1. CALL TO ORDER/ROLL CALL

Vice Chair Goodhouse called the meeting to order at 5:31 pm in the Red Rock Creek Conference Room at Tigard City Hall, 13125 SW Hall Blvd, Tigard, Oregon 97223.

2. APPROVAL OF MINUTES OF MEETING HELD MAY 6, 2019

Mayor Studebaker made a motion to approve the minutes of the May 6, 2019 meeting. Councilor Newton seconded the motion. Motion passed.

3. PUBLIC COMMENT

None.

4. OLD BUSINESS

4.1 Water Rights Extension Remand

Mr. Goodrich reported the remand was under review and, as anticipated, WaterWatch requested a 49 day extension, which was granted. Mayor Studebaker asked when the 49 days would expire. Mr. Goodrich replied the extension had started the previous week but they could request another extension. He added the judge may or may not approve subsequent extension requests. Councilor Newton asked if WaterWatch would be required to provide justification for future extension requests. Mr. Goodrich stated in most instances, the first extension is generally granted by most judges. WaterWatch could request another extension, with circumstances presented to the judge as justification. Mr. Goodrich offered to bring more details to the October meeting as they become available. Mr. Goodrich said there were three findings being contested by WaterWatch based on the same information. The cities requested the three issues be combined in to one case, which was granted. Mr. Goodrich stated he would provide any further update at the October meeting.
4.2 Operations Report

**Mr. Goodrich** referenced the Operations Report in the meeting packet and reviewed some of the activities of the previous quarter.

**Mr. Goodrich** stated the rebuild work on the River Intake pump motors two and four had been completed, pump motor three was currