

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
MAY 15, 2007
5:30 P.M.

Commissioners present: Mel Menegat, John Simpson, Patrick Lanning, Ron Farmer, and John Brown.

Others present: Randy Berggren, Dick Varner, Tom Buckhouse, Jim Origliosso, Jay Bozievich, Jim Wiley, Lance Robertson, Debra Smith, Mel Damewood, and Judy Chase of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Menegat convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m.

2008 FIVE-YEAR WATER CAPITAL IMPROVEMENT PLAN (CIP) SCENARIOS

Water Engineering Manager Mel Damewood shared two videos, a segment from the television show *20/20* regarding bottled water and a production made by the American Water Works Association (AWWA) entitled *Tapwater Delivers*, which sought to communicate the importance of tap water service.

Fiscal Services Supervisor Dick Varner provided a power point presentation on *Water Capital Funding*. He noted that among key decision criteria the Board should consider how much the Board was willing to increase rates to meet the funding needs for the Capital Improvement Plan (CIP) and how quickly the rate increases could occur.

Mr. Varner stated that EWEB sought to have debt service coverage consistent with a high “single or double ‘A’ utility,” which was two and a half times debt service coverage. He said this would allow enough money to pay the debt service and to have a CIP that would not be impacted by a bad retail sales year.

Commissioner Brown ascertained from Mr. Varner that EWEB was not funding depreciation out of its cash flow.

Mr. Varner stated that a debt service ratio above 60 percent would jeopardize EWEB’s bond rating.

Mr. Varner reviewed four financing scenarios for the CIP:

- 10 percent rate increase limit with borrowing;
- Funding the CIP from rates only, using no borrowing;
- Borrowing in excess of \$30 million in order to not increase rates by 10 percent per year for several years in a row;
- Raising rates 20 percent in the first year with some borrowing, with rate increases below 10 percent in subsequent years.

He stressed that the goal was to maintain reserve funding, meet capital needs, and to maintain long-term borrowing flexibility.

In response to a question from Commissioner Brown, Mr. Varner clarified that the financial plan which included a cumulative 88 percent rate increase sought to fund the new operations center, the Automatic Meter Reader (AMR) program, the capital plan, and regular operations and maintenance.

Commissioner Farmer opined that if they were thinking holistically they needed to consider how this affected the whole utility and not just the Water Division. He noted that EWEB was one utility in the minds of the ratepayers.

Vice President Simpson ascertained from Mr. Varner that water rates would nearly double over 20 years.

President Menegat asked if there was a provision in the plan for the second water source. Mr. Varner replied that \$24 million was earmarked in 2015 through 2017 for development of the second source.

Commissioner Farmer asked if the rates increased in a year in the second scenario were paying for all of the work scheduled for that year. Mr. Varner responded that the CIP would draw from the capital reserve fund in the first few years.

Commissioner Farmer remarked that given that improvements were a long-term asset, the burden of paying for it should not fall only on present users.

Commissioner Brown asked what assumptions were being made in regard to the streets that would be torn up. Mr. Damewood replied that this was an uncertainty in the five and ten year CIP. He added that it would really hurt EWEB if the City decided to conduct a full replacement of a number of streets in a short amount of time.

In response to a question from Commissioner Brown, Mr. Damewood explained that the Local Improvement Districts (LIDs) that the City enacted did not pay for any of the water system improvements. He said EWEB had facilities under roads through right-of-way agreements with the City. He stated that EWEB made an effort to match its main replacement with the City's street replacement schedule.

Mr. Damewood stated that two primary uncertainties lay ahead – the water main replacement schedule and the second water source project. He stressed that planning was always evolving and changing.

In response to a question from Commissioner Farmer, Mr. Varner affirmed that ratios in the scenario were above the targets. He said the debt service would be above 2.5 times revenue and EWEB would not be very heavily leveraged in the second scenario.

Mr. Varner reviewed the third and fourth scenarios in greater detail.

Commissioner Farmer asked if there was any data on water usage across the economic strata of the City. Mr. Varner replied that he was uncertain whether much research had been done. He noted anecdotally that people on a limited income sometimes used quite a bit of water because they were trying to offset expenses by growing a garden.

Mr. Damewood stated that the average median income in the City of Eugene was \$39,000. He reported that the water industry tried to keep rates to approximately one percent of median income for the average user and EWEB's water rates were at approximately .6 one percent. He thought it would be good to review EWEB's comparators' rates.

Vice President Simpson did not believe that customers often requested assistance for water bills because electricity dominated the utility bill. Assistant to the General Manager Debra Smith noted, in response, that six percent of the low income write offs were from the water division, six percent were from the sewer bill, and the rest were from the electric division.

Mr. Varner remarked that one would have to use a great deal of water to receive a \$50 water bill.

Senior Water Engineer Jay Bozievich reviewed the *Water Capital Planning Risk Matrix*.

Commissioner Farmer ascertained from Mr. Varner that delaying work on a second water source would affect rates in the last three years of the ten-year planning scenario.

In response to a question from Vice President Simpson, Mr. Bozievich affirmed that there were gains in energy efficiency when pumps were replaced.

Mr. Bozievich reported that at the current rate of replacement EWEB would not catch up to the rate at which water mains needed to be replaced.

Commissioner Lanning arrived.

Mr. Varner underscored that EWEB was facing a more than 70 percent increase in rates if it undertook the draft CIP, as presented, over the next decade. He noted that development of a second source of water had the largest impact and was the only thing that could realistically be deferred for a few years.

In response to a question from Commissioner Farmer, Mr. Varner affirmed that the CIP included increases in cost for operations and maintenance.

Commissioner Brown asked which cost scenario for the Roosevelt Boulevard building project was used in the financial estimates provided with the CIP. Mr. Varner replied that the CIP considered the project to cost less than \$70 million. He noted that the water division would pay 30 percent of the total cost less the amount the sale of the original property would bring in.

Vice President Simpson asked if EWEB would be facing another series of steeply escalating rate increases in ten years due to the ongoing need for main replacements. Mr. Varner replied that he

did not think so. He believed that staff would fine tune what rates needed to be as costs became more apparent over the next three to five years.

Vice President Simpson was not certain how to balance the scenarios. He related that he was initially drawn to funding the CIP out of rates alone. He asked if this was purely a political decision. Mr. Varner replied that there were fairly sizable expenditures in the initial years. He said the Board could cut the peaks off the cost with some borrowing. He commented that if he expressed a preference for scenarios he would likely pick the fourth scenario.

Commissioner Farmer underscored the importance of keeping in mind what a 50 percent increase in water rates would look like on the front page of the local paper.

Vice President Simpson pointed out that people spend much more to purchase bottled water. He recommended that any rate increase be accompanied by a public relations campaign to remind customers of this fact.

Commissioner Farmer commented that EWEB could bottle water, sell it, and pay for the CIP.

Commissioner Brown did not see anything in the CIP that he would want to delay. He believed that everything that was proposed was appropriate and critical to basic human needs. He added that he wanted to have a community dialogue about drinking water from a second source and whether it should be introduced into the EWEB water system from the McKenzie River.

Commissioner Farmer said he would likely pick the fourth scenario. He supported keeping the utility strongly positioned financially. He averred that the Board and staff should talk about the "revenue piece." He underscored that the utility was working with a no-growth or slow-growth scenario.

General Manager Randy Berggren indicated that staff would bring some high level information on revenue-generating opportunities. He did not believe that EWEB could do much beyond what it was doing.

Commissioner Farmer opined that it seemed EWEB was afraid to sell more water and did not want to change its message to customers regarding the importance of conservation. Mr. Berggren responded that conservation was an integral part of gaining future water rights.

Mr. Damewood commented that Eugene's water was one of its "best kept secrets." He acknowledged that the 10 percent drop in industrial water sales due to AgriPac closing had impacted the utility. He said EWEB does not market its water but it could.

Commissioner Farmer related that he had spoken to Oregon Labor Commissioner Jack Roberts and Mr. Roberts had indicated that he was unaware of the abundance and purity of EWEB's water. Commissioner Farmer thought EWEB should do more to publicize the asset the water quality represented.

Vice President Simpson asked what the cost/volume curve looked like for the water division. Mr. Varner responded that until EWEB developed its second source for water distribution, water cost the utility less than 10 cents per 1,000 gallons.

In response to a question from Vice President Simpson, Mr. Damewood stated that development was paid by the developer and Systems Development Charges (SDCs).

Vice President Simpson asked why EWEB had a large water fee and a lower rate. Mr. Varner replied that this had been a choice that a previous Board had enacted. He explained that customers paid \$19.95 per month for the first 5,000 gallons of water.

Commissioner Lanning said it would be challenging to create a balance. He pointed out that to a certain extent the water users to date had been living off "not taking care of the system."

