

**WEST SLOPE WATER DISTRICT**

**Regular Board of Commissioners & Budget Committee Meeting**

**May 18, 2022**

**Meeting Summary**

**CALL TO ORDER**

Present on Virtual Meeting: Chair Andy Smith, Commissioners Ramesh Krishnamurthy, Susan Meamber, Paul Schuler, and Carol Wild

Management Staff: Michael Grimm, General Manager; Lucy Dawes, Finance & Customer Service Manager; Wendy Irwin, In-coming Finance & Customer Service Manager

Absent: None

Budget Committee Members: Chris Eppler, Andrew Marsch, Michael Smith, Marjorie Taylor, and Ron Witcosky

Public: None

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**1.0 – CALL TO ORDER**

Chair Smith called to order the regular meeting of the West Slope Water District Board of Commissioners at 5:01 P.M., Wednesday, May 18, 2022. The meeting was held through Zoom remote teleconferencing technology. The public was made aware of the meeting through the District’s website (the meeting agenda and Zoom meeting link were posted on the website).

**2.0 - PUBLIC COMMENTS/COMMUNICATIONS**

Mr. Grimm stated there were no public comments submitted for this Board of Commissioners meeting.

**3.0 – CONSENT AGENDA**

Commissioner Schuler made a motion to accept the entire Consent Agenda. Commissioner Wild seconded the motion, and the motion passed unanimously 4-0.

**4.0 – BUDGET COMMITTEE MEETING**

Mr. Grimm gave a brief summary of the role of the Budget Committee Chair. Chris Eppler volunteered to be the Chair of the Budget Committee. Commissioner Wild moved to approve Mr. Eppler as the Chair of the Budget Committee for this meeting. Commissioner Schuler seconded the motion, and the motion was approved unanimously. Mr. Grimm reviewed the three main drivers in the District’s budget: 1) Personnel Costs, 2) Purchased Water Costs, and 3) Capital Costs.

Ms. Dawes reviewed a Powerpoint budget presentation with full Budget Committee. The review began with an overview of the presentation agenda. Ms. Dawes stated the two main highlights of the past budget year were Portland's water rate adjustment for West Slope and personnel turnover within the District (new Operations Manager, new Utility Worker, and new Finance & Customer Service Manager). Following the presentation, the Budget Committee can discuss the budget and ask questions to staff as well as any member of the public in attendance. The ultimate goal is to have the Budget Committee either 1) Recommend the budget as presented to the Board of Commissioners, 2) Recommend the budget with changes to the Board, or 3) Set new meetings to decide on a new budget to recommend. Ms. Dawes reviewed the presentation overview of the proposed budget.

Ms. Dawes reviewed the purpose of the Budget Committee and the Budget process:

- Outlined by ORS
- Provide community involvement and transparency to budget process
- Receive budget message & budget document
- Receive and consider public comment on the budget
- Approve a budget and recommend it move forward through a formal motion to the Board for adoption and appropriation
- Board holds public hearing of the budget approved by the Budget Committee
- Public hearing is noticed according to ORS to provide the public with the opportunity to comment
- Changes can be made to the approved budget
- Resolution must be passed by the Board to adopt the Budget and make appropriations for spending in the next fiscal year by July 1
- Spending is limited to the summary level categories by fund in the appropriation resolution and not to the detail level as is seen in the Budget document
- Appropriations include only the current year expenditures
- Once funds are moved into a reserve fund they are restricted to the use for which that fund was established
- Reserves for future expenditures may be spent during the year only by Board adoption of a supplemental budget

Ms. Dawes reviewed the primary assumptions of the proposed budget:

- Proposed 10% increase to customer consumption rate effective June 16
- Proposed 6% increase to customer flat fee rate effective June 16
- \$70,000 decrease in personnel costs from previous budget to proposed budget and a \$92,000 decrease from the current year projected actuals
- \$50,000 decrease in the cost of purchased water due to a lower wholesale water rate from the City of Portland
- \$5,000 increase in District fuel costs

Michael Smith asked why the District is proposing a 16% water rate increase when the economy is in the state it is in. Ms. Dawes stated the overall rate increase is less than 10% and there is a section coming up in the presentation that addresses the reason for the increase.

Commissioner Krishnamurthy joined the Board Meeting at this point

Ms. Dawes continued with the assumptions:

- \$100,000 expense to purchase new water meters to continue replacing old manual read meters and failing MasterMeter brand meters

- \$47,000 for new computer hardware and software including a new server for the District
- \$20,000 for audio/video teleconference equipment for the District's conference room to meet state law for hybrid meetings and enhanced meeting/training capabilities
- \$2.6 million for the Beaverton-Hillsdale Highway water main replacement project capital outlay moved from the current fiscal year to the FYE2023.
- Retain \$932,000 in General Fund contingencies and a Capital Improvement reserve of \$500,000 for a total of \$1.4 million

Commissioner Krishnamurthy asked about the \$2.6 million for the Beaverton-Hillsdale project and why a rate increase is needed if the funds are moving from one fiscal year to the next. Ms. Dawes replied this project is not the reason for the rate increase but the funds for the project do need to be reappropriated for the next budget year.

Ms. Dawes reviewed the summary table of all funds highlighting the \$4.453 million proposed operating revenues and the \$2.472 million proposed operating expenses for a net operating income of \$1.981 million. \$2.096 million will be transferred to the capital reserve fund to replenish it following the completion of the Beaverton Hillsdale project. Current year projected operating income is nearly \$400,000 more than budgeted due to higher water sales than predicted.

Ms. Dawes reviewed graphic charts detailing what each budget dollar represents: \$0.39 from water rate revenue and \$0.60 from beginning working capital in all funds. Each dollar of **budget** requirements (expenses) excluding transfers represents \$0.09 for purchased water, \$0.09 for personnel services, \$0.05 for materials & services, \$0.03 for debt services, \$0.24 for capital outlay, \$0.37 for future expenditures, and \$0.13 for contingency. By comparison, each **rate dollar** collected from customers will be spent on water purchases (\$0.23), personnel services (\$0.22), materials & services (\$0.12), debt service (\$0.08) and reserves (\$0.35).

Ms. Dawes shared a trend graph of annual water revenue sales since 2011 with water rate increases and shared another trend graph showing the volume of water billed to customers as compared to a five-year average billing.

Ms. Dawes explained the rate increases are for funding future capital projects to begin the multi-decade process of replacing the District's aging infrastructure including unrestrained cast iron mains and the District's 62-year old 2.25 MG reservoir. Commissioner Wild asked if staff could review the example on FAQ page of the impact of the water rate increase on a customer's bill. Mr. Michael Smith stated the proposed water rate increase is outrageous and is not happy about the proposal, and he wanted to know if these are costs the District needs to address now why wasn't it started ten years ago. Ms. Dawes cited increased regulations and requirements on water utilities (added filtration and corrosion control treatment, lead & copper rule compliance, etc.) and that all water utilities are looking at increased water rates to address these additional costs. Commissioner Krishnamurthy stated West Slope has some of the higher water rates of water utilities in the metropolitan area and cited a few specific rates. Chris Eppler commented that although the costs to replace aging infrastructure are real and needed expenses, the customer base to fund these projects is fixed in size and not growing, and he understands the need for capital investments is inevitable and the proposed solution is a low-cost alternative. Commissioner Schuler stated the conservative & prudent approach to infrastructure investment management is to set aside funds each fiscal year for capital investments as is being proposed. Failing to make those investments ahead of time annually prevents the District from getting behind and having to acquire funds on the bond market and

incur debt. Marjorie Taylor commented the District's infrastructure is not getting any younger and cited the adverse impacts to customers when (for example) an 8-inch diameter water main breaks in the distribution system. Chair Smith commented he supported a more "aggressive" approach to water rate increases to "kick start" setting aside capital reserves for infrastructure replacement, and pointed out that the District does not have a lot of options to create capital revenue besides water rates, debt, and the outside chance of qualifying for grants or principle forgiveness loans.

Andrew Marsch commented he would be more supportive of the rate increases for future capital investments if he were aware of specific projects that were planned in specific years. Chair Smith asked Mr. Grimm if he could provide some background context on the projects that he sees are important to the District and the timing of those projects. Mr. Grimm responded to an early comment by Mike Smith regarding why the District has not started infrastructure replacement projects say 10 years ago. The District hired a consulting engineering firm to compile a comprehensive water master plan in 2014. Part of that master plan included a long term capital improvement plan for the District that was largely based on improved fire flow capacity within the District. In 2015, an article in New Yorker magazine depicting the widespread disaster of a Cascadia Subduction Zone earthquake in the Pacific Northwest where all non-resilient infrastructure (bridges, buildings, roads, pipes, etc.) would fail beyond repair. Since that article was published, infrastructure resiliency has been a key driver for all levels of infrastructure including the water industry. But resiliency cannot be added overnight, and templates such as the Oregon Resiliency Plan provide utilities a base roadmap to prioritize key "backbone" infrastructure first and make a prediction on the likelihood of failure of each asset and the time it will take to mitigate the damage to that asset. Mr. Grimm explained the District's current five-year CIP plan is simply based on main break history. However, the District's asset management project with Fracta is designed to provide the District with a much more comprehensive approach for infrastructure investment prioritization based on additional metrics such as consequence of failure, likelihood of failure, and total risk assessment. A resiliency study to assess the District's "backbone" assets and understand what is needed to create resiliency in those assets is complimentary to the Fracta work.

Michael Smith asked how many more years will there need to be significant rate increases to generate capital revenue equal to \$3.7 million annually. Ms. Dawes shared from the presentation that in the 8-year financial forecast, an annual 3% water rate increase for 7 years will generate an estimated \$14 million for capital improvements during that period. It is understood that changes to the forecast may be needed in the last three years (2028-2030) to address the cost of the Bull Run Water Treatment Facility added to the Portland wholesale water rate base. Michael Smith asked if the District has \$3.7 million of immediate projects and collects \$14 million in the next 8 years, then where will the \$10.3 million go? Commissioner Wild commented that the District is on the edge of assessing the cost and priority of future infrastructure replacement projects for the next three decades including the replacement of Reservoir #2 which is not seismically resilient. Commissioner Wild stated it is not this Board's intention to force future Boards and future Budget Committees into a catch-up mode by failing to plan for the funding of future infrastructure replacement projects and placing the District into a position of being in debt to cover bonds and loans for this work. Andrew Marsch asked if the seismic resiliency assessment could be accomplished in this next fiscal year, and Mr. Grimm stated if the Beaverton-Hillsdale Highway project is able to start construction in 2022 he believes it will be possible to start the seismic resiliency assessment before June 2023. Michael Smith asked if the costs of the Beaverton-Hillsdale Highway project have increased in the year's delay, and Mr. Grimm stated according to the District's consulting engineer's cost estimate, the cost of pipe (unlike the cost of buildings, treatment facilities, etc.) has not changed much at all

since 2021. The biggest impact now on projects is the supply chain issues of getting construction materials delivered to the contractor in a reasonable timeframe. Mr. Grimm reiterated the revenue the District collects and transfers into the capital reserve fund must be used for capital improvement projects. Ms. Dawes commented the District has historically spent thousands of dollars in bond administration (attorneys, financial consultants, etc.) just to be able to borrow money. In her opinion, the District's revenue is better spent on investing in infrastructure.

Commissioner Schuler left the meeting at this time.

Ms. Dawes continued the presentation with a review of the District's purchase water costs showing the impact of peaking factors and exceeding the peaking factors on the District's purchased water costs. Ms. Dawes shared a comparison of the water volumes purchased from Portland, the water used by the District, and the water that was billed to the customers citing the impact of the guaranteed minimum purchase declaration to Portland, the cost of interruptible water, and water loss within the District. Ms. Dawes shared the District's history of forecasted rates since 2013 and how the forecasts have changed for the District based on the City of Portland's changes to their forecasted wholesale rates. Ms. Dawes further explained the reasons for those changes through these last few years:

- The City of Portland showed mercy to the District and opted to remove the full cost of Washington Park Reservoir #3 (WPR3) from the District's rate base as a result of many conversations between the District and the Portland Water Bureau director
- Changing the allocation of the new reservoir costs through the current wholesale water sales agreement from 100% to an emergency standby allocation of 1.92% results in a significant reduction to the current and future forecasted purchase water rates

Andrew Marsch asked about the current wholesale water sales agreement and how long is the District obligated to that agreement. Mr. Grimm stated the current agreement went into effect July 1, 2006 and would expire June 30, 2026. The City of Portland announced it will not renew the existing agreement in 2026 but instead has been collaboratively developing a new wholesale water sales agreement with its wholesale water purchase customers. The biggest change for wholesale water purchase customers like West Slope is the elimination of the guaranteed minimum purchase (GMP) for each wholesale customer. The GMP for West Slope is 1.4 MGD and the result of having to pay for water that the District cannot sell is the District only has the ability to sell West Slope customers 85% of the water the District purchases from the City of Portland. Instead of the GMP in the new sales agreement, the City of Portland will be provided protection from stranded investments through early exit penalties to the contract. Chair Smith commented on the work staff has done to negotiate a new wholesale water sales agreement and the removal of most of the cost for Washington Park Reservoir #3 from the District's current wholesale water rates and what a significant impact that has to the District's customers. Mr. Grimm thanked Chair Smith for the comments and acknowledged the mercy shown to the District by the City of Portland truly was grace since the existing agreement allowed the City to allocate the full cost of WPR3 in the District's rates but the City understood the significant adverse impact that allocation would have on West Slope and other small wholesale customers in this cost pool.

Ms. Dawes continued the presentation discussing the comparison of actual and projected and proposed budgets for 2020-21, 2021-2022, and 2022-23. Changes in personnel at the District impact the District's personnel services expenses. Materials & services expenses are impacted by IT services, asset management consultants, and other non-water purchase expenses. Ms. Dawes reviewed a comparison of customer payment methods from 2015 to 2022 and

highlighted the benefit of on-line bill pay for the District staff. The number of customers paying by check that is mailed or hand-delivered to the District dropped from 50% to 19% of all payments while the total of all credit card payments rose from 7% to 41% of all payments. Not having to process paper checks is a significant work savings for staff along with not having to take as many credit card payments over the phone (down from 7.3% to 2.5%) allowing staff to spend time on more value-added projects.

Commissioner Krishnamurthy asked if the credit card charges are being passed on to customers paying by credit card. Ms. Dawes stated the rates the District was able to receive are a competitive rate for government/public agencies for credit card fees with the contingency the District would not pass on the cost of those fees to customers. However, Ms. Dawes stated it would be a good idea now to re-examine those rates and see if a better rate structure is available, and it may mean using a consultant to help with that research.

Ms. Dawes continued the presentation with a breakdown of the capital improvement reserve fund components and the equipment reserve fund components. Commissioner Wild thanked Ms. Dawes and the rest of the staff who contributed to the budget document and the budget process development. Commissioner Krishnamurthy thanked Ms. Dawes for her calm and informative demeanor answering all the questions from the Budget Committee members. Commissioner Wild asked about the status of paying off the District's bonded debt. Ms. Dawes stated the primary reason for paying off the bond went away when the City of Portland adjusted their wholesale water rates (removing WPR3 from the rate base). There is still roughly \$1.9 million left to pay off on the bond and it is still an option if the Board chooses to make the payoff a higher priority. Ms. Dawes stated there are administrative costs and tasks involved with paying off the debt. Commissioner Wild asked what amount is the District paying annually toward the debt. Ms. Dawes stated the District makes two annual payments of around \$40,000 each for a total of \$80,000 per year.

Chair Smith asked if there were any public comments received by the District on the budget document, and Mr. Grimm responded that the District has not received any comments. Chair Smith asked Mr. Grimm to provide some guidance for the Budget Committee to proceed with Agenda Item 4.5 – Budget Committee Deliberations. Mr. Grimm first thanked Ms. Dawes for an excellent presentation that gathered an array of very detailed information and explained it in a straight-forward, easy to understand format. Mr. Grimm reminded the Budget Committee the goal of this meeting is to recommend a budget to the Board of Commissioners that is either the budget as presented or one amended by the Budget Committee or a request for a new budget. Mr. Grimm shared a photo of a 4-inch cast iron pipe from a water main break that was repaired earlier today by the District's distribution system operators. The photo illustrates the unknown condition of the District's buried infrastructure and the importance of conducting condition assessments to prioritize infrastructure replacement investments. A vote of the Budget Committee is required to approve the Budget to the Board of Commissioners.

Chris Eppler asked if any of the other Budget Committee members had any further questions or comments regarding the budget presentation or the Budget Document. Andrew Marsch commented he appreciates all the work that went into the budget development and this presentation and believes the District is in a great position to invest in the District's infrastructure replacement without going into debt. Marjorie Taylor thanked Ms. Dawes for answering her questions before and during the Budget Committee meeting. She expressed frustration with ODOT over delays in the District's project created by ODOT and wondered if there were opportunities to leverage pressure from Oregon legislators on ODOT project managers as well as how the District will communicate with impacted customers on Beaverton-

Hillsdale Hwy. Michael Smith thanked Mr. Grimm and Ms. Dawes for their work and discussion specifically on the capital projects issues and despite still having some reservations he believes moving ahead to build a capital reserve for future infrastructure replacement projects is a sound, valid approach.

Mr. Grimm responded to Ms. Taylor's question about customer communications. Currently the plan is for the District to reach out to customers on Beaverton-Hillsdale Hwy once we have a clear understanding of the construction contractor's schedule.

Chris Eppler moved to recommend to the Board of Commissioners the budget as presented. Michael Smith seconded the motion, and the motion passed unanimously 9-0. Andrew Marsch commented he was impressed and surprised with how much work the District accomplishes with so small a staff thinking that the District had many more staff than the District actually has. Mr. Marsch moved to adjourn the Budget Committee meeting, and Chris Eppler seconded the motion. The motion passed unanimously 9-0 and the Budget Committee meeting adjourned at 7:07 PM. Chair Smith thanked the volunteer members of the Budget Committee for their service.

## **5.0 – DISTRICT ACTIVITIES**

### **5.1 – General Managers Report**

Mr. Grimm highlighted several key issues from the General Manager's report:

- Using legislative pressure on ODOT to instill movement for our project is an option that could be used if the current options will not result in our desired outcomes but may not be advisable at this point. Chair Smith advised bringing legislators up to date on the situation before actually creating an ask of them. Mr. Grimm agreed and stated his view of ODOT's delays are the result of fewer employees, remote working employees, and a deep workload that includes projects like Oregon Highway 217.
- Tualatin Hills Parks & Recreation have reserved and set aside consecutive Saturdays beginning August 17 through September 24 (except for the Labor Day weekend) to hold the District's 100-year celebration event. The District needs to respond to THPRD on a preferred date.
- Fracta is continuing to work on the District's inventory asset management plan platform.
- OR-OSHA has issued two new worker safety rules for employers like West Slope to consider and create compliance strategies: Excessive Wildfire Smoke and Excessive Heat.
- The Oregon Water Resources Department is working on rules resulting from HB 4061 – Cannabis & Water Enforcement Bill. The bill obligates water utilities to document bulk water purchasers (name of organization, amount purchased, description and vehicle license plate numbers of the vehicle used to haul the water).

## **5.0 – COMMISSIONERS COMMUNICATIONS**

Chair Smith asked if any commissioners had attended any outside meetings in the past month. Commissioner Krishnamurthy mentioned he recently watched a few on-line training sessions from SDAO. There were no other topics from the Commissioners to be discussed at this meeting, and there were no topics for future meetings offered by the Board. Chair Smith asked if Mr. Grimm could estimate what the Board might see on the June Board meeting agenda, and Mr. Grimm stated the main agenda items will be the two public hearings at the June meeting (one for the water rate increase, the other to adopt the District's budget). The other potential agenda item would be related to the Beaverton-Hillsdale Hwy project. Commissioner Meamber stated she continues to be impressed with the management of the District and the budget

process, and appreciates the District's ability to provide information to the public about the budget and the proposed rate increases. Commissioner Krishnamurthy concurred with Commissioner Meamber's comments and asked if there is a plan to have in person Board meetings at some point in the future. Mr. Grimm stated the key for the Board to meet in person is to be compliant with the State's rules on hybrid meetings which will require an investment by the District for new A/V equipment (cameras, speakers, microphones, A/V software) which could be completed before the end of 2022. The consensus of the Board was the meeting went very well.

**6.0 - ADJOURNMENT**

There being no further business to discuss, Commissioner Meamber moved to adjourn the meeting. Commissioner Krishnamurthy seconded the motion, and the motion was approved unanimously 4-0. Chair Smith adjourned the May 18, 2022 Regular Board of Commissioners meeting at 7:33 PM.

Respectfully Submitted,

Approved:



Michael W. Grimm, P.E.  
Acting Secretary

