persistent annual budget funding gap for current city services in general fund, would allow progress on building back the reserve and to either address selected deferred maintenance or modest core services investments. Difficult annual choices would be required, trading off investing in core services or programming the community aspires to from MacTown 2032 against deferred maintenance needs.

Options for raising \$3 million

- institute City Services Charge at the \$3 million level
- institute City Services Charge at the \$2.1 million level and increase PILOT rate on all accounts to 7%
- a mix of City Services Charge, increased PILOT rate and action on either wastewater or water franchise fee
- Increase PILOT to 10%, wastewater franchise fee to 9% and add water franchise fee at 8%



Additional \$4 million

\$4 million addresses budget gap, building back reserve, making inroads in deferred maintenance and investing in targeted core services and/or MacTown 2032 programming. It would not stretch to fully addressing facility needs (which requires an average annual investment of over \$3 million). Again, trade offs regarding raising core service levels, desired new programming and maintaining existing assets are required.

Options for raising \$4 million

- institute City Services Charge at \$2.25 million level and increase PILOT to 9% on all accounts
- a mix of City Services Charge, increased PILOT rate and action on either wastewater or water franchise fee



Additional \$5 million

\$5 million addresses budget gap, building back reserve, investing in a number of core services and MacTown 2032 programming while also addressing some facility deferred maintenance. Trade-offs across these competing priorities and worthy core services enhancements and special projects would still be required.

Options for raising \$5 million

- institute City Services Charge at \$2.8 million level and increase PILOT to 10% on all accounts
- institute City Services Charge at \$3.25 million level and increase PILOT to 9% on all accounts
- a mix of City Services Charge, increased PILOT rate and action on either wastewater or water franchise fee

Additional \$6 million

\$6 million addresses budget gap, building back reserve, investing in a broader range of below base and base level core services and MacTown 2032 programming while also addressing some facility deferred maintenance. As noted in the 1/11/22 Core Services presentation to Council, moving the top 25 base and below base core services up one service level would cost an estimated \$3.18 million.

Options for raising \$6 million

- institute City Services Charge at \$3.5 million level, increase PILOT to 10% on all accounts and action on either wastewater or water franchise fee
- institute City Services Charge at \$3.5 million level and increase PILOT to 9.5% on all accounts, a 7% wastewater and 6% water franchise fee

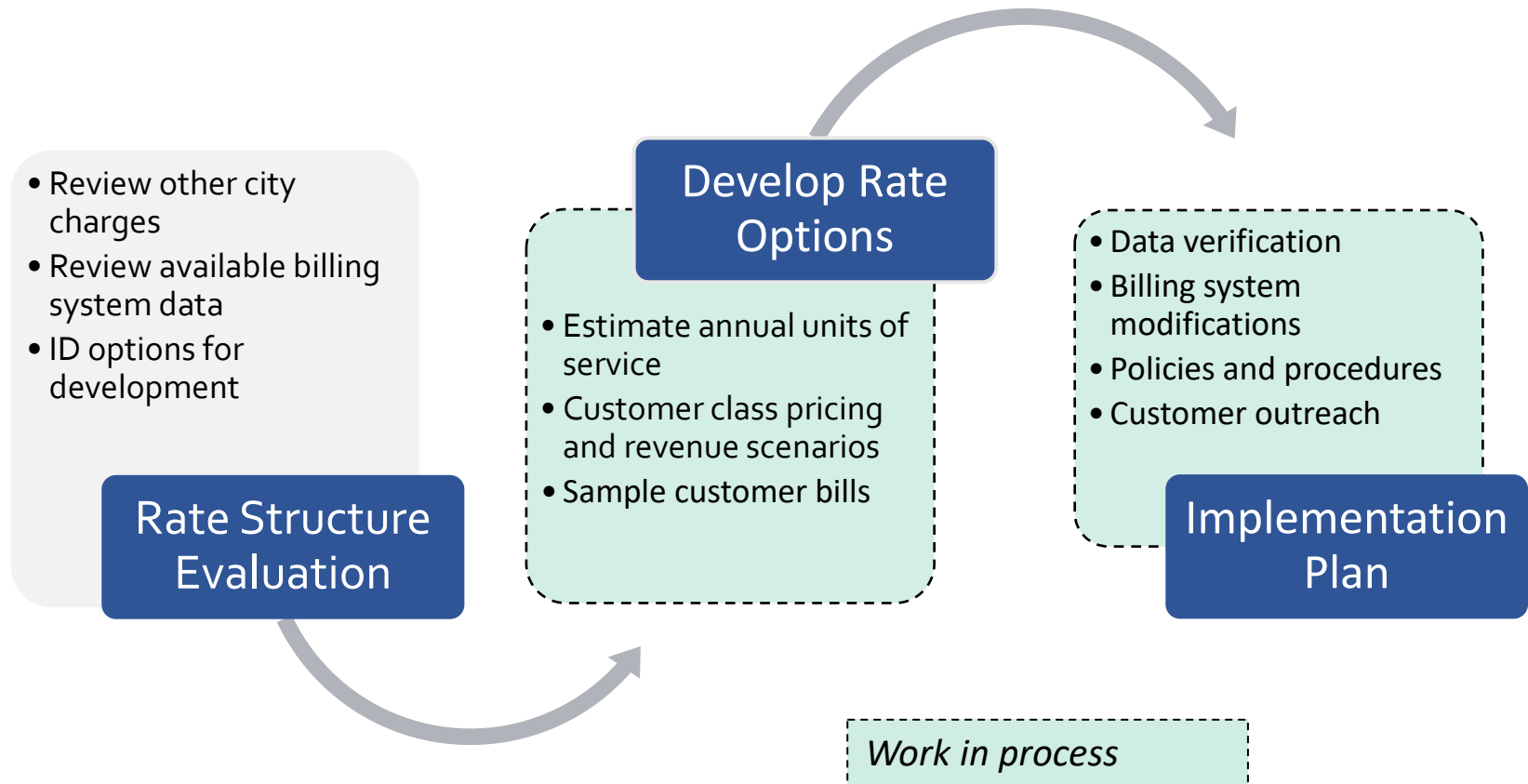


City Services Charge Elements

[Deborah Galardi]



City Services Charge: High Level Work Plan

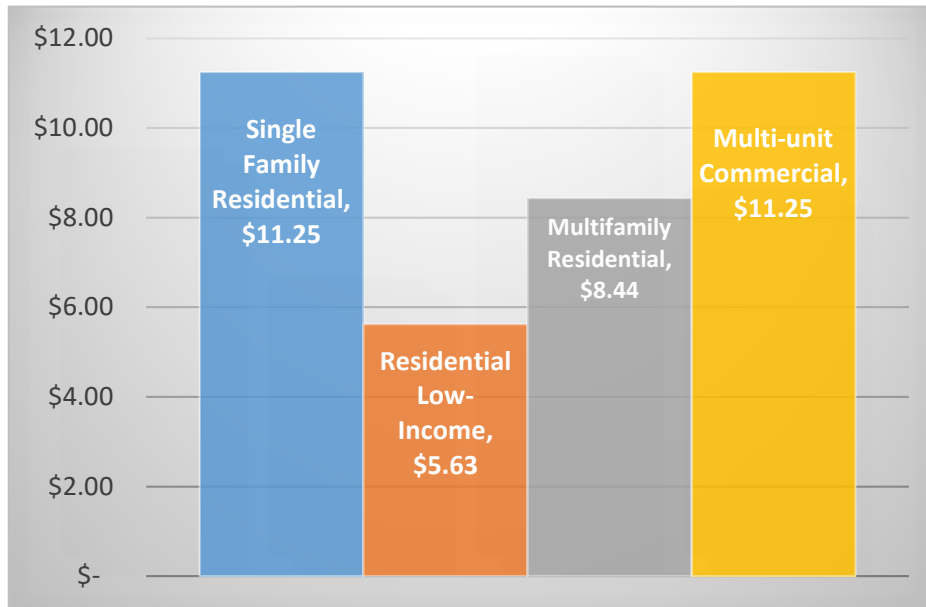


Preliminary City Services Charge Structure Options

Option	Charge Basis by Class		Pricing by Class
	(Residential & Multi-unit Commercial)	Nonresidential (Single Unit)	
1	Number of Units	Per Account	Varies
2	Meter size**	Meter Size	Uniform
3	Number of Units	Meter Size	Varies by type of unit for single family & multifamily; Nonresidential small meter \$ = single family \$/unit
4	Number of Units	Meter Size	Varies by type of unit for all classes; Nonresidential rates set to recover 31% of costs

Options for further consideration

REVISED* Option 3 (\$2 M): Residential & Multi-Unit \$/Unit; Commercial by Meter Size



Commercial/Industrial	\$/Meter
5/8" - 3/4" Meter	\$ 11.25
1" Meter	18.75
1.5" Meter	37.50
2" Meter	60.00
3" Meter	120.00
4" Meter	187.50
6" Meter	375.00

**Rates have been updated to reflect 3/4" meter equivalency factors and continued billing data analysis*

REVISED* Option 4 (\$2 M): Residential & Multi-Unit \$/Unit; Commercial by Meter Size (31% of Total)



Commercial/Industrial	\$/Meter
5/8" - 3/4" Meter	\$ 19.89
1" Meter	33.15
1.5" Meter	66.29
2" Meter	106.06
3" Meter	212.13
4" Meter	331.45
6" Meter	662.90

Nonresidential revenue = 31% (based on employees as a percent of population + employees)

**Rates have been updated to reflect 3/4" meter equivalency factors and continued billing data analysis*

Comparison of Options

Criteria	Option 3 \$2 M	Option 4 \$2 M	Option 3 \$3.5 M	Option 4 \$3.5 M
Single Family Bill	\$11.25	\$9.41	\$19.69	\$16.46
Small Commercial Bill	\$11.25	\$19.89	\$19.69	\$34.80
Large Commercial Bill	\$375.00	\$662.90	\$656.25	\$1,160.08
Preliminary Revenue Allocation (%)				
Residential	67%	56%	67%	56%
Multifamily	15%	13%	15%	13%
Commercial/Ind.	18%	31%	18%	31%



Sample Bill Comparison

Customer Class	Units	Meter Size (")	Option 3 (\$2M)	Option 4 (\$2M)	Option 3 (\$3.5 M)	Option 4 (\$3.5 M)
Residential (All Customers)	1	3/4	\$ 11.25	\$ 9.41	\$ 19.69	\$ 16.46
Residential Low Income	1	3/4	5.63	4.70	9.84	8.23
Multi Family						
Small complex	4	1	33.75	28.22	59.06	49.39
Large complex	88	4	742.50	620.90	1,299.38	1,086.57
Commercial/Industrial						
Small	1	3/4	11.25	19.89	19.69	34.80
Medium	1	2	60.00	106.06	105.00	185.61
Large	1	6	375.00	662.90	656.25	1,160.08
Commercial - Multi-Unit						
Small	2	3/4	22.50	39.77	39.38	69.60
Medium	9	2	101.25	178.98	177.19	313.22
Estimated Total Revenue (\$M)			\$2.0	\$2.0	\$3.5	\$3.5

