

**CITY OF SILVERTON
CITY COUNCIL WORK SESSION MINUTES**

Silverton Community Center – Council Chambers – 421 South Water St.

August 19, 2019, 6:00 PM

I. OPENING CEREMONIES – Call to Order, Pledge of Allegiance & Roll Call

Mayor Kyle Palmer called the Work Session to order at 6:02 p.m.

Present	Absent	
<u> X </u>	<u> </u>	Mayor Kyle Palmer
<u> X </u>	<u> </u>	Council President Jason Freiling
<u> X </u>	<u> </u>	Jim Sears
<u> </u>	<u>Excused</u>	Matt Plummer
<u> X </u>	<u> </u>	Dana Smith
<u> X </u>	<u> </u>	Laurie Carter
<u> </u>	<u>Excused</u>	Crystal Neideigh

Staff Present: City Manager, Christy Wurster; Community Development Director, Jason Gottgetreu; Chief of Police, Jeff Fossholm; Public Works Director, Petra Schuetz; Assistant to the City Manager/HR Coordinator, Elizabeth Gray; Finance Director, Kathleen Zaragoza; and Assistant to the City Manager/City Clerk, Angela Speier

II. DISCUSSION ITEMS

2.1 Water and Sewer Rate Study Presentation – Bryan Mantz, President of GovRates, LLC

Bryan Mantz, President of GovRates introduced himself and provided an overview of the water and sewer utility rates study and is seeking City Council guidance moving forward. He explained utilities provide an essential service on a continuous basis. These are enterprise funds that are capital intensive. Silverton has identified approximately \$19 million in water system capital needs and \$20 million in sewer system capital needs through FY 2029. The funding plan for the capital needs recognizes additional debt financing in order to reduce near-term rate adjustments. There is a balancing act between debt financing and pay as you go. He said there is a need of about \$9.9 million debt financing for the water system and about \$6.6 million for the sewer system. He explained operating expenses are projected to increase at a higher rate than the CPI. He said another consideration is the need to maintain appropriate debt service coverage ratios. There also needs to be adequate operating margins and reserves to fund ongoing capital needs and maintain the financial condition of the utility systems. Both systems have outstanding debt which have rate covenants and debt service requirements associated with them.

GovRates has projected the annual revenue requirements through FY 2029. Mr. Mantz described the importance of recognizing the difference between revenue and rate increases. The revenue represents how much is needed to fund capital projects and operating expenses each year. Based on the rate design the increase the actual customer receives could vary. The water system needs three years of an eight percent increase and two years at six percent. The sewer system would need a five percent increase over the next five years. He explained the higher rate is needed for the first three years in order to prepare for debt financing for the replacement of Water Treatment Plant #1 with a new trident packaged system. He

explained that smaller, incremental increases over time help to avoid future “rate shock” and the need to pay higher “catch up” rates down the road.

He reviewed the projected financial targets and the need to meet those targets without greatly exceeding them. He also explained the need to maintain cash balances above the City’s adopted Fund Balance Reserves and Contingency Policy (Resolution No. 17-39). The required debt service is 125 percent, but he is recommending all-in debt service coverage at 200 percent. He is proposing a uniform water rate increase where all customers would receive the same percentage adjustment. For the sewer he is proposing an increase on the current base charge, which is currently 37 percent lower than the 19 surveyed neighboring utilities. Silverton’s current base charge is \$23.44 and the average for the other cities is \$37.13. This plan would call for a 40 percent base charge recovery by FY 2024 compared to the current 32 percent which would provide more revenue stability. The base rate for water would increase by 8 percent. The rate proposal is also recommending commercial and industrial customers pay a higher base charge, because they use more capacity. Currently they are paying the same base charge as residential customers. This would be consistent with the water base charge where it is based on meter size. Larger customers should pay higher base charges since they use more sewer system capacity. He explained the base charge should be based on the number of billable units or meter equivalent factors that are based on meter capacity information published by American Water Works Association.

Mr. Mantz cautioned Council to not use the rate comparison with other utilities as a report card and listed some of the reasons why user rates differ among utilities. He explained the proposed rates are considered affordable through the projected period. Regardless of the rate structure the City will need to recover the same amount of revenue. The proposal calls for a higher increase in the base rate and a lower increase to the volumetric charges, but City Council can choose to modify that. He reviewed a bill comparison for single family residential customers that showed the current rate for combined water and sewer services to the proposed rate. He explained residential customers make up 90 percent of the City’s rate payers and the average household uses 6,000 gallons of water per month, this proposal would increase their combined bill by \$5.31 per month in FY 2020. Councilor Smith pointed out looking at the cost per gallon it shows that people who use less water are actually paying more for their water. Mr. Mantz explained that is due to the increase in the sewer base rate, but Council could decide to recover more through the volumetric charge. He did stress that Silverton’s base rate recovery is on the low side and it would be beneficial to have more stability in the utility fund.

Councilor Sears asked what is included in the base fee, because there are fixed costs associated with operating a utility. Mr. Mantz said the biggest operating expense is labor and probably 80 percent of a utility’s costs are fixed. There are unlimited rate options and tonight he is seeking direction on how City Council would like to proceed. He provided an overview of how Silverton compares to other communities in the area. He said the majority of the utilities looked at are involved in a rate study. As they adjust rates Silverton’s rates will continue to be competitive.

Mr. Mantz said the City has two industrial customers, BrucePac and Diana Foods. He explained the customers are charged a base charge, a monthly volumetric charge, a per pound biochemical oxygen demand (BOD) and total suspended solid (TSS) charge. These are basically measurements of wastewater strength. Silverton’s volumetric rates are on the lower side of what other utilities are charging. He reviewed the rates over the next five years which will gradually increase. City staff has met with the two industrial customers and presented the proposed rates to them. Diana Foods may be implementing technology to reduce BOD and TSS in the near future. BrucePac indicated they would be willing to pay the same sewer increases as the other customers, but not higher and stated the rate increases for other customers would be higher if they were not a customer.

After receiving the feedback from the industrial customers Mr. Mantz created an alternative sewer rate design. This alternative would put the per pound BOD and TSS rates at \$0.75 by fiscal year 2024 instead of the \$1.00 that was proposed previously. He explained by lowering this rate the other customer classes would have to be increased by about \$0.30 per month. He has not received feedback on this alternative from the industrial customers.

Mr. Mantz is seeking Council guidance on the policy and rate design. The recommendation is to adopt a schedule of user rates for FY 2020-2024 with an automatic rate indexing. This will help to ensure full cost recovery and address capital needs. The new rates would become effective on the September billing cycle.

Councilor Freilinger asked how much of the rate increase is due to capital needs related to increasing capacity. Staff explained the third digester on the wastewater side would increase capacity. Mr. Mantz explained if the industrial companies were not part of the customer base the third digester would likely not be needed, revenue would be lost, but there would be some savings in operational costs. The industrial customers account for approximately 12 percent of the sewer revenues. Mr. Mantz explained a number of cities have implemented a utility surcharge on their industrial customers, which is not something he is proposing in Silverton at this time.

Councilor Smith asked if SDC funds that were collected in the past were adequate to cover the cost of the increased capacity needs to support growth. She further explained there is a misconception that all infrastructure needs are directly related to growth and she doesn't think that is true. There is a need to address aging infrastructure.

Councilor Carter said if either of the industrial customers were to leave, not only would the City lose them as customers and taxpayers, but the City could also lose their employees as residential paying customers. It would also be hard to recruit new industry if the current industry left, because they could not afford to be in Silverton. She also indicated that she does not want to see a large increase on the base rate. Mr. Mantz explained with either of the proposed rate increases presented tonight, Silverton would still be extremely competitive with their industrial rates.

Councilor Sears asked how much this increase would cost both the industrial customers and what percentage of their expenses the increase would be compared to other utilities they are paying. He explained it is hard to have a discussion about the industry leaving without knowing what the impact will be to their business. He said he is struggling with recommending they pay the same increase as other customers due to the fact they are artificially low now. Mr. Mantz explained one of the objectives is to not cause rate shock to any customer class.

Mayor Palmer said an argument could be made that industry paid for the second digester. He favors a rate increase where everyone would pay the same percentage.

Councilor Freilinger indicated he prefers the original rate recommendation presented.

Councilor Sears said since commercial has been artificially low he is supportive of the alternative rate proposal recommended, but have them pay a little higher percentage than the other customer classes, in order to close the gap. Mr. Mantz said instead of the alternative rate ending at \$0.75 he could look into them paying \$0.85 or \$0.90.

Councilor Smith said she was leaning toward that direction as well, but using the median income as the basis to determine affordability is still going to hurt low income residents, especially aging residents. She said increasing the single family residential rates as proposed is not going to be an easy sell. Mr. Mantz asked if she would be supportive of a base rate increase of 5 percent similar to the overall adjustments. She said she would be supportive of five percent instead of the 9.3 percent proposed. This would mean a higher increase to the volumetric (usage) rate, but the City should be encouraging conservation.

Mr. Mantz explained the City is targeting a 200 percent debt service ratio which is important when it comes to interest rates for financing. Mayor Palmer stressed, Council needs to make sure what they are asking for is what is needed to get the job, because the rate payers are burdened. Finance Director Kathleen Zaragoza said 150 percent should be the lowest the City would be willing to go.

Councilor Sears said increasing the volumetric rates would hurt larger families who would use more water strictly because they have a greater need and cannot conserve as much water as single or two person

residences. He asked about the possibility of setting income based rate structures. Mr. Mantz explained typically a city will have programs that assist lower income customers who need help paying their bill, but those funds come out of a different fund, such as the General Fund. You cannot have one utility rate class subsidizing another, but a different fund could help off-set the rate increases for low income households.

Councilor Carter questioned why the City is not providing an incentive for lower water users and encouraging conservation through water rates, because the proposed rates seems to be rewarding households that use more water. Mr. Mantz explained that is primarily because of the proposed increase in the base charge recovery for the sewer rate. He said if you ignore the percentage increase the people that use more water are still paying more. He described alternative rate structures that could be looked at, such as a five percent increase across the board for sewer, similar to what is proposed for water. If City Council moves forward with a base charge increase of five percent per year, it would favor the industrial customers. Since the base charge is such a small amount of their bill, the cost of their CCF would be lower.

Councilor Freilinger asked if a higher rate could be charged to customers that are using 10,000 CCF and above especially during the months of July–September in order to encourage water conservation.

Finance Director Zaragoza said there was no opposition from the industrial customers regarding the meter equivalent factors. She feels this could create equitability for the larger industrial and commercial users. Mr. Mantz explained this would shift more base charge recovery to the commercial customers on the sewer side and is an equitable approach since they use more capacity. The base rate for water is based on the meter size, so this change would do the same on the sewer side. Mayor Palmer said they are paying for the volume used and not sure if this proposal makes the most sense.

Mr. Mantz summarized the general themes he heard; including, not raising the base rate as much as he has proposed. He asked for Council consensus of raising the sewer base charge by five percent on annual basis. Mr. Mantz explained by lowering the base rate for sewer to five percent there will be a correction to the rates for the larger users, because more revenue would be recovered through the volumetric charge. Councilor Freilinger expressed his support for the original industrial rate proposed and stressed there needs to be base rate increases on the industrial side. Councilor Smith voiced her support for the five percent increase on the residential side. Mayor Palmer encouraged a target of debt service coverage at 150 to 160 percent; he does not want to charge ratepayers more than what is needed. Staff will meet with the industrial customers once the rates have been revised and will place this item on the September 9th City Council agenda.

City Council took a break at 8:22 p.m. and returned to regular session at 8:28 p.m.

