BUDGET COMMITTEE MINUTES

A meeting of the Sunrise Water Authority Board of Commissioners was held on **Wednesday, April 25, 2018 at 6:00 p.m.** at Sunrise Water Authority 10602 SE 129th Avenue, Happy Valley, Oregon 97086.

Board Present: Ernie Platt, Chair; Ron Blake, Vice Chair; Kevin Bailey, Secretary; Chris Hawes; Ron Henson; Eric Hofeld
Board Absent: none

Budget Committee: Markley Drake; Michael Morrow; Pete Kreft; Randy Ealy; Heather Campbell; Sarah Tarnovsky; Diana Helm

Staff Present: Wade Hathhorn, General Manager; Denise Bergstrom, Finance Director; Kim Anderson, Government Relations Manager; Cindy Wolff, Administrative Assistant

Visitors Present: Jim Martin, OLWSD Board and Bill Blanas, CRW Board

1. Open the Budget Committee Meeting

The budget committee meeting was called to order at 6:07 p.m.

4.1 Election of Presiding Officer

A motion nominating Drake for Presiding Officer was made by Bailey and seconded by Hawes. The motion carried unanimously.

2. Introduction & Welcome of Visitors

3. Approval of FY 2017-2018 Budget Committee Meeting Minutes

A motion to approve the minutes as presented was made by Hofeld and seconded by Helm. The motion carried unanimously.

4. Budget Committee Meeting for the FY 2018-2019 Budget

4.3 Budget Message

Hathhorn provided a brief update on the past year, noting that the organization has been strategizing how to prepare for the future, including building a new office facility and addressing aging infrastructure. He described the Reservoir 11 construction project, highlighting that some of the project would be managed internally which has created new opportunities for some current staff. He commented on the uniqueness of a public agency being able to dedicate staff to managing construction projects. He concluded that it has been a good but busy year.

4.4 Budget Presentation and Discussion

Hathhorn referred to pages eight and nine, and described the ongoing work in getting ready to build the reservoir as well as participating in CRW's new reservoir off of 152nd Avenue near Highway 212. The agency currently has about 16,000 service connections, totaling roughly 18,000 ERUs. There are currently 23 staff and several positions yet to fill. Hathhorn commented on the difficulty in finding and hiring experienced, trained staff in the current economy. Following a question by Kreft, there was a brief discussion about the bids for the two reservoirs.

Hathhorn referred to page 12, noting the graph of meter sales. He stated that meter sales peaked in 2016 and have declined in the two years since, but he didn't expect the decline to continue. Hathhorn commented on the plans to begin interviewing to grow the organization's staff.

Drake asked for more information on "other resources" listed on page 10. Bergstrom attributed the bulk of that number to the payoff of an interfund loan. Campbell noted that last year's SDC was $9,400 and based on last year's budget that was supposed to increase but it looks like it's decreased. Hathhorn explained that last year's budget was estimated based on an escalation that was put into place in 2005. The methodology was supposed to be revisited every five years but, because of the economy, not much attention was paid to it. This year, a new capital plan was developed and subsequently a new SDC methodology was developed and approved by the Board, which resulted in a lower SDC for this year. Morrow noted a typo on page five.

Hathhorn stated that water rates won't be increased this year, but last year was the third of a three-year rate increase. He intends to look at rates again with the Board in the coming year. He explained that there have been cash reserves built and described the Board's strategy to "pay as you go" for capital renewal and replacement. He noted the amount of cash required to address those two issues. He described the process of "borrowing" between the general and SDC funds, referred to as "interfund loans." He noted that the agency paid off all of the previous loans as part of the revisions to the SDCs this year.

Hathhorn referred to page 18, General Fund Resources. He noted that water sales have remained stable and that, while the number of customers has increased, the peak demand of water hasn't increased, though the total volume has. He attributed that in part to conservation messages and also the decreasing size of lots. He pointed out that as much water goes onto lawns in the warm months as is consumed the rest of the year. Rates were set up to allow for the recovery of essential functions through the rates and service charges, creating a sort of "fixed income" to pay for fixed costs.

Drake asked if funds generated from the prior three-year rate increase will be used to repay bonds. Hathhorn replied that staff believes there have been enough SDCs to pay for any new debt. Budgeting for SDCs is always done conservatively, just enough to repay the debt service and any additional SDCs are used to pay for SDC-eligible projects. By not accruing bond debt, the agency is saving on interest charges. Hathhorn noted that while it's hard to predict, he estimated there might be 600 or more new connections in the coming year. Hathhorn briefly recalled the financial issues the agency encountered in 2008.

Hathhorn referred to page 19, and explained that personnel services are up because he intends to build the staff up to 28 people. He described staffing changes over the last year, specifically noting moving three internal staff from other positions into specialized construction positions. The former Operations Manager, now the Construction Manager, is going to be in charge of the reservoir construction project, for example.

The materials and services budget is about the same for the coming year. Hathhorn explained that the agency's water purchase costs are down due to the recent rate restructuring undertaken by the NCCWC. Hathhorn touched on the use of contract services, providing the example of using a third party meter reader service, which is 1/3 the cost of paying staff to perform that task. He added that he is relying more heavily on design consultants because we don't have the time to do it.

