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Utility Rates and Fees 2018-19

Michael Murzynsky, 541.574.0610
Finance Director

Steve Baugher, 541.574.0615
Assistant Finance
Director

Main line, Cash 541.574.0611
Collections,
Business Licenses

Accounts Payable 541.574.0621

Payroll 541.574.0612

Utility Billing 541.574.0617

Hours & Directions

Mon, Wed-Fri 8am - 5pm

Tuesday 9am - 5pm

169, SW Coast Hwy, Newport, OR
97365

Frequently Asked Questions

Business Licenses

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Comprehensive Schedule of Fees and Charges - Fiscal Year 2018-19

Rate Study Information

The City Council will be holding a public hearing on Monday, October 15, 2018, at 6:00 P.M., at the Newport City Hall, to consider approving a new utility rate structure for water, sewage, storm water, and infrastructure fees for the City of Newport. The City of Newport commissioned a rate study/analysis from FCS Group and has been reviewing the recommendations from this study since February of this year. The purpose of this study is to determine whether the current rates would generate sustainable revenues to operate, maintain, and rebuild the water, sewer, and storm water systems in the city, and whether the rate structure is fairly allocating the financial responsibilities for the system across the various types of utility customers. The City utility bill currently consists of a water, sewage, storm water rate, and an infrastructure fee.

October 30, 2018 Utility Bill insert

Report to the City Council on Rate Adjustments: September 17, 2018

April 6th, 2018 Fact Sheet

May 5, 2018 FCS Group Report – PowerPoint Water, Sewer and Storm Rate Study

Please send any comments or questions to one of the following email addresses, no later than 4:00pm on October 15, 2018:

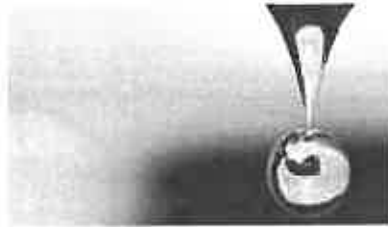
publiccomment@newportoregon.gov

Or to the Director of Finance, Mike Murzynsky at:

m.murzynsky@newportoregon.gov

Question about Water Billing?

Contact Finance at 541.574.0617



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FCS GROUP's management team includes professionals with backgrounds in public administration, management, finance, accounting, economics and engineering disciplines. These analytically-focused perspectives equip us to address government finance, public reserve fund, IT and operational challenges while maintaining fixed attention on organizational sensitivities, policy drivers, and stakeholder priorities.

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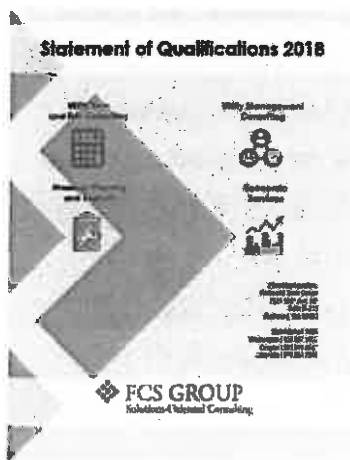
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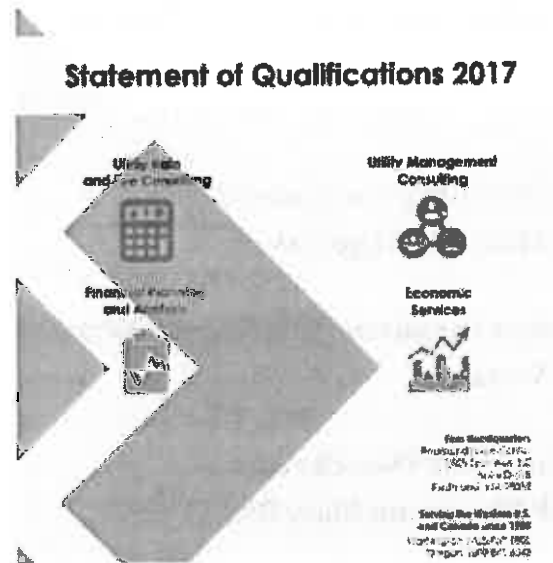
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WHAT OUR CUSTOMERS ARE SAYING

"We would like to recommend FCS Group as an outstanding economic, financial and management consulting firm that has helped the Shoreline Water District with a variety of projects since 1990, most recently a rate model and the associated communication language we used to let our rate payers know of the new rates."

**Diane Pottinger, District Manager,
North City Water District, Washington**

"I just wanted to say that we have worked with a whole host of various consultants through the years and working with FCS has been a sincere pleasure. Clearly FCS is on top of our list as being the most competent and adaptable group we've dealt with and you should take pride in your organization and people."

**Andy Burnham, Former Public Works
Director,**



CONTACT US

Washington



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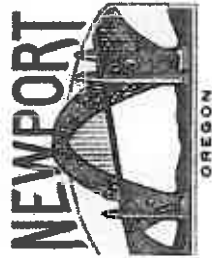
info@fcsgroup.com

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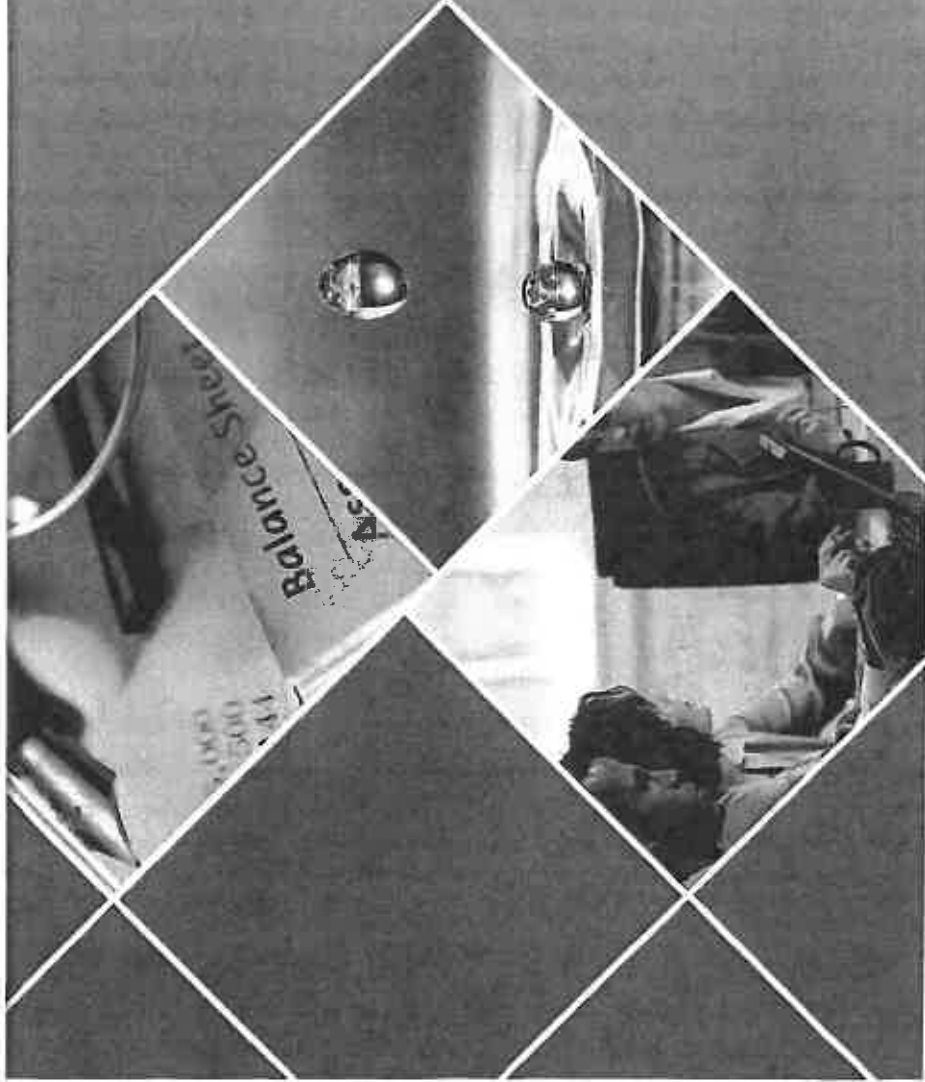


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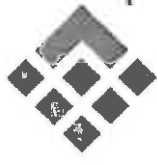




Water, Sewer & Storm Rate Study

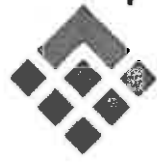


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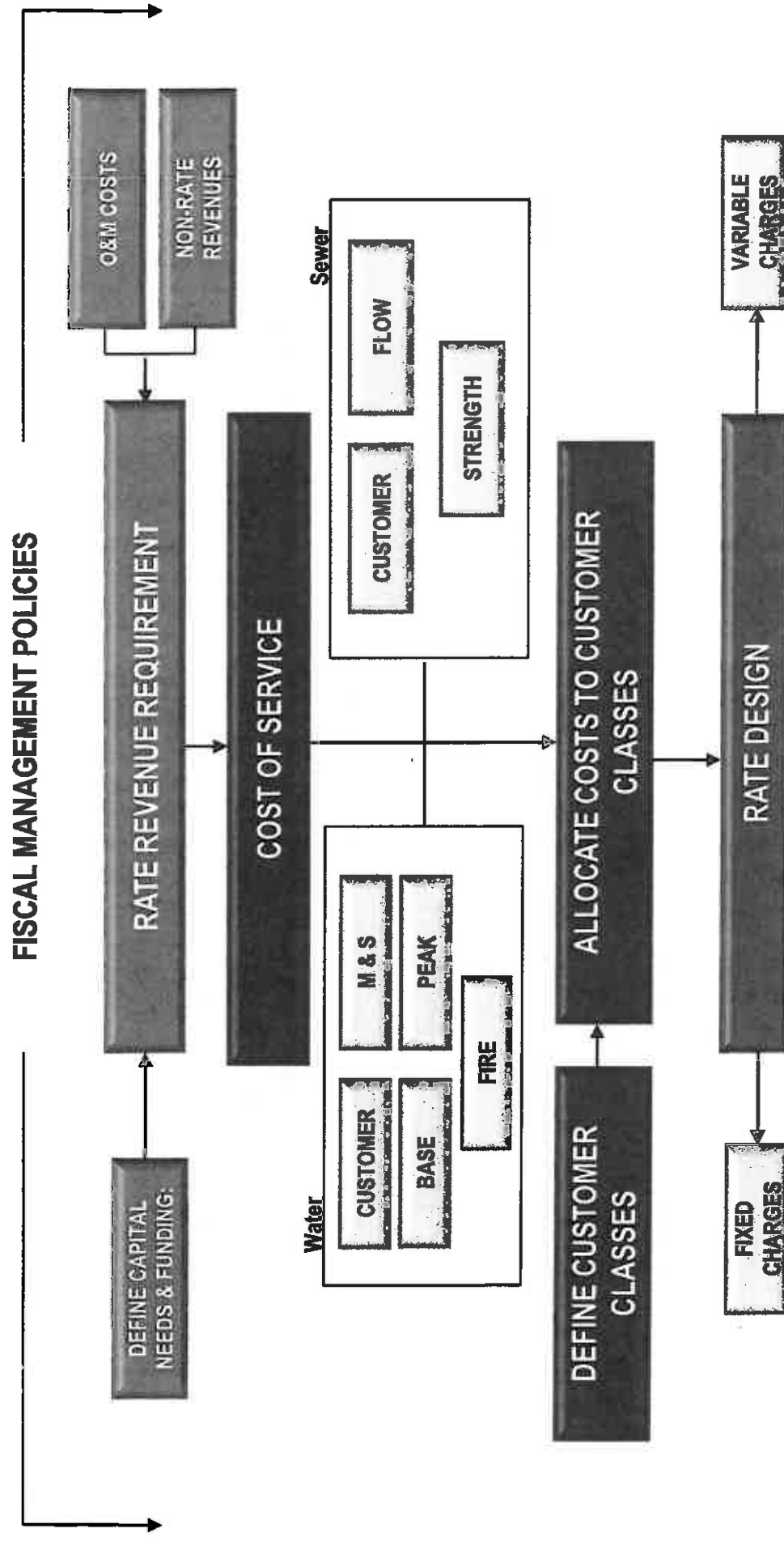


Discussion Outline

- ◆ **Overview of rate setting process**
- ◆ **Summary of findings**
 - Revenue requirement
 - Cost of service
 - Rate design
- ◆ **Next Steps**
- ◆ **Questions**



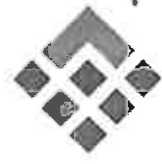
Overview of the Rate Setting Process



Key Assumptions

- ◆ **Study focus: FY2018-FY2023**
 - Projections through FY2037
- ◆ **Customer growth:**
 - Water & Sewer: 0.3% per year
 - Storm: 0.6% per year
- ◆ **FY2017 adjusted budget used as baseline**
- ◆ **New debt to fund Capital:**
 - Revenue bonds: 20-year term, 5.0% interest, 1.0% issuance cost
- ◆ **Capital costs include Renewal & Replacement (R&R) funding of aging system assets for each utility**
- ◆ **Annual adjustments effective:**
 - July of each FY (12 months)
- ◆ **Fiscal policies:**
 - Operating (days of O&M): Water 75; Sewer 45; Storm 30
 - Capital: Water & Sewer 1.0% of plant in service, Storm \$150,000

Revenue Requirement



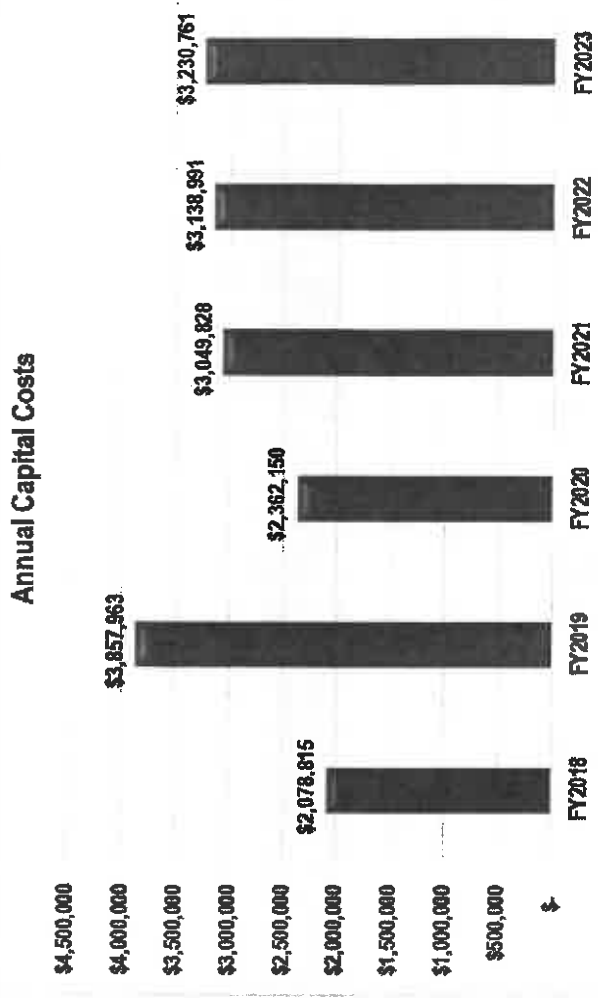
Revenue Requirement Overview

- ◆ **Determines the amount of revenue necessary to meet all utility financial obligations on a stand-alone basis**
 - Operating costs
 - Capital costs
 - Financial policies and targets
- ◆ **Evaluates existing revenue levels for sufficiency**
- ◆ **Develops a multi-year rate implementation strategy**



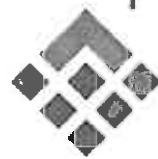
Key Components - Water

Description	Water (FY2018-FY2023)
Existing Rate Revenue	\$3.76 mil - \$3.82 mil
O&M Expenses	\$2.93 mil - \$3.11 mil
Existing Debt Service	\$400 k
New Debt Service	\$498 k - \$1.47 mil
Total CIP (Inflated)	\$17,718,508

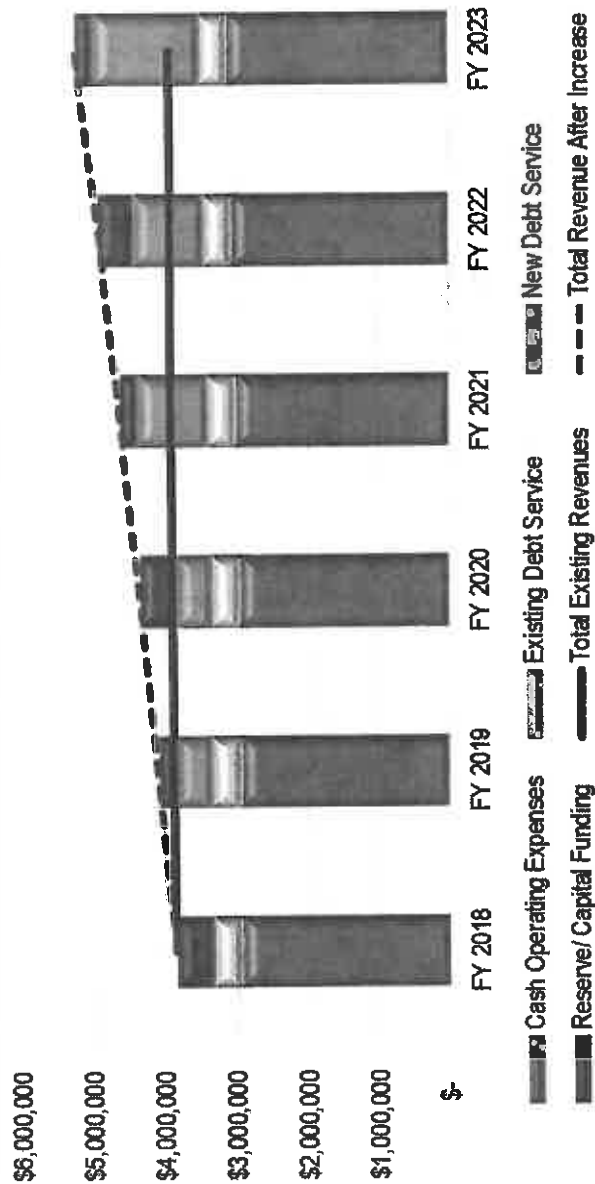


- ◆ **Total CIP of \$17.72 million (inflated to the year of construction)**
 - Includes R&R funding of Valves, Hydrants, Meter and Mains
- ◆ **Capital program funded by:**
 - Existing resources: cash reserves, rate funding, LID assessments, CWSRF Loan and infrastructure fee revenues
- ◆ **New debt required - \$16.50 million**
 - FY2019: \$5.50 million
 - FY2021: \$5.30 million
 - FY2023: \$5.70 million

Note: FY2018/FY2019 CIP is based on budget, future years are based on historical annual average costs plus R&R.



Revenue Requirement – Water



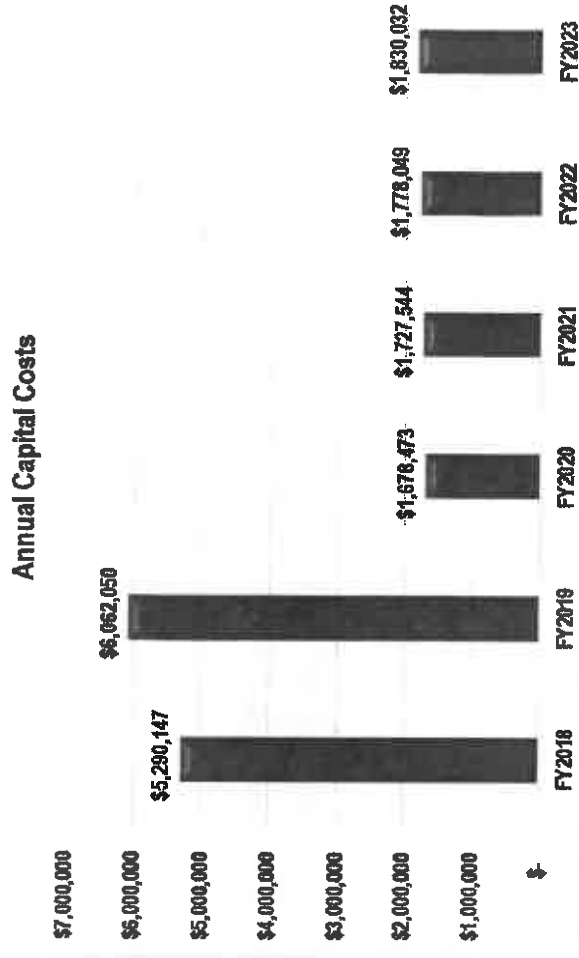
Water Sample Bill		Existing	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Monthly Bill (5/8") - 3,500 gallons	\$	31.80	\$ 31.80	\$ 33.71	\$ 35.73	\$ 37.87	\$ 40.15	\$ 42.56
\$ Monthly Difference	\$	-	\$ -	\$ 1.91	\$ 2.02	\$ 2.14	\$ 2.27	\$ 2.41
Proposed Increase		0.00%	0.00%	6.00%	6.00%	6.00%	6.00%	6.00%

- Adjustments effective: July 1st of each fiscal year
- Key rate increase drivers:
 - Cost of capital and associated annual debt service



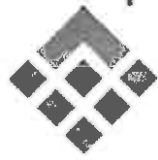
Key Components - Sewer

Description	Sewer (FY2018-FY2023)
Existing Rate Revenue	\$3.94 mil - \$4.01 mil
O&M Expenses	\$3.23 mil - \$3.53 mil
Existing Debt Service	\$566 k - \$266 k
New Debt Service	\$386 k - \$1.59 mil
Total CIP (Inflated)	\$18,366,295

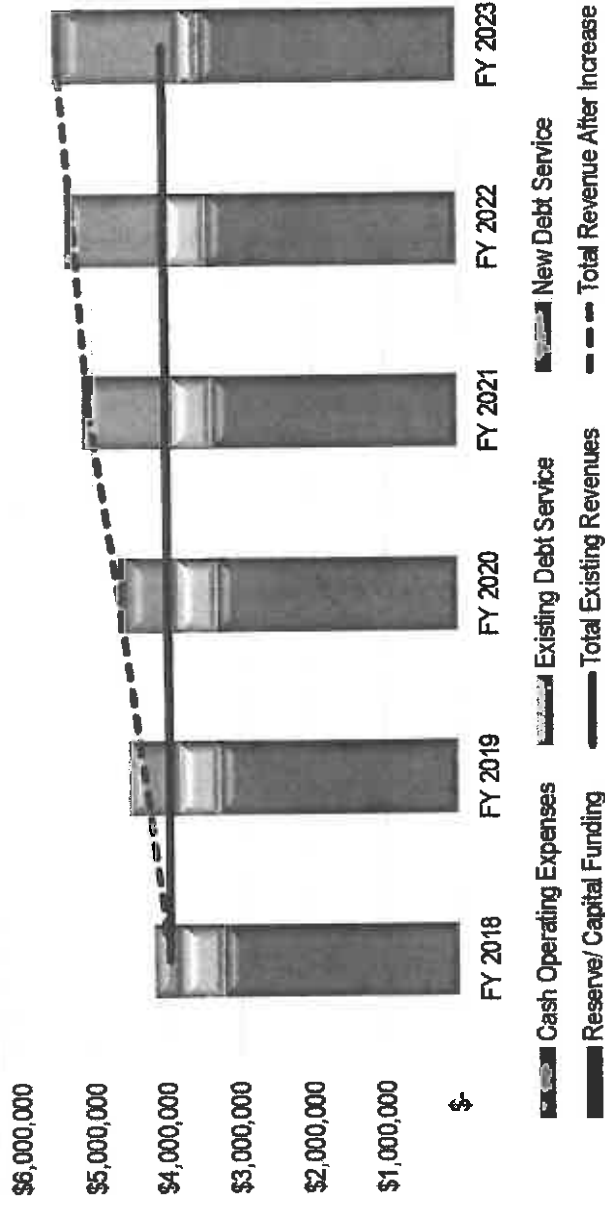


- ◆ **Total CIP of \$18.37 million (inflated to the year of construction)**
 - Includes R&R funding of Manholes, Cleanouts, Gravity Mains and Force Mains
- ◆ **Capital program funded by:**
 - Existing resources: cash reserves, rate funding and CWSRF Loans
- ◆ **New debt required - \$10.20 million**
 - FY2019: \$3.40 million
 - FY2021: \$3.80 million
 - FY2023: \$3.00 million

Note: FY2018/FY2019 CIP is based on budget, future years are based on historical annual average costs plus R&R.



Revenue Requirement – Sewer



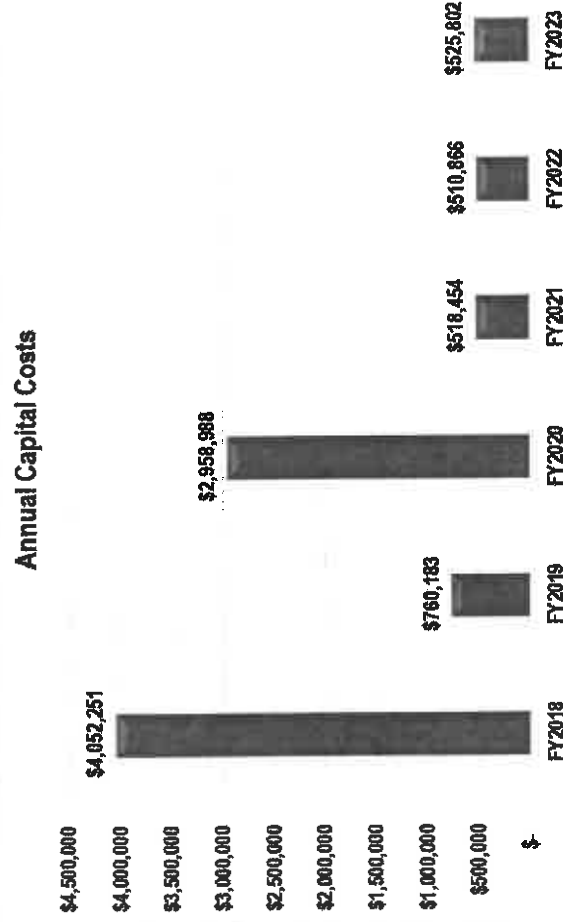
Sewer Sample Bill	Existing	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Monthly Bill - 3,000 gallons	\$ 44.45	\$ 44.45	\$ 48.01	\$ 51.85	\$ 55.99	\$ 58.23	\$ 60.56
\$ Monthly Difference	\$ -	\$ -	\$ 3.56	\$ 3.84	\$ 4.15	\$ 2.24	\$ 2.33
Proposed Increase	0.00%	8.00%	8.00%	8.00%	8.00%	4.00%	4.00%

- Adjustments effective: July 1st of each fiscal year
- Assumes the use of \$563,000 in reserves
- Key rate increase drivers:
 - Cost of capital and associated annual debt service

Storm Considerations

- ◆ **Existing Storm rates are not sufficient to meet ongoing obligations**
 - Operating expenses are subsidized by Streets
 - Capital costs are paid for through the infrastructure fee
 - All customers pay an equal Storm fee per account
- ◆ **Proposed changes:**
 - Transition Storm utility to self-sufficiency
 - Eliminate Streets subsidy and infrastructure fees
 - Bill customers based on Equivalent Service Units (ESUs)
 - Tied to impervious surface area for Non Single Family customers
 - Very common industry rate structure
 - Shifts revenue collection from Single Family to Non Single Family (Commercial) customers commensurate with their impervious surface area

Key Components – Storm



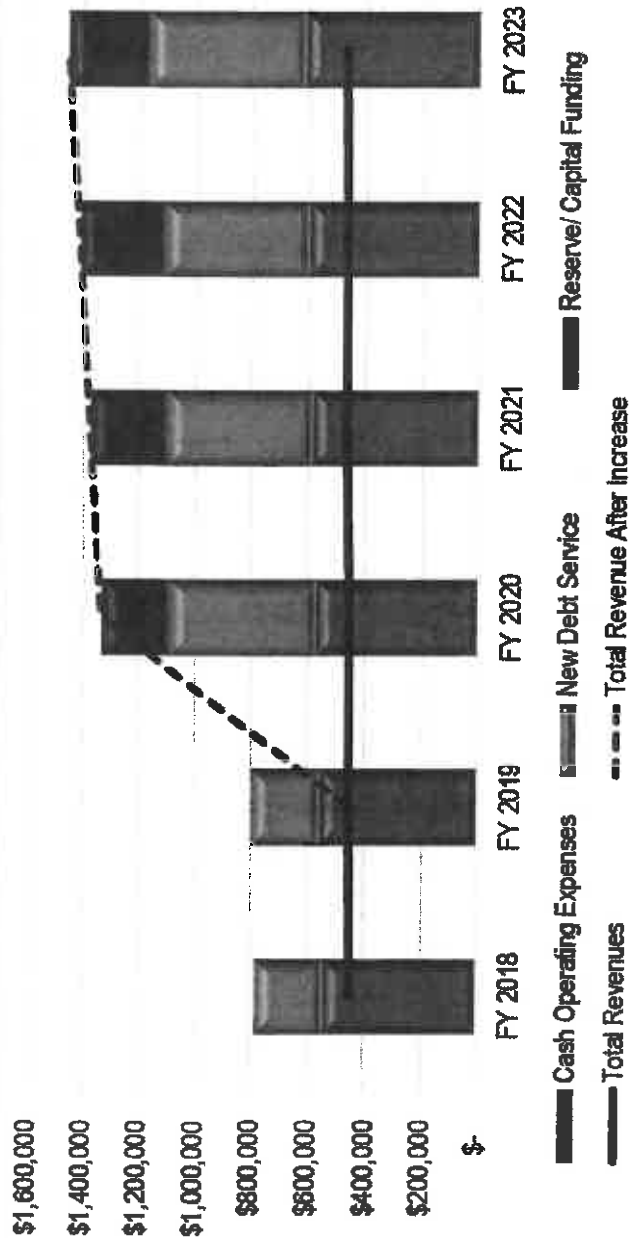
Description	Storm (FY2018-FY2023)
Existing Rate Revenue	\$453 k - \$468 k
O&M Expenses	\$542 k - \$611 k
New Debt Service	\$240 k - \$555 k
Total CIP (Inflated)	\$9,326,543

- ◆ **Total CIP of \$9.33 million (inflated to the year of construction)**
 - Includes R&R funding of Manholes, Catch Basins, Mains
- ◆ **Capital program funded by:**
 - Existing resources: cash reserves, rate funding, CWSRF Loan and infrastructure fee revenues
- ◆ **New debt required - \$3.70 million**
 - FY2020: \$3.20 million
 - FY2023: \$500,000

Note: FY2018-FY2020 CIP is based on budget, future years are based on historical annual average costs plus R&R.



Revenue Requirement – Storm



Residential Storm Sample Bill	Existing	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Monthly Bill - per Account	\$ 8.25	\$ 8.25	\$ 8.25	\$ 23.97	\$ 24.51	\$ 25.06	\$ 25.62
\$ Monthly Difference	\$ -	\$ -	\$ -	\$ 15.72	\$ 0.54	\$ 0.55	\$ 0.56
Monthly Bill - per ESU				\$ 8.25	\$ 8.43	\$ 8.62	\$ 8.82
\$ Monthly Difference				\$ -	\$ 0.19	\$ 0.19	\$ 0.19
Proposed Increase		0.00%	0.00%	190.50%	2.25%	2.25%	2.25%

Note: rates apply on a per Equivalent Service Unit (ESU) basis starting FY2020.

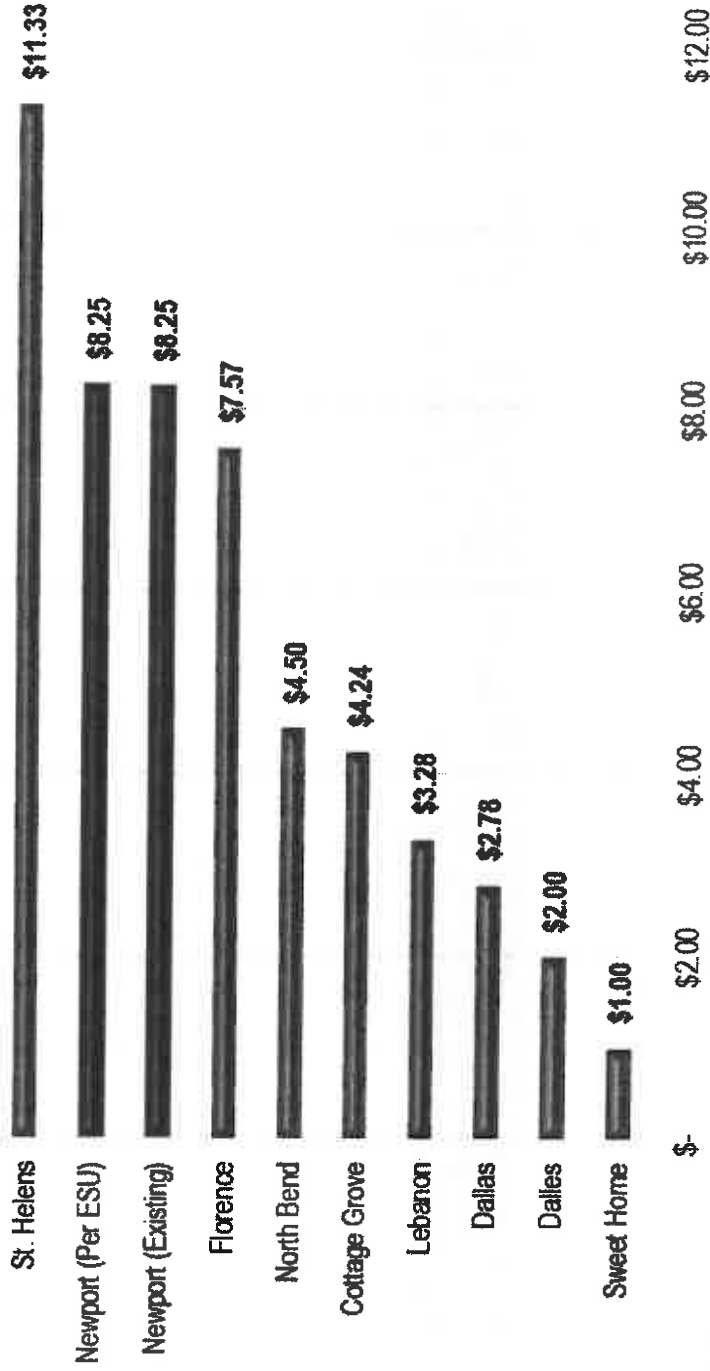
Storm Summary

- ◆ **Proposed strategy sets Storm rates to be self sufficient**
 - Eliminates Streets subsidy for operations starting FY2020
 - Eliminates infrastructure fees for capital use starting in FY2020
- ◆ **Scenario recap**
 - July 2019 (FY2020) adjustment with conversion to an ESU rate and July adjustments thereafter.
 - Requires subsidies of:
 - FY 2018: \$331,000
 - FY 2019: \$339,000



Storm Residential Survey

Monthly Bill





Non Residential Sample Impacts

Description	Accounts	ESUs	Monthly Bill		Difference
			Existing	Proposed	
Large Commercial 1	1	147	\$ 8.25	\$ 1,212.75	\$ 1,204.50
Large Commercial 2	1	129	8.25	1,064.25	1,056.00
Hotel 1	1	49	8.25	404.25	396.00
Hotel 2	1	38	8.25	313.50	305.25

Notes:

1. Equivalent Service Unit (ESU) = 2,700 square feet of impervious surface area.
2. ESUs were rounded to a whole number for this example.

Cost of Service

Cost of Service

- ◆ **An equitable distribution of cost shares that considers utility specific data:**
 - Measures of usage and demand
 - Planning, engineering and design criteria
 - Facility requirements
- ◆ **Total cost by customer class (equity)**
- ◆ **Unit costs (\$/usage; \$/customer)**
- ◆ **Fundamental question: do cost differences exist to serve different customer classes of service**

Cost of Service Process

- ◆ **Step 1: Allocate total utility cost by function**

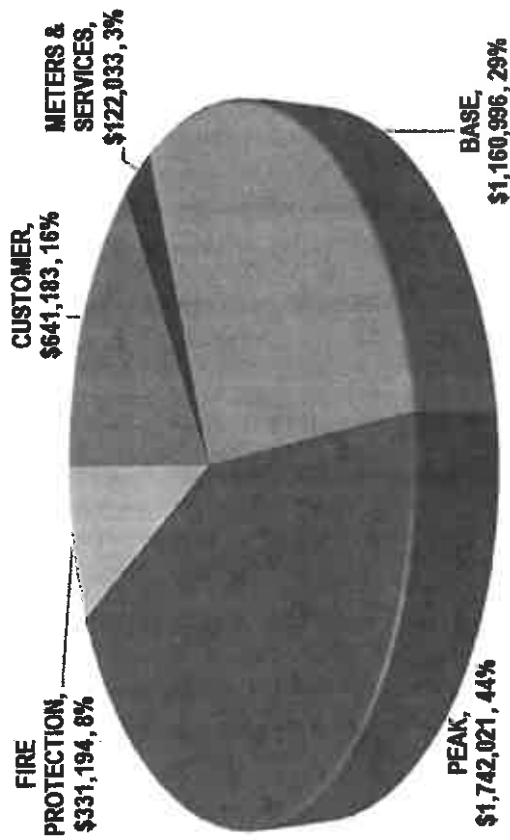
Water Utility Functions**		Sewer Utility Functions**
■ Customer		■ Customer
■ Meters & Services		■ Flow
■ Base Demand (average use)		■ Strength
■ Peak Demand (peak use)		
■ Fire Protection		

- ◆ **Step 2: Assign allocation factors using class specific information**
- ◆ **Step 3: Allocate costs to customer classes**

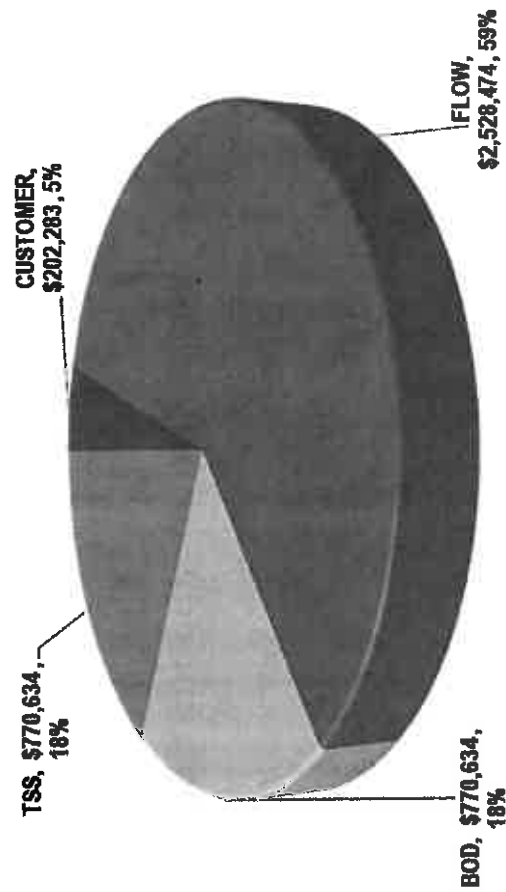
** Industry Standard Methodologies; AWWA Principles of Water Rates, Fees and Charges, M1 Manual and the Water Environment Federation Financing and Charges for Wastewater Systems Manual 27

Cost Allocation to Functions

Water



Sewer





Cost Allocation to Customer Classes - Water

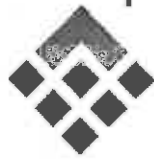
Class	2019 Revenues		Difference	
	Existing	COSA	\$	%
Single Family	\$ 1,389,181	\$ 1,314,335	\$ (74,847)	-5.4%
Multi Family	315,884	282,178	(33,706)	-10.7%
Commercial	2,066,092	2,400,914	334,822	16.2%
Total	\$ 3,771,157	\$ 3,997,427	\$ 226,269	6.0%

- ◆ **+ 5.0% of average within COS (industry standard)**
- ◆ **First cost of service study completed by the City**
 - Cost of service adjustments are warranted
 - Historical information – continue collecting data and monitoring
 - Consider phase-in to confirm trends over time

Water Cost of Service Proposed Phase-In

Class	2019 COSA	2019 Phase-In
Single Family	-5.4%	-0.8%
Multi Family	-10.7%	-1.6%
Commercial	16.2%	11.7%
Total	6.0%	6.0%

- ◆ **Make progress towards cost of service**
 - Continue collecting data and monitoring
 - Revisit during next update



Cost Allocation to Customer Classes - Sewer

Class	2019 Revenues		COSA	Difference	
	Existing			\$	%
Single Family	\$ 1,744,216	\$ 1,439,022	\$	(305,194)	-17.5%
Multi Family	459,159	576,273		117,114	25.5%
Commercial	1,752,203	2,256,729		504,526	28.8%
Total	\$ 3,955,578	\$ 4,272,024	\$	316,446	8.0%

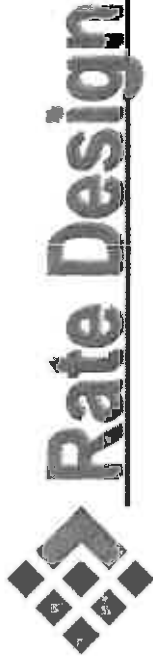
- ◆ **+ 5.0% of average within COS (industry standard)**
- ◆ **First cost of service study completed by the City**
 - Cost of service adjustments are warranted
 - Historical information – continue collecting data and monitoring
 - Consider phase-in to confirm trends over time

Sewer Cost of Service Proposed Phase-In

Class	2019 COSA	2019 Phase-In
Single Family	-17.5%	0.0%
Multi Family	25.5%	15.8%
Commercial	28.8%	13.9%
Total	8.0%	8.0%

- ◆ **Make progress towards cost of service**
 - Continue collecting data and monitoring
 - Revisit during next update

Rate Design



- ◆ **Produce sufficient revenue to meet utility financial requirements**
- ◆ **Cost based and equitable**
- ◆ **Collect the target revenue level for each class of service**
- ◆ **Meet the goals and objectives of the utility**
- ◆ **Rate design considerations:**
 - Phase-in cost of service overall increases
 - Eliminate water allowance of 1,000 gallons (water only)
 - Eliminate sewer garden rate (sewer only)
 - All usage is charged
 - Conversion to ESU billing (stormwater only)

- ◆ **Phase in towards cost of service**
 - Eliminate allowance for all classes of service
 - Differentiate rates by class of service (existing rates are the same)

Water Rate Schedule

Description	Existing	Single Family & Multi Family				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Monthly Fixed						
5/8"x3/4"	\$ 21.80	\$ 18.50	\$ 19.61	\$ 20.79	\$ 22.03	\$ 23.36
1"	28.95	24.57	26.04	27.61	29.26	31.02
1.5"	44.10	37.42	39.67	42.05	44.57	47.24
2"	75.50	64.07	67.91	71.99	76.31	80.89
3"	112.70	95.64	101.38	107.46	113.91	120.74
4"	187.35	158.99	168.53	178.64	189.36	200.72
Variable (per 1,000 gallons)						
0-1,000 gallons	\$ -					
1,001+ gallons	4.00					
All usage	\$ 4.00	\$ 4.00	\$ 4.24	\$ 4.49	\$ 4.76	\$ 5.05

Description	Existing	Commercial				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Monthly Fixed						
5/8"x3/4"	\$ 21.80	\$ 21.90	\$ 23.21	\$ 24.61	\$ 26.08	\$ 27.65
1"	28.95	29.08	30.82	32.67	34.63	36.71
1.5"	44.10	44.30	46.96	49.78	52.76	55.93
2"	75.50	75.85	80.40	85.23	90.34	95.76
3"	112.70	113.22	120.01	127.21	134.85	142.94
4"	187.35	188.21	199.50	211.47	224.16	237.61
Variable (per 1,000 gallons)						
0-1,000 gallons	\$ -					
1,001+ gallons	4.00					
All usage		\$ 4.50	\$ 4.77	\$ 5.06	\$ 5.36	\$ 5.68

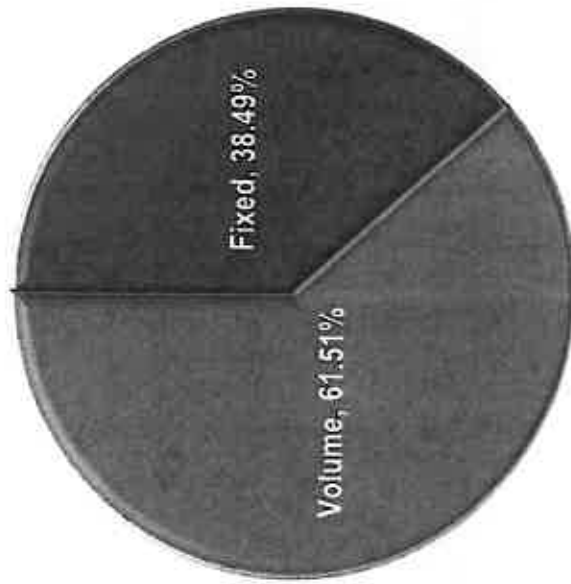
Notes: outside city rates have an approximate 1.9 multiplier on fixed charges and 1.6 multiplier on variable charges.



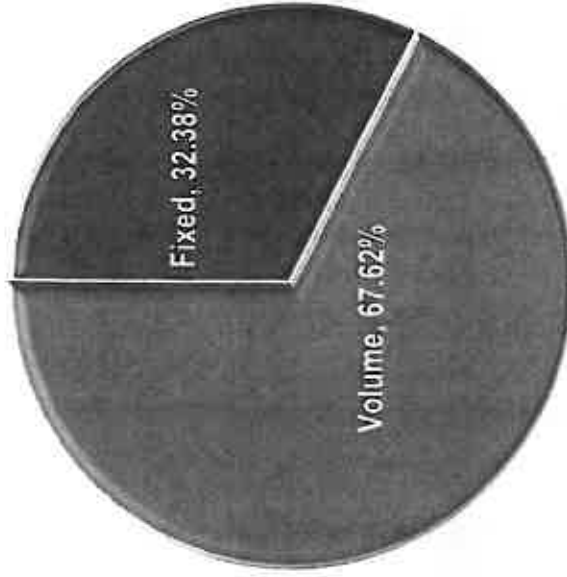
Water Revenue Breakdown

Total Revenue

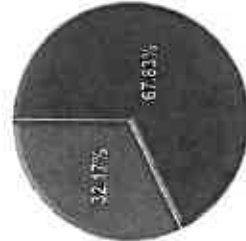
Existing



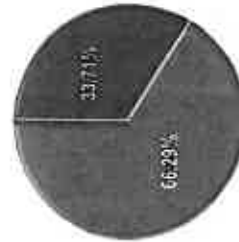
COSA Phase In



Residential



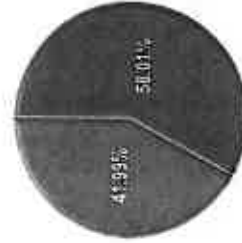
Multi Family



Commercial



Residential



Multi Family



Commercial



Water Residential Bill Impacts

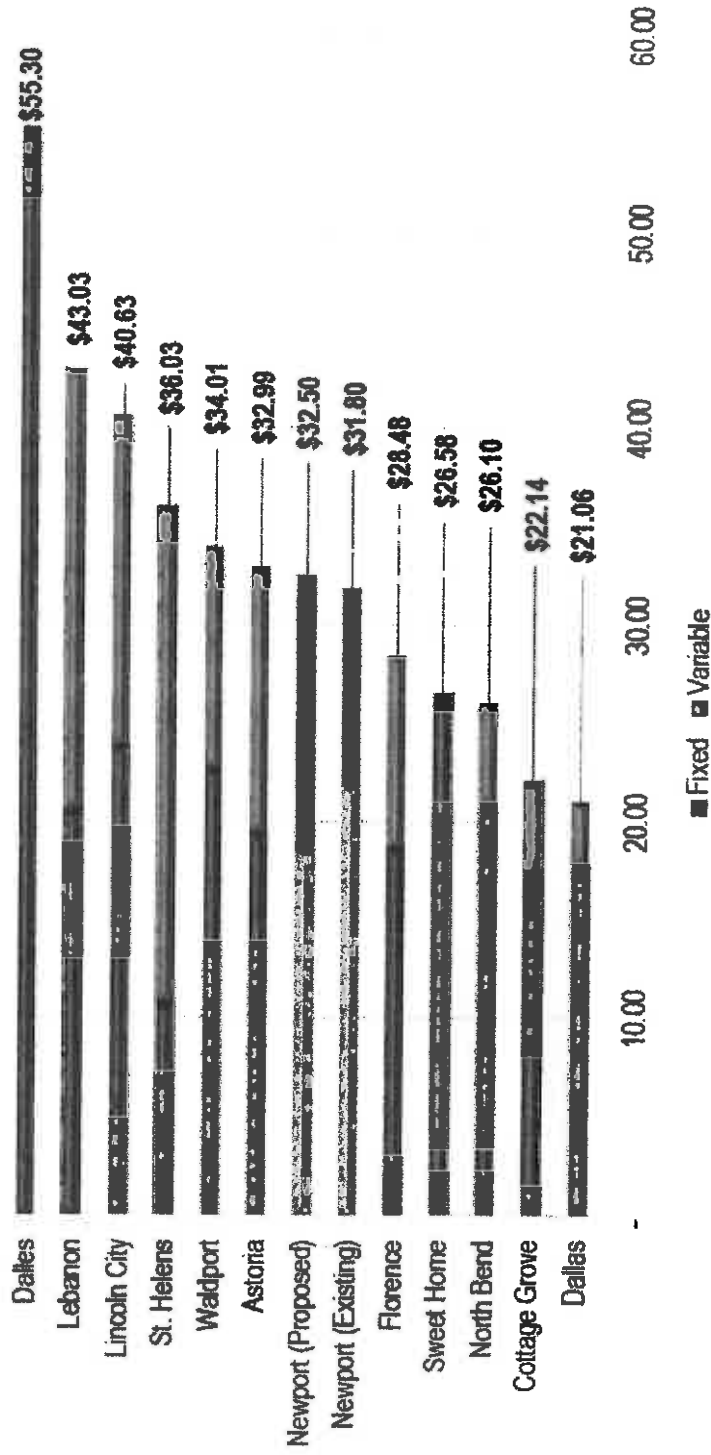
1,000 gallons	Existing	Proposed					\$ Δ					% Δ				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
0.0	\$ 21.80	\$ 18.50	\$ 19.61	\$ 20.79	\$ 22.03	\$ 23.36	\$ (3.30)	\$ 1.11	\$ 1.18	\$ 1.25	\$ 1.32	-15.1%	6.0%	6.0%	6.0%	6.0%
1.0	21.80	22.50	23.85	25.28	26.80	28.41	0.70	1.35	1.43	1.52	1.61	3.2%	6.0%	6.0%	6.0%	6.0%
2.0	25.80	26.50	28.09	29.78	31.56	33.46	0.70	1.59	1.69	1.79	1.89	2.7%	6.0%	6.0%	6.0%	6.0%
3.5	31.80	32.50	34.45	36.52	38.71	41.03	0.70	1.95	2.07	2.19	2.32	2.2%	6.0%	6.0%	6.0%	6.0%
5.0	37.60	38.50	40.81	43.26	45.85	48.61	0.70	2.31	2.45	2.60	2.75	1.9%	6.0%	6.0%	6.0%	6.0%
7.0	45.80	46.50	49.29	52.25	55.38	58.71	0.70	2.79	2.96	3.13	3.32	1.5%	6.0%	6.0%	6.0%	6.0%
9.0	53.80	54.50	57.77	61.24	64.91	68.80	0.70	3.27	3.47	3.67	3.89	1.3%	6.0%	6.0%	6.0%	6.0%
11.0	61.80	62.50	66.25	70.23	74.44	78.90	0.70	3.75	3.98	4.21	4.47	1.1%	6.0%	6.0%	6.0%	6.0%
14.0	73.80	74.50	78.97	83.71	88.73	94.05	0.70	4.47	4.74	5.02	5.32	0.9%	6.0%	6.0%	6.0%	6.0%
17.0	85.80	86.50	91.69	97.19	103.02	109.20	0.70	5.19	5.50	5.83	6.18	0.8%	6.0%	6.0%	6.0%	6.0%
20.0	97.80	98.50	104.41	110.67	117.32	124.35	0.70	5.91	6.26	6.64	7.04	0.7%	6.0%	6.0%	6.0%	6.0%

Notes: assumes a 5/8" x 3/4" meter.



Water Residential Bill Survey

Residential Monthly Sample Bill (3,500 gallons)



- ◆ **Phase in towards cost of service**
 - Differentiate rates between Single Family and Non Single Family
 - Eliminate the “garden” rate for Single Family
 - Charge for all usage



Sewer Rate Schedule

Description	Existing	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
	Monthly Fixed					
Residential	\$	23.90	\$ 23.90	\$ 25.81	\$ 27.88	\$ 28.99
Multi-Family		23.80	27.56	29.76	32.15	33.43
Commercial		23.80	27.56	29.76	32.15	33.43
	Variable (per 1,000 gallons)					
Residential	\$	6.85	\$ 6.13	\$ 6.62	\$ 7.15	\$ 7.44
Multi-Family		7.85	9.09	9.82	10.60	11.03
Commercial		7.85	9.09	9.82	10.60	11.03

Notes:

Existing rates are based off of a garden rate for single family customers.

Proposed rates charge for all usage for single family customers.

- ◆ **Separate fixed and variable charges for Single Family and Non Single Family**
- ◆ **City transitioning to 100% usage based charge**
- ◆ **Elimination of garden rate – moved to a subscription service**

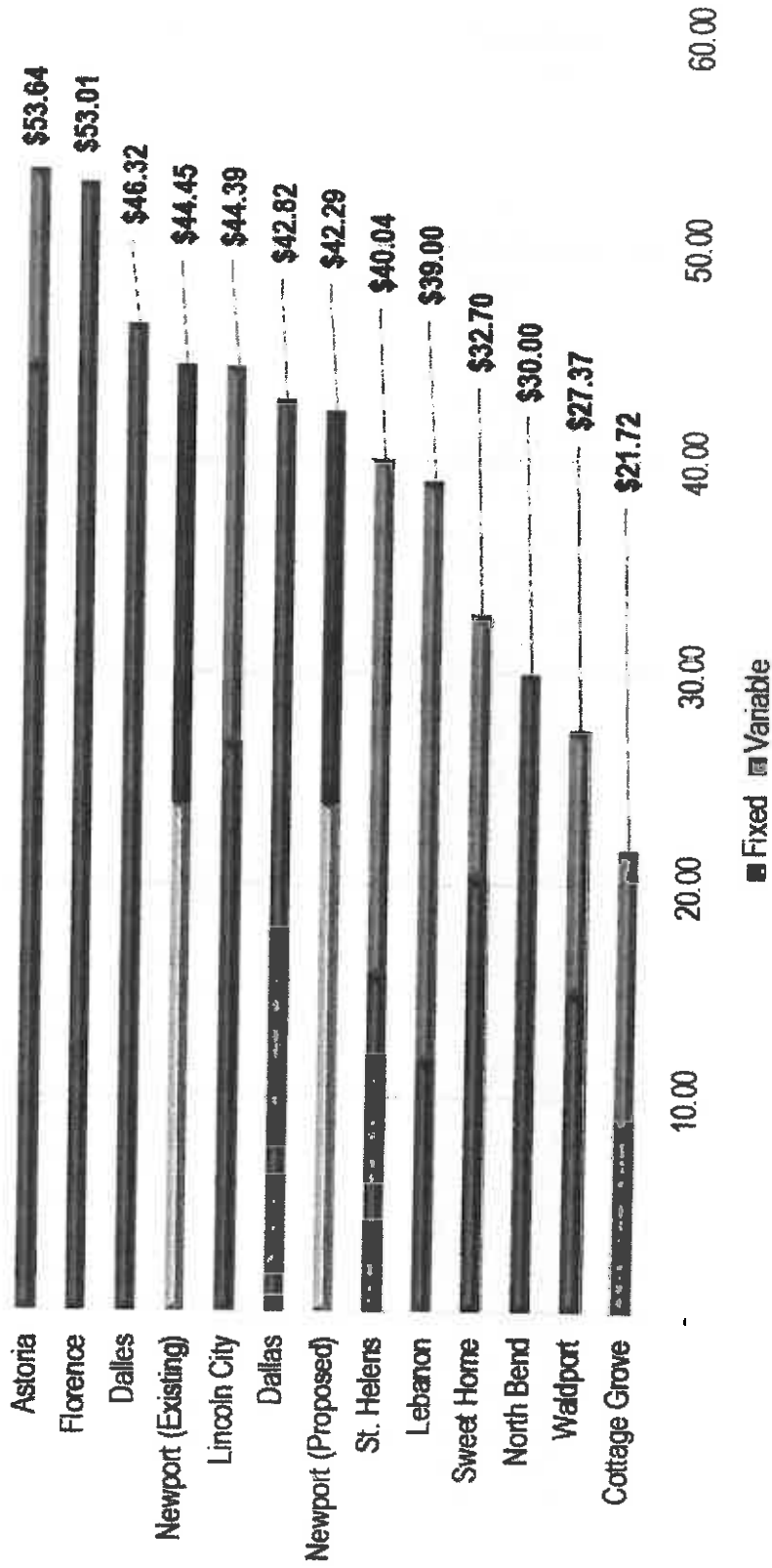
Sewer Residential Bill Impacts

1,000 gallons	Existing	Proposed					S.A.					% Δ				
		FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
0.0	\$ 23.90	\$ 23.90	\$ 25.81	\$ 27.88	\$ 28.99	\$ 30.15	\$ -	\$ 1.91	\$ 2.06	\$ 1.12	\$ 1.16	0.0%	8.0%	8.0%	4.0%	4.0%
1.0	30.75	30.03	32.43	35.03	36.43	37.89	(0.72)	2.40	2.59	1.40	1.46	-2.3%	8.0%	8.0%	4.0%	4.0%
2.0	37.60	36.16	39.05	42.18	43.86	45.62	(1.44)	2.89	3.12	1.69	1.75	-3.8%	8.0%	8.0%	4.0%	4.0%
3.0	44.45	42.29	45.67	49.33	51.30	53.35	(2.16)	3.38	3.65	1.97	2.05	-4.9%	8.0%	8.0%	4.0%	4.0%
4.0	51.30	48.42	52.29	56.48	58.74	61.09	(2.88)	3.87	4.18	2.26	2.35	-5.6%	8.0%	8.0%	4.0%	4.0%
5.0	58.15	54.55	58.91	63.63	66.17	68.82	(3.60)	4.36	4.71	2.55	2.65	-6.2%	8.0%	8.0%	4.0%	4.0%
7.0	71.85	66.81	72.15	77.93	81.04	84.29	(5.04)	5.34	5.77	3.12	3.24	-7.0%	8.0%	8.0%	4.0%	4.0%
9.0	85.55	79.07	85.40	92.23	95.92	99.75	(6.48)	6.33	6.83	3.69	3.84	-7.6%	8.0%	8.0%	4.0%	4.0%
12.0	106.10	97.46	105.26	113.68	118.22	122.95	(8.64)	7.80	8.42	4.55	4.73	-8.1%	8.0%	8.0%	4.0%	4.0%
15.0	126.65	115.85	125.12	135.13	140.53	146.15	(10.80)	9.27	10.01	5.41	5.62	-8.5%	8.0%	8.0%	4.0%	4.0%
20.0	160.90	146.50	158.22	170.88	177.71	184.82	(14.40)	11.72	12.66	6.84	7.11	-8.9%	8.0%	8.0%	4.0%	4.0%



Sewer Residential Bill Survey

Residential Monthly Sample Bill (3,000 gallons)



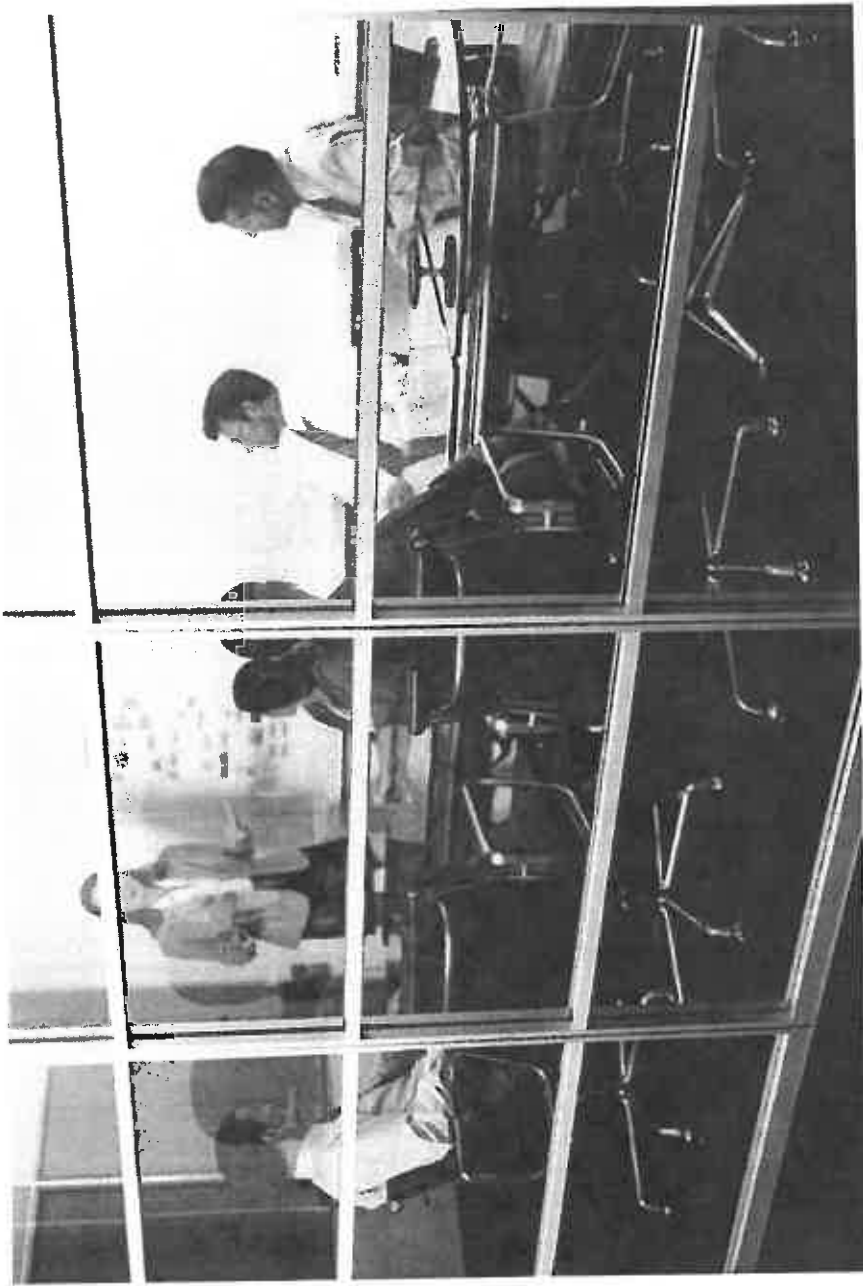
Average Monthly Bill as a % of Median Household Income

Description	Existing Rates		Proposed Rates	
	Mo. Bill	\$ of MHI	Mo. Bill	\$ of MHI
Water	\$ 31.80	0.95%	\$ 32.50	0.97%
Sewer	44.45	1.33%	42.29	1.27%
Storm	8.25	0.25%	8.25	0.25%
Combined	\$ 84.50	2.53%	\$ 83.04	2.49%

Note: assumes median household income of \$40,000 per year.



- ◆ **Adopt proposed rates effective:**
 - Water & Sewer: July 1st, 2018 (FY2019)
 - Storm: July 1st, 2019 (FY2020)
- ◆ **Continue monitoring Water, Sewer & Storm rates to make sure they follow assumptions incorporated in the study**



Questions/Discussion