2.2 Sidewalk Infill Projects

Megan Talmage, Silverton Engineering Technician presented a staff recommendation on possible sidewalk infill projects for this fiscal year. She reported there is approximately \$100,000 budgeted for sidewalk improvements and reviewed the selection criteria she used to select the projects. The criterion includes safe routes to school, the pavement condition, feasibility, existing sidewalks, foot traffic, and the urban renewal/downtown boundaries. All the proposed projects are at 70 on the Pavement Conditional Index (PCI) in order to avoid complete reconstruction. Councilor Sears asked if the selection criteria were weighted when making the project decisions. Engineering Tech. Talmage explained the PCI was heavily rated and the proximity to schools was also high per the Budget Committee's direction.

The first project reviewed would be located at First and Drake Street. This project focused on downtown connectivity and it has an existing curb and gutter which would make the sidewalk cheaper to install. It is also an urban core area that is older and underserved.

The second project is Jefferson Phase I. The goal of this project is to create a continuing sidewalk to N. Second Street. There are minimal existing sidewalks in that area of town and it is located in the urban

renewal area. The project would be completed in three phases. Council discussed the drainage issues in the area and the engineering challenges that would be associated with this project.

The third project is Mill Street Phase 1. This project would be considered a safe route to school and is a continuation of recent work completed on Robinson. This street has heavy foot traffic, an existing curb, and high PCI.

The final recommended project is located on Well Street. This is considered a safe route to school, it would divert foot traffic from Pine and James Streets to a lower vehicle street, and it has a high PCI.

Mayor Palmer thanked Engineering Tech. Talmage for the presentation and said he would support a project on Jefferson Street if the engineering and drainage issues did not exist. He would not support the other projects and would like to see all the money diverted to James, Jefferson, and/or Western Avenue. The public has been very clear this is an area that needs safety improvements and they would not be happy to see sidewalks constructed in other areas of town where no one has asked for them. He is not supportive of adding another sidewalk on Mill Street, because there is a sidewalk on the other side of the street and does not see the other projects rising to the level of need at James and Western. Councilor Carter said she feels the same way as Mayor Palmer and is more concerned about higher traffic areas with streets that are dangerous for pedestrians to walk on.

Mayor Palmer asked for staff to explain the issue with the property owner located on the corner of First and Drake who would like to build a retaining wall. Public Works Director Petra Schuetz explained staff has been in communication with the property owner regarding alternatives to the retaining wall, such as site obscuring vegetation. Staff also explained one of the policy decisions in the Urban Renewal Plan is to extend sidewalks to the area, but did not make any promises that this project was going to happen. If this project is not approved by Council staff will let him know he cannot build the retaining wall, because it is not allowed under the City's Development Code. The City does not want permanent structures in the right of way. Mayor Palmer voiced his frustration that a private citizen could not build a retaining wall on his property that is not in the way of anything currently. He should be able to sign an agreement/waiver where if the City was going to develop something in that area he would be required to take it out at his own expense. Mayor Palmer explained he doesn't consider a three layer (non-masonry) stacked concrete block structure as a permanent wall. City Manager Wurster said Council has been saying they would like to see more flexibility in some of the City policies. She said something like this could be allowed through an encroachment permit and requiring the landowner to sign a non-remonstrance agreement.

Mayor Palmer asked if it is possible to install a curb, gutter, and sidewalk on Western Avenue and have them not be damaged with a road reconstruction project in the future. Public Works Director Schuetz said City staff met with Marion County Public Works Director Brain Nicholas and their new Engineering Manager to discuss Western Avenue. She said both agencies have looked at the street and the permanent solution is a reconstruction of the road; however, in the meantime Marion County will be looking into striping, extending the asphalt, additional signage, and/or speed bumps as an interim measure. After their evaluation they will meet with City staff in December to discuss further. Mayor Palmer asked if staff could look at adding a sidewalk on James Street. Councilor Freiling said he would like to see the entirety of the funds be used for a project between the High School and Middle School. Staff indicated that could be a focus for this fiscal year.

Councilor Sears said he would be supportive of widening Western Avenue with additional asphalt and urged staff to consider adding a small barrier or divider that would separate the pedestrian traffic from the vehicle traffic. With regards to the selection criteria he thinks staff should focus on adding sidewalks to arterial and collector streets first. To address safe routes to schools the sidewalks could start there and spider web out, but there does not need to be a sidewalk on both sides of the street due to limited funding. He voiced his support for James Street, but there will be elevation and drainage issues there as well. He explained widening the asphalt and adding a small barrier might be more cost effective.

Councilor Carter voiced her support for adding sidewalks on Brown Street. She said she knows it is another reconstruction street, but she would rather see the City build up funds in order to fix the really

dangerous streets. She said the criteria should focus on pedestrian safety and the amount of traffic on the streets in question. Council indicated their support for using the funds to replace damaged and crumbling sidewalks in high traffic areas. Mayor Palmer said the reason the sidewalk fund was increased this year was due to the Budget Committee wanting to spend money on the Western, James, and Jefferson area. City Manager Wurster explained staff would like to review the options from Marion County and look into a potential partnership between the City, Marion County, and the School District to fund some type of safety improvements.

2.3 Sustainable City Year Program

Assistant to the City Manager/HR Coordinator Elizabeth Gray introduced Megan Banks with the Sustainable Cities Program at the University of Oregon. Ms. Gray explained the City was approached to participate in the Sustainable Cities Program which would give the City a chance to make progress on several City Council goals and budgeted projects that have been outlined in the attachments. If Council is agreeable to entering into a partnership with U of O the next step would be to have Council authorize the City Manager to enter into a master agreement with the university at their September 9, 2019 meeting. The agreement would be up to \$100,000 which would be paid for through budgeted funds to support the Council goals and possibly grants. This would be a yearlong partnership beginning in the fall and she reviewed how the projects would be tracked.

Councilor Sears asked about the master agreement amount of \$100,000 and what if the City does not get additional grant funds to support the non-budgeted projects. Ms. Gray said the City is not obligated to spend more money than what is budgeted, but it would allow for flexibility if additional grant funds were received. Councilor Sears asked about the Pettit property discussion and how that would fit in with the potential Parks and Recreation District the City is looking into. He also asked how gateways will be defined in the second potential project. He indicated his support for moving forward with the master agreement. Ms. Banks explained how the program works within the existing structure of the classroom and said the students are good at answering questions such as what is a gateway. City Manager Wurster explained the Parks and Recreation Task Force has been holding a series of meetings and the earliest a proposal would be forwarded to the ballot would be November 2020. Staff would like to do public outreach to determine how the property should be developed prior to the possible vote. There will also be policy decisions that Council will need to make regarding the property.

Councilor Carter expressed her disappointment there was no reference to the Sustainable Energy Plan. Ms. Banks encouraged Council to continue to brainstorm projects, because that will give them a better ability to match those projects with classes. Councilor Smith said there are pieces within the Energy Plan that could fit into the Ten Year Strategic Plan. Councilor Freilinger expressed his support for the top four projects, agreed with including sustainability into the program, and would like to pursue an Urban Forestry project as well.

2.4 Eugene Field Commons Civic Building Funding Strategy/Surplus Property Discussion

Finance Director Zaragoza referred to the memo in the packet and reviewed the funds currently available for the Civic Center. Mayor Palmer asked if Parks SDC funds could be utilized for the open space elements. Director Zaragoza said they could, but Council would need to amend the Capital Improvement Program (CIP) to include that project. Another possible piece of funding could come from the Silverton Urban Renewal Agency (URA) and reviewed the categories that could be utilized to fund the Civic building. She explained the URA has the ability to get a loan that could be leveraged for the project and still have money to provide grants. This would allow the City to start moving forward with architectural design. Councilor Sears asked how much staff is proposing to take out of the URA and from which category. She referred to page 70 of the packet and is proposing to spend all \$2,151,575 from the Public Buildings and Facilities category for the full building design. She said in the future Council could look at using some of the other categories for site enhancements. She said there are a number of different financing avenues the City could pursue once staff knows how much it will cost to construct the building.