Hathhorn referred to pages 20 and 21, and opened the floor for questions. Drake referenced page 21, noting that "other support costs" jumped significantly, and asked what's included in that category. Bergstrom attributed the increase to safety gear and training budget. She explained that one big jump was a conference we don't normally budget for but decided to put $30,000 in for this year. Hathhorn added that more funds were added for staff training and noted the significance of training in retaining staff.

Morrow asked about community outreach. Anderson said the backflow program, multiple mailers, and reservoir project outreach were some of the highlights for the year, adding that these aren't routine costs.

Hofeld commented that office software maintenance has doubled. Bergstrom attributed the increase to outside services related to IT, including an ITRON system upgrade and related licenses, and the addition of a project module for the ESRI software (GIS database). She commented that software is expensive and Hathhorn added that, in recent years, the agency has been trying to make software advancements, including moving more services to the cloud. He referred back to ITRON and his goal to expand automated meter reading, noting benefits such as safety, ease of use and improved service to our customers. He commented that there's a lot of information that can be gathered from that system such as consumption trends and assistance in leak detection.

Hathhorn referred to page 23 and summarized that it talks about transfers and other requirements. He said that we've typically held a contingency approved by the Board. He noted a holdover from last year's budget for the possibility of buying a well near the golf course to serve the ASR system. Hofeld asked how much is a holdover. Hathhorn referred to page 24, a list of capital projects. He noted that it was dominated by two projects, one being Reservoir 11, which is a significant holdover as well as continued participation in the 152nd Avenue Reservoir with CRW; both of which dominate the capital budget.

Hathhorn explained that staff is doing more targeted repairs and replacements of class 50 ductile iron pipe. He provided the history of that type of pipe and the vulnerabilities it creates due to corrosion. He commented that it's a struggle to figure out how to address the 12 to 15 miles of class 50 in the system. Kreft asked if staff has talked to neighbors about their experiences with the class 50 pipe. Hathhorn said he hadn't. Helm asked how many failures there have been. Hathhorn estimated six in three years. He added that staff believes they know where they're all at, including one behind Clackamas Safeway and one on Mt. Scott, so they're not in one localized area.

Following a question by Drake, there was a brief discussion about the location of Reservoirs 3 and 5.

Hathhorn described plans to build a new administrative facility in a year or two, on Sunrise property on 172nd near Highway 212. He said that the agency submitted its application to the City earlier in the week. For the next couple of years, dirt from the Reservoir 11 project site will be stored there until we begin building the new facility.

Hathhorn moved on to discuss three minor funds, noting that two are related to paying off existing bond debt. The third fund is the Reserve Fund which is funded by cell tower lease payments totaling about $170,000 a year. The Reserve Fund finances vehicle replacements and equipment upgrades. He noted the recent purchase of a dump truck. Hofeld asked why zero is in there for interest. Bergstrom offered to add some interest in there, and asked what amount the committee would like. Hofeld said that in the past it's been between $5,000 and $6,000 in interest. Hathhorn estimated that in a year it would probably accrue about $5,000 through the LGIP. Drake asked the committee if it was ok with that change. The committee agreed by consensus.

Campbell asked if the cell tower lease agreements are long term. Hathhorn replied they're generally 25 year contracts on five year options for renewal. Many of them were signed 10-15 years ago when the market was very different, so the agency is stuck with the revenue generated under different conditions than we have today. He noted that one of the more significant leases is up for renewal, so we're hiring a consultant to negotiate it. Drake asked for questions.

Hathhorn referred to page 38, and pointed out a bond repayment series with payoff in 2023. He stated that page 34 gives the estimation of interfund loans. Hofeld noted a discrepancy in the Reservoir 11 cost. Bergstrom explained that the $2.5 million is for the 152nd Reservoir and property for future Reservoir 12, not Reservoir 11. Kreft asked if there's a public advisory group that questions the expenditures of the agency. Hathhorn said we periodically do satisfaction surveys, with the next one coming this spring, but the public hasn't shown an interest in an advisory group. He commented that hearing from customers less usually means they're more satisfied, but that's what makes the budget committee meaningful.

Drake asked for questions from the committee. There were none.

4.2 Public Comment

Drake asked for public comment. There was none.

6. APPROVAL OF THE BUDGET

A motion to approve the FY 2018-19 Budget as amended was made by Hofeld and seconded by Platt. Hathhorn made a point of clarification that the amendment was the addition of $5,000 interest to the Reserve Fund, as suggested by Hofeld. The motion carried unanimously.

Hathhorn thanked the budget committee members for their continued participation. Drake commented on the quality and transparency of the budget.

Platt reminded the citizen members of the committee that the adoption of the budget is scheduled for the May 23 regular Board meeting, and all are welcome to attend.

Drake asked for a motion to adjourn. So moved by Hawes and seconded by Hofeld. The motion carried unanimously and the meeting adjourned at 7:09 p.m.

Platt called for a break before the regular meeting would reconvene at 7:15 p.m.

ERNIE PLATT	MARKLEY DRAKE
Board Chair	Budget Committee Chair