



**CITY OF NEWPORT
COUNCIL WORKSHOP MEETING
NEWPORT CITY HALL
AUGUST 1 2013
IMMEDIATELY FOLLOWING THE PUBLIC HEARING**

MAYOR:	Tim Geraghty	City Administrator:	Deb Hill
COUNCIL:	Tom Ingemann	Supt. of Public Works:	Bruce Hanson
	Bill Sumner	Chief of Police:	Curt Montgomery
	Tracy Rahm	Fire Chief:	Mark Mailand
	Steven Gallagher	Executive Analyst:	Renee Helm

AGENDA

1. ROLL CALL
2. UTILITY RATE STUDY
3. CLOSE THE MEETING TO THE PUBLIC TO DISCUSS DEB HILL'S PERFORMANCE EVALUATION
4. ADJOURNMENT



City of Newport Water and Sewer Utility Rate Analysis

Executive Summary
August, 2013

Executive Summary

Storm Sewer Rates

- Future street projects are expected to be approximately \$388,000 in project years 2013-2015. Future storm sewer maintenance needs, along with planned street projects, will increase costs, causing pressure on user rates. User fees in the fund currently generate between \$20,000 and \$30,000 per year.
- Cash balances are not adequate for financing future projects

Street Light Utility

- Cash balances are not adequate to finance future expected maintenance of the system.
- Future maintenance of the system will cause increased pressure on user rates.

Goals of a Utility Rate Analysis

The City of Newport retained Ehlers to prepare financial projections for the storm sewer system and the street light utility. The purpose of the rate analysis is to ensure that:

- Rates are sufficient to pay for the ongoing operations and capital improvements, and to maintain adequate cash balances.
- Rates are fair and equitable.
- Staff and Council revisit cash balance policies to ensure they are meeting their enterprise system's current and future needs.

Storm Water Utility Rates

The storm water utility allows the City to maintain its storm water system. Construction costs associated with street projects and future storm water system maintenance needs are causing strong pressure on user rates.

Storm Water Charges

The proposed storm water charges are in the following chart.

Quarterly Storm Water Rates	2012	2013	2014	2015	2016	2017	2018
Rate Residential Equivalent Unit	2.00	2.25	8.15	8.56	8.99	9.43	9.91

In 2014 and beyond, storm water rates are proposed to increase 5% annually.

This analysis anticipates the need to finance street related storm water capital improvements through 2015. Beginning in 2018, we project there will be sufficient cashflow in the fund to pay cash for capital improvements, based on current capital estimates.

The rates comparison is shown on Appendix B. The City of Newport's proposed rates will be comparable to surrounding communities.

Financing Capital Improvements

While this analysis proposes the use of debt to finance storm sewer to allow for steady and predictable rate increases, it is not a debt plan. In practice, the City staff will continue to use the rate analysis's financing plan as a guide and, in consultation with its independent financial advisor, consider when and how much debt to incur in any given year. As with all other bonding decisions, the City's decision to issue debt for any given improvement will be based on many factors, including the City's cash balances, rating, and other financing needs.

Street Light Utility Rates

The City of Newport currently pays for the cost of operating and maintaining its street light system with property tax revenue from its utility fund. This fund does not have sufficient cash balances to finance ongoing maintenance of the system. Future improvements include LED lights and pole replacement.

Street Light Utility Charges

The proposed street light charges are in the following chart.

Quarterly Street Light Rates	2012	2013	2014	2015	2016	2017	2018
Residential	4.17	7.25	7.61	7.99	8.39	8.81	9.25
Multi Family	50.07	52.57	55.20	57.96	60.86	63.90	67.10
Commercial	83.40	87.57	91.95	96.55	101.37	106.44	111.76

In 2014 and beyond, street light rates are expected to require an annual 5% increase.

The street light utility users are charged a flat rate per account, no matter the property size. This rate structure is equitable for single family residential properties. The burden to pay for the system could get shifted between commercial users however if a commercial user with a large property pays the same as a small commercial property. Some cities choose to bill street light based on front foot, so that the large commercial property pays more than a small commercial property. We are not recommending a rate structure change at this point given the fact that more analysis needs to be done regarding future capital maintenance and improvements.

Summary

- Beginning in 2014, proposed storm water and street light utility rates will increase 5.0% annually.
- The future rate increases are necessary given the expected pace of construction projects and future maintenance needs.
- In a future utility study update, the Council should consider the impact of a rate structure change for the street light utility.

Appendix A

Cashflow Projections

**City of Newport
Utility Rate Study
Base Model**

Storm Sewer Fund														
	Actual			YTD	Proposed	Projected								
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1 Rates Inflation					10.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2 Revenue growth assumption - non-usage						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
3 Investment income yield						0.50%	0.50%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
4 Expense growth - general and administrative						3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
5 Expense growth - contractual						3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
6														
10 Beginning net assets		(14,461)	4,736	14,789	21,175	30,874	80,953	134,817	192,777	254,761	321,019	391,815	467,427	548,146
11														
12 Operating Revenues														
13 Storm sewer charges	2,151	19,465	12,123	26,949	30,000	79,740	83,727	87,913	92,309	96,924	101,770	106,859	112,202	117,812
14 Street light charges														
15														
16 Total Operating Revenues	2,151	19,465	12,123	26,949	30,000	79,740	83,727	87,913	92,309	96,924	101,770	106,859	112,202	117,812
17														
18 Operating Expenses														
19 Personal services						5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334
20 Professional services	16,619	276	2,111	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
21 North Ravine project financing				740	301	310	319	329	339	349	359	370	381	393
22 Utilities						0	0	0	0	0	0	0	0	0
23 Street sweeping						4,500	4,635	4,774	4,917	5,065	5,217	5,373	5,534	5,700
24 Depreciation						0	0	0	0	0	0	0	0	0
25 Total Operating Expenses	16,619	276	2,111	20,740	20,301	29,810	30,104	30,407	30,720	31,041	31,373	31,714	32,065	32,427
26														
27 Net Operations	(14,468)	19,189	10,012	6,209	9,699	49,930	53,622	57,505	61,589	65,883	70,398	75,145	80,137	85,385
28 Non operating revenues (expenses)														
29 Connection Fees and Assessments														
30 Interest income	7	8	41	177		149	242	455	395	375	398	467	583	751
31 Miscellaneous Revenue						0	0	0	0	0	0	0	0	0
32 Interest and Other Expenses						0	0	0	0	0	0	0	0	0
33 Transfers In/(Out) to Enterprise Funds						0	0	0	0	0	0	0	0	0
34 Transfers In/(Out) to Other Funds						0	0	0	0	0	0	0	0	0
35 Total non operating revenue (expenses)	7	8	41	177	0	149	242	455	395	375	398	467	583	751
36														
37 Net increase (decrease) in resources	(14,461)	19,197	10,053	6,386	9,699	50,079	53,864	57,960	61,984	66,258	70,796	75,612	80,720	86,136
38														
39 Ending net assets	(14,461)	4,736	14,789	21,175	30,874	80,953	134,817	192,777	254,761	321,019	391,815	467,427	548,146	634,282
40 CIP Funding														
41 Purchase of Capital Assets	0				(50,700)	(251,044)	(101,036)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
42 Bond Proceeds					50,000	225,000	75,000							
43 Bond P&I - Future - 10 yrs at 2%					0	(5,566)	(5,566)	(5,566)	(5,566)	(5,566)	(5,566)	(5,566)	(5,566)	(5,566)
44 Bond P&I - Future - 10 yrs at 2%							(25,048)	(25,048)	(25,048)	(25,048)	(25,048)	(25,048)	(25,048)	(25,048)
45 Bond P&I - Future - 10 yrs at 2%								(8,349)	(8,349)	(8,349)	(8,349)	(8,349)	(8,349)	(8,349)
46 Bond P&I - Future - 20 yrs at 2.5%								0	0	0	0	0	0	0
47 Bond P&I - Future - 20 yrs at 2.5%														
48 Bond P&I - Future - 20 yrs at 2.5%														
48 Bond Prin - Existing					0	0	0	0	0	0	0	0	0	0
49														
50 Beginning Cash	0	(15,706)	133	14,452	20,838	29,837	48,305	45,518	39,514	37,534	39,827	46,659	58,306	75,062
51 Add net operations	(14,468)	19,189	10,012	6,209	9,699	49,930	53,622	57,505	61,589	65,883	70,398	75,145	80,137	85,385
52 Add back depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
53 Add net non operating	7	8	41	177	0	149	242	455	395	375	398	467	583	751
54 Add capital and bond	0	0	0	0	(700)	(31,610)	(56,651)	(63,964)	(63,964)	(63,964)	(63,964)	(63,964)	(63,964)	(63,964)
55 Net change in balance sheet items	(1,245)	(3,358)	4,266											
56 Other investments														
57 Ending Cash	(15,706)	133	14,452	20,838	29,837	48,305	45,518	39,514	37,534	39,827	46,659	58,306	75,062	97,233
58 Other investments														
59 Ending net assets	(14,461)	4,736	14,789	21,175	30,874	80,953	134,817	192,777	254,761	321,019	391,815	467,427	548,146	634,282
60														
62 Target minimum working capital					41,761	71,556	79,016	79,168	79,324	79,485	79,651	79,821	79,997	74,611
63 Actual working capital-cash balance	(15,706)	133	14,452	20,838	29,837	48,305	45,518	39,514	37,534	39,827	46,659	58,306	75,062	97,233
64 Over (Under) target working capital	(15,706)	133	14,452	20,838	(11,924)	(23,251)	(33,498)	(39,654)	(41,790)	(39,658)	(32,992)	(21,515)	(4,935)	22,622