Councilor Sears asked why staff would propose spending urban renewal money when there is over \$3 million available in the general fund. Director Zaragoza explained staff is proposing using the urban renewal money set aside for public buildings, because it was envisioned for this type of facility. She

recommends tapping into the most constricted fund first, before using the general fund which is less restrictive. She further explained the URA is an incremental debt financing model and should really incur some debt. Staff is seeking direction from Council to move forward with the architectural design utilizing the funds reviewed tonight. The URA would need to authorize the loan and provide a grant to the City for tracking purposes. City Manager Wurster said there is about \$750,000 budgeted for architectural services this fiscal year. Staff would like to move forward with the site plan development and the full design for both the Police Department and City Hall. The money budgeted will not be adequate to fund the entire design. She said Oregon City is building a 38,000 square foot police station and municipal court building and the architectural cost is approximately \$1.6 million.

Council discussed the selection process for the architectural design and when public comment will be received. Councilor Freilinger voiced his support for using the Public Buildings and Facilities Fund for architectural services. He would also like to see more money placed into the Civic Building Project Fund during the next budget cycle and would like to consider selling property that is no longer needed. Director Zaragoza said she agrees and there is property that could be sold; including, the Westfield property, the Pettit property, and a piece of property near the Oregon Garden that is currently a briar patch. Councilor Carter said she is in agreement with using urban renewal funds. Councilor Smith said the architectural fees will come in phases and the space needs analysis needs to be completed before the final construction cost estimate is known. Mayor Palmer voiced his support for using the urban renewal funds as well. City Manager Wurster said by utilizing the funding options discussed staff believes the City can move forward with at least the construction of the police facility. Staff would like to be ready with a design by January 2021.

2.5 Non-profit/Low Income Tax Exemption

City Council decided to move this item to the September 16, 2019 Work Session.

III. CITY MANAGER UPDATE

City Manager Wurster reminded City Council about the Community Conversation taking place at the Silverton Library on Wednesday, August 28, 2019 at 7:00 p.m. She invited Council to participate in the Lincoln Park dedication on Monday, September 30, 2019 at 12:00 p.m. The Census 2020 will start canvassing now through mid-October. City Hall will be closed on Monday, September 2, 2019 for Labor Day and the next regular Council meeting will be held on Monday, September 9, 2019. She also requested moving the October 21 Work Session to Monday, October 28, 2019 in order to avoid a conflict with the ICMA Conference. Council was agreeable to the date adjustment.

IV. COUNCIL COMMUNICATIONS

Councilor Carter noted she will be absent from the Monday, September 9, 2019 City Council meeting.

Councilor Freilinger said he has discussed with staff the possibility of moving to annual annexation timelines. He does not want to discuss it tonight, but would like Council to consider moving toward an annual annexation application process, where a person could submit an annexation application to be considered based on Council goals and objectives.

Councilor Sears said of the last 13 meetings, six have approached midnight and would like Council to revisit the protocols which require an extension vote at 10:00 p.m. with the expectation the meeting would conclude at 11:00 p.m. He said the late meetings are not fair to the public or staff who have to work the next day. He asked the City Manager to share an email he sent to her regarding this issue and possible modifications to limit the length of the meetings.

Mayor Palmer feels staff should reconsider the retaining wall issue and continue to err on the side of working with property owners to mitigate issues instead of just saying no that isn't allowed in the code, especially when there is a viable solution.

V. ADJOURNMENT

Councilor Smith made a motion to adjourn the meeting and Mayor Palmer adjourned the meeting at 10:12 p.m.

Respectfully submitted by:

/s/Angela Speier, Assistant to the City Manager/City Clerk