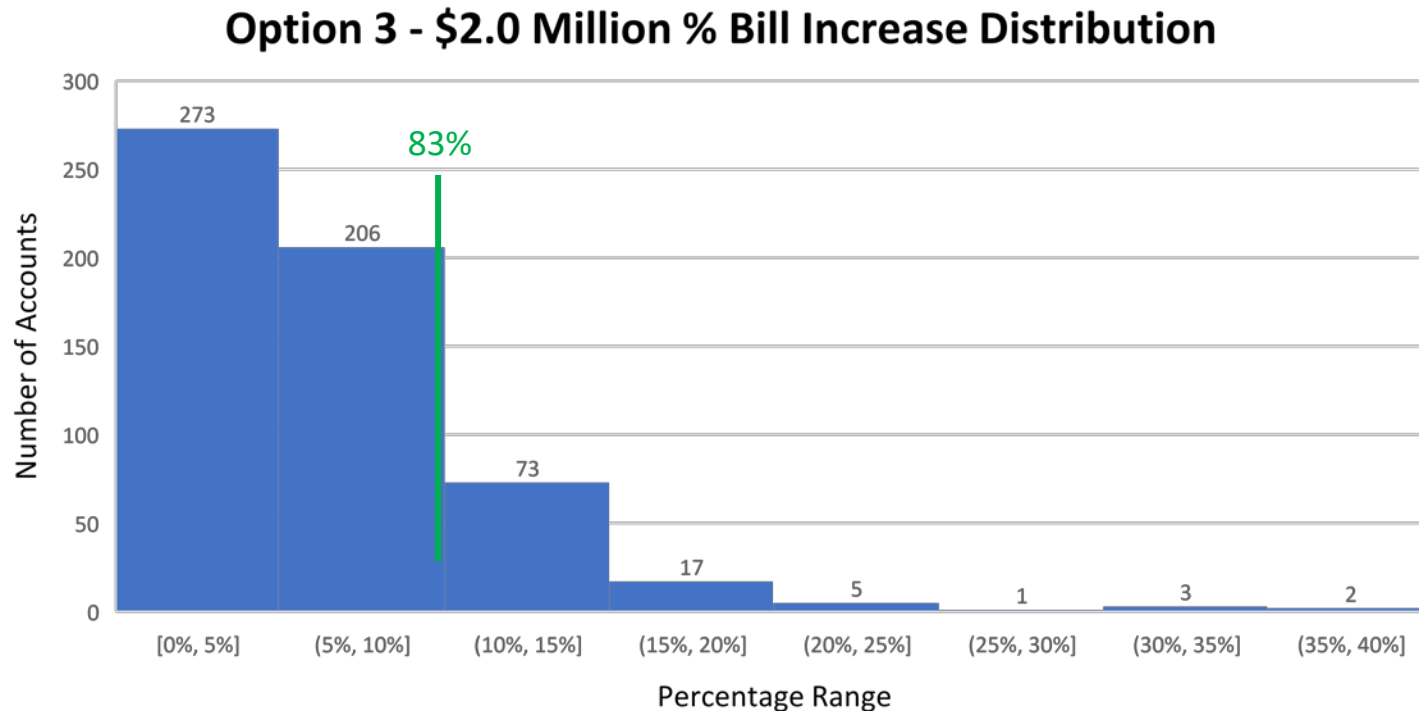


Sample Bill Increases – Average Bills* (Electric/Water/Sewer Combined)

				\$2.0 Million			\$3.5 Million	
		Average Bill (E/W/S)		Option 3	Option 4		Option 3	Option 4
Single Family Average		\$183.43		6.1%	5.1%		10.7%	9.0%
General Service								
5/8" - 3/4"		\$192.95		5.8%	10.3%		10.2%	18.0%
1"		\$746.74		2.5%	4.4%		4.4%	7.8%
1 1/2"		\$863.00		4.3%	7.7%		7.6%	13.4%
2"		\$2,005.97		3.0%	5.3%		5.2%	9.3%
3"		\$4,844.35		2.5%	4.4%		4.3%	7.7%
4"		\$12,414.50		1.5%	2.7%		2.6%	4.7%
6"		\$4,837.13		7.8%	13.7%		13.6%	24.0%

**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available. 6" meter based on only 1 customer and may not reflect total bill.*

Sample Range of Bill Increases (General Service Customers)

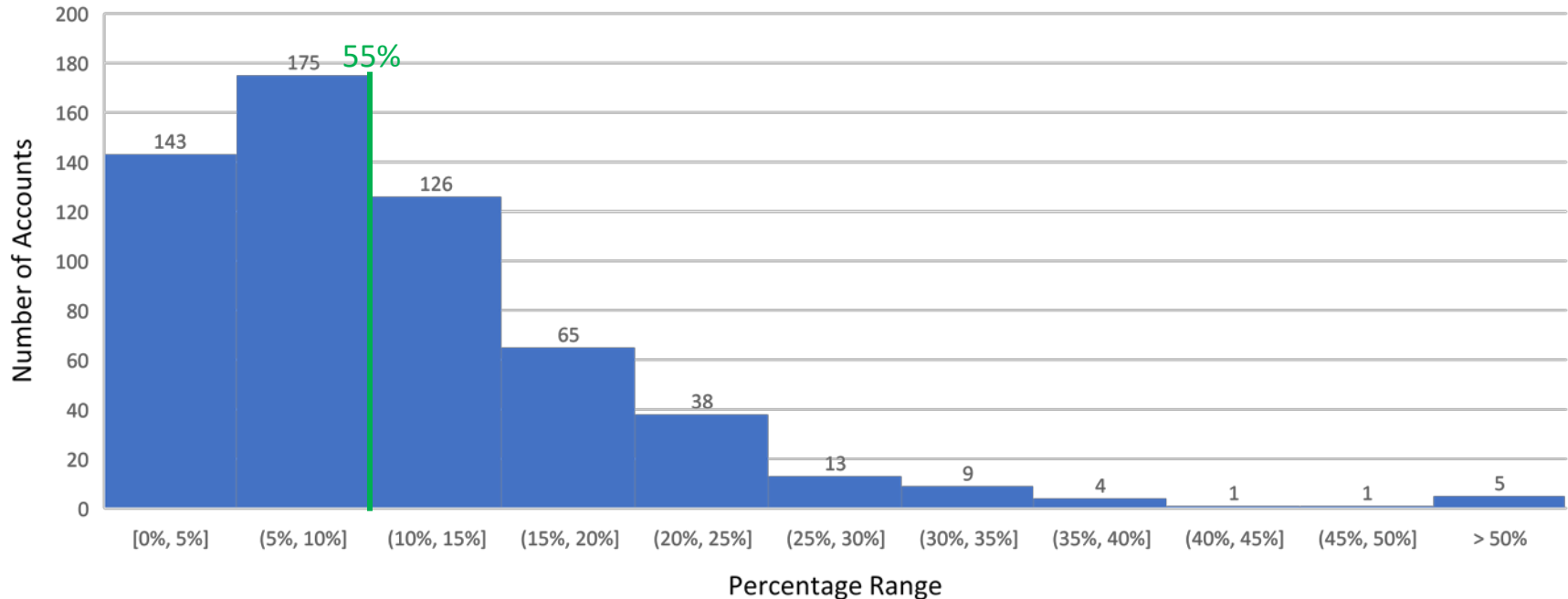


**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*



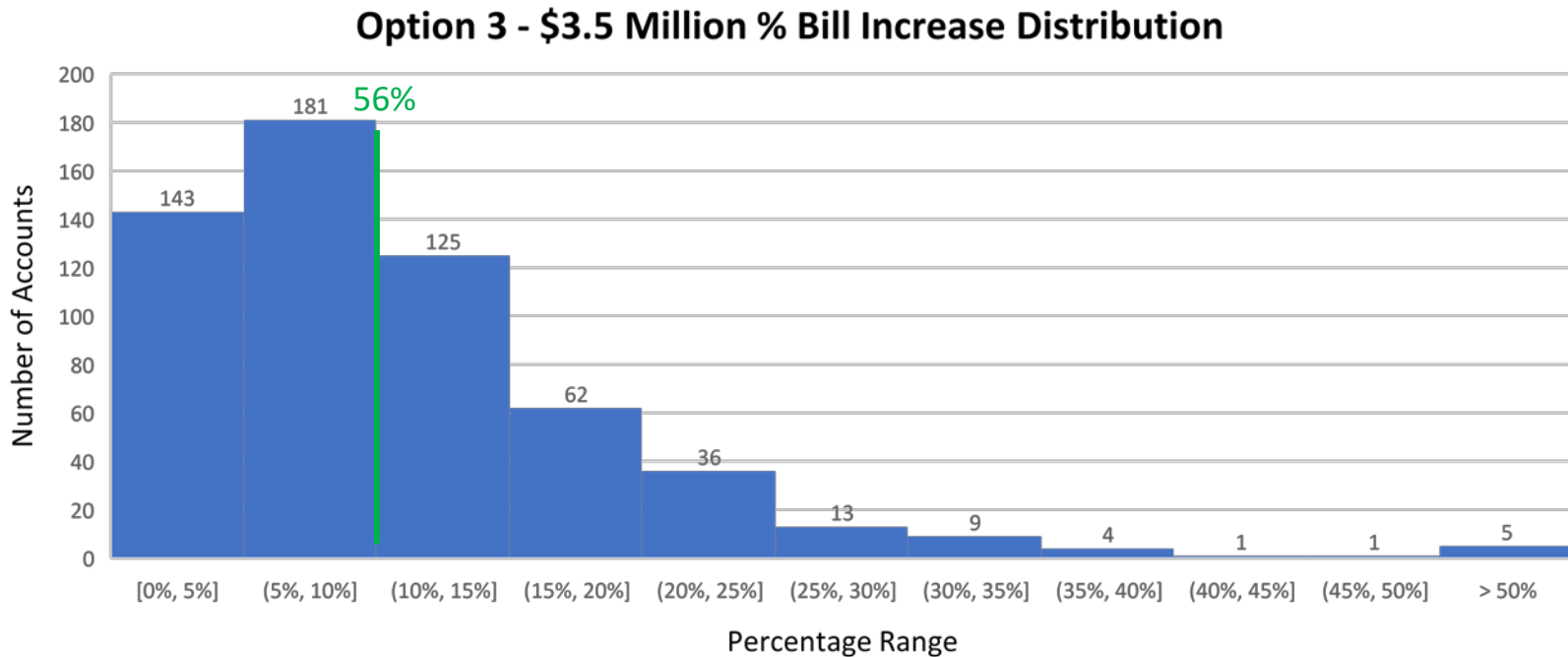
Sample Range of Bill Increases (General Service Customers)

Option 4 - \$2.0 Million % Bill Increase Distribution



**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*

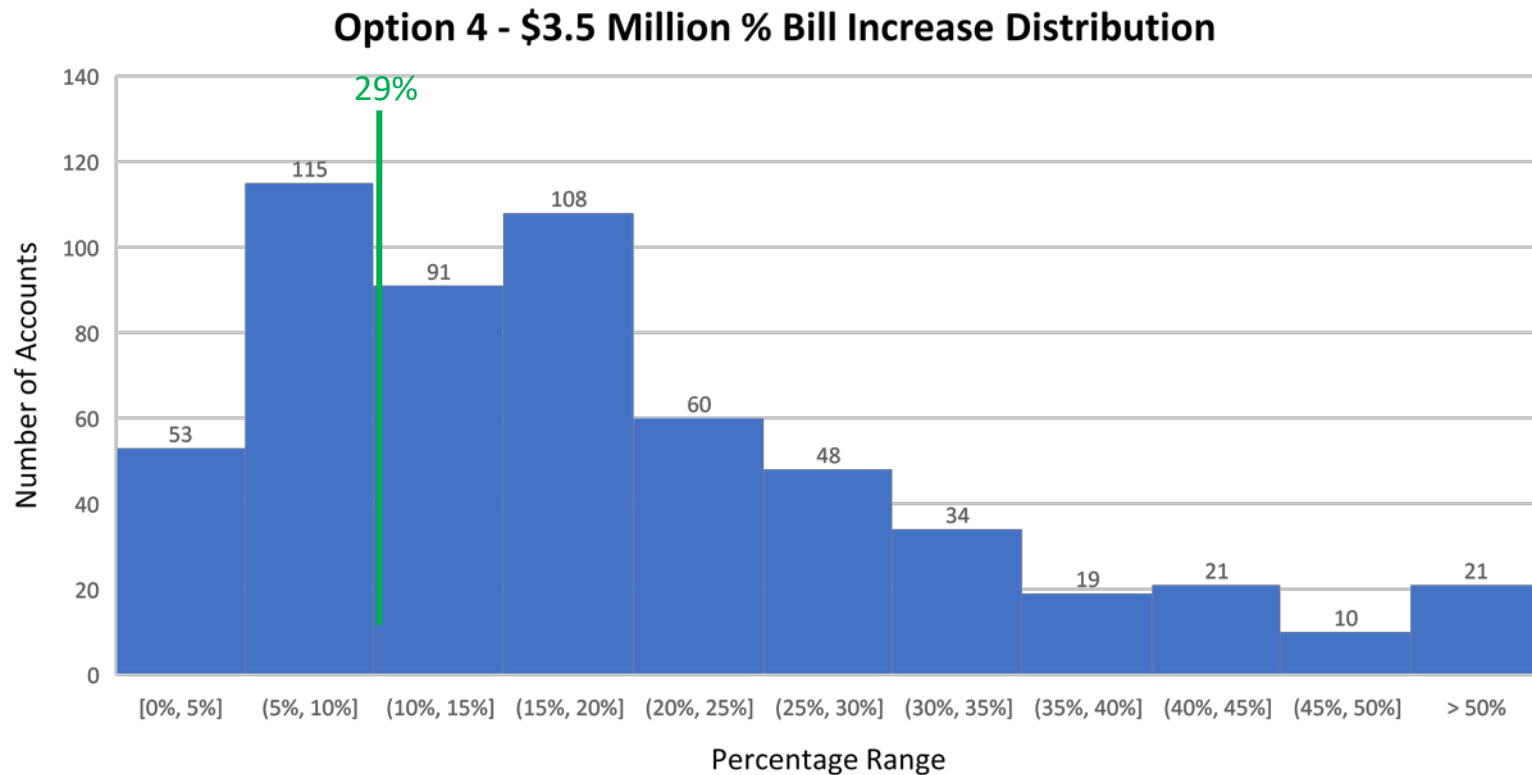
Sample Range of Bill Increases (General Service Customers)



**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*



Sample Range of Bill Increases (General Service Customers)



**Based on sample of about 600 General Service (Commercial/Industrial) customers where information on electrical bills was available.*

Exemptions, Discounts

- Any exemptions of interest?
 - Exemptions can reduce resources available for programming and increase complexity and cost of implementation and administration
 - Exclude secondary meters (irrigation, fire, etc.)
 - Exclude the City? City currently pays electric but not water or sewer
- Low-income program
 - Small flat fee - \$2, \$5, other?
 - Complete waiver?



Implementation Next Steps

- Continue to work with McMinnville Water and Light to refine which data categories will properly assess the intended City Service Charge rates
- Validate that residential and general service class customers will not receive duplicate city service charges or that some residents or enterprises will be missed and not contribute to funding the city services they enjoy and rely on
- Verify customer class assumptions if selected structure includes variable charges by class
 - Residential vs. nonresidential
 - Multi-unit residential vs. nonresidential (dwelling units vs. multi-tenant commercial)



Council Next Steps

Ordinance will be crafted to reflect the rate structure and other pertinent details for the service charge

Resolution(s) to update the City's payment in lieu of tax (PILOT) or existing wastewater franchise fee or addition of a water franchise fee

FY2022-23 Proposed Budget will include the anticipated revenue and direct costs associated with the City Service Charge

Guidance on policy decisions

Charge Structure

- Basis for charge (accounts, units, meters)
- Uniform rate vs. class-specific pricing

Pricing & Revenue Targets

- Annual net revenue overall
- Pricing by class (revenue allocation)

Other Funding Sources

- Payment in Lieu of Tax on electric service
- Franchise fees

Billing Policies

- Exemptions
- Low-income discounts