**City of Newport
Utility Rate Study
Base Model**

	Street Light Fund													
	Actual			YTD	Proposed	Projected								
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1 Rates Inflation						5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
2 Revenue growth assumption - non-usage						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
3 Investment income yield						0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
4 Expense growth - general and administrative						3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
5 Expense growth - contractual						3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
6														
10 Beginning net assets	(15,083)	(637)	168	9,385	16,545	20,918	38,917	58,812	80,737	104,835	131,257	160,164	191,724	226,116
11														
12 Operating Revenues														
13 Storm sewer charges														
14 Street light charges	46,459	41,151	46,267	50,655	48,460	68,354	71,771	75,360	79,128	83,084	87,239	91,600	96,180	100,990
15														
16 Total Operating Revenues	46,459	41,151	46,267	50,655	48,460	68,354	71,771	75,360	79,128	83,084	87,239	91,600	96,180	100,990
17														
18 Operating Expenses														
19 Personal services						5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334
20 Professional services						0	0	0	0	0	0	0	0	0
21 North Ravine project financing														
22 Utilities	32,118	40,346	49,115	43,544	44,087	45,410	46,772	48,175	49,620	51,109	52,642	54,221	55,848	57,524
23 Street sweeping						0	0	0	0	0	0	0	0	0
24 Depreciation						0	0	0	0	0	0	0	0	0
25 Total Operating Expenses	32,118	40,346	49,115	43,544	44,087	50,410	51,922	53,480	55,084	56,736	58,439	60,192	61,997	63,857
26														
27 Net Operations	14,341	805	(2,848)	7,111	4,373	17,944	19,849	21,880	24,044	26,348	28,800	31,409	34,183	37,132
28 Non operating revenues (expenses)														
29 Connection Fees and Assessments														
30 Interest income	105		65	49		55	45	45	54	75	107	151	209	281
31 Miscellaneous Revenue						0	0	0	0	0	0	0	0	0
32 Interest and Other Expenses						0	0	0	0	0	0	0	0	0
33 Transfers In/(Out) to Enterprise Funds			12,000			0	0	0	0	0	0	0	0	0
34 Transfers In/(Out) to Other Funds						0	0	0	0	0	0	0	0	0
35 Total non operating revenue (expenses)	105	0	12,065	49	0	55	45	45	54	75	107	151	209	281
36														
37 Net increase (decrease) in resources	14,446	805	9,217	7,160	4,373	17,999	19,895	21,925	24,098	26,423	28,907	31,560	34,392	37,413
38														
39 Ending net assets	(637)	168	9,385	16,545	20,918	38,917	58,812	80,737	104,835	131,257	160,164	191,724	226,116	263,529
40 CIP Funding														
41 Purchase of Capital Assets						(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
42 Bond Proceeds														
43 Bond P&I - Future - 10 yrs at 2%					0									
44 Bond P&I - Future - 10 yrs at 2%							0	0	0	0	0	0	0	0
45 Bond P&I - Future - 10 yrs at 2%								0	0	0	0	0	0	0
46 Bond P&I - Future - 20 yrs at 2.5%									0	0	0	0	0	0
47 Bond P&I - Future - 20 yrs at 2.5%										0	0	0	0	0
48 Bond P&I - Future - 20 yrs at 2.5%											0	0	0	0
48 Bond Prin - Existing					0	0	0	0	0	0	0	0	0	0
49														
50 Beginning Cash	(15,083)	(13,503)	(9,963)	(523)	6,637	11,010	9,009	8,904	10,829	14,927	21,349	30,256	41,816	56,208
51 Add net operations	14,341	805	(2,848)	7,111	4,373	17,944	19,849	21,880	24,044	26,348	28,800	31,409	34,183	37,132
52 Add back depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
53 Add net non operating	105	0	12,065	49	0	55	45	45	54	75	107	151	209	281
54 Add capital and bond	0	0	0	0	0	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
55 Net change in balance sheet items	(12,866)	2,735	223											
56 Other investments														
57 Ending Cash	(13,503)	(9,963)	(523)	6,637	11,010	9,009	8,904	10,829	14,927	21,349	30,256	41,816	56,208	73,621
58 Other investments														
59 Ending net assets	(637)	168	9,385	16,545	20,918	38,917	58,812	80,737	104,835	131,257	160,164	191,724	226,116	263,529
60														
62 Target minimum working capital	16,059	20,173	24,558	21,772	22,044	25,205	25,961	26,740	27,542	28,368	29,219	30,096	30,999	31,929
63 Actual working capital-cash balance	(13,503)	(9,963)	(523)	6,637	11,010	9,009	8,904	10,829	14,927	21,349	30,256	41,816	56,208	73,621
64 Over (Under) target working capital	(29,562)	(30,136)	(25,081)	(15,135)	(11,034)	(16,196)	(17,057)	(15,911)	(12,615)	(7,019)	1,037	11,720	25,209	41,693

Appendix B

Comparisons