Vice President Simpson surmised that paying for the CIP entirely through rates would burden today's ratepayers with the cost of benefits that future ratepayers would reap. He said if EWEB bonded some of the costs it would push payment for some of the CIP out to those ratepayers. He wondered how the break-even point between those two could be determined.

Mr. Varner commented that looking at the curve and seeing the steep ramp-up of main replacements in 15 and 20 years in light of potential borrowing caused him heartburn because he did not want to leverage the utility now and have "that monster staring me in the face."

Mr. Damewood commented that the rate increases that were proposed did not develop a "war chest" for that future period. He said they should consider how this could be developed.

In response to a question from Commissioner Lanning, Mr. Damewood stated that there were known mains; he was "99 percent positive" that all of the water mains were mapped.

Mr. Bozievich said while they might not know the exact age of all of the water mains, whether they had been installed in 1925 or in 1935, they did know where they all were located.

Commissioner Farmer advocated for having the infrastructure in place to address any revenue opportunities that might arise. He also wanted to be prepared for any failures in the system.

Vice President Simpson surmised that paying for the CIP with rates would preserve EWEB's bonding position. Commissioner Farmer pointed out that it would give EWEB more comfort than was probably needed.

President Menegat indicated his preference for the fourth scenario for the reasons that had been stated. He said he had one concern regarding risk. He hoped that when the Board looked at the actual CIP that they would look at the critical areas, areas that were greater than medium risk.

Vice President Simpson favored steady equal rate increases over the course of time. He said he could support the fourth scenario but he preferred to have the rate increases higher than the mid-single digits. He thought “juicing the system” up with a series of 10 percent rate increases over a few years would only lead EWEB to more of the same situation.

Mr. Varner noted that this decision did not need to be made at the present work session.

In response to a question from Mr. Bozievich, President Menegat clarified that he hoped that they would not lose track of the options that put the utility in a different category of risk.

Mr. Damewood stated that staff would bring its draft 2008 CIP back before the Board on July 24.

Commissioner Farmer requested a matrix that showed in all four scenarios what would happen to ratepayers’ water bills.

Vice President Simpson asked for some data on residential user averages from the season for peak water usage.

Mr. Damewood asked External Communications Coordinator Lance Robertson to discuss the communications plan for the CIP.

Mr. Robertson stated that a video would fit into a communications plan. He said staff was already starting to roll out information regarding EWEB’s water quality. He related that EWEB did not have a comprehensive plan that would sustain this kind of effort. He stated that in the short-term he intended to include an article in *The Pipeline* and he had pitched an article idea to the *Register-Guard* and other media. He underscored that in the longer term they would formulate a comprehensive communications plan. He indicated that he would like to show the videos the Commissioners and staff had watched earlier as part of the speaker’s bureau.

In response to a question from Vice President Simpson, Mr. Robertson said EWEB did not really promote its water, though EWEB had some of the best water in the country. Vice President Simpson averred that given that restaurant diners were drinking EWEB’s product EWEB was missing a message opportunity to highlight its purity.

Commissioner Farmer stressed the importance of remembering that EWEB’s problem was not associated with its water quality; but with the need to upgrade and replace the infrastructure.

Mr. Damewood observed that if EWEB looked at sustainability and environmental issues and the footprint a bottle of water made across the country including the bottle that was ultimately thrown away it would help the public to understand EWEB's water as a good value. He said it was important, in the face of rate increases, to remind people that the glass of water they were drinking tasted good and was pure.

Commissioner Lanning agreed that the value and quality of the water should be emphasized. He did not think EWEB was mixing messages if it included the water quality in the overall coverage of the rate scenario. He emphasized that there were people who lived in this area for the quality of life.

Commissioner Brown supported the idea of doing a speaker's bureau. He felt it was important for EWEB to be proactive about the changes. He said the Board would have to answer to the public for the decisions that it would make. He underscored that EWEB could not let the system degrade like the city streets had degraded.

Vice President Simpson said the pipes were a delivery system to all of the city residents. He called it "home delivery of a quality product," a product that exceeded the quality of some bottled waters. He suggested that EWEB provide free containers for people in order to encourage them to drink EWEB water.

Mr. Robertson said he would formulate a comprehensive strategy to address public response to the potential changes to rates that the CIP would bring with it.

President Menegat adjourned the meeting at 7:24 p.m.

Assistant Secretary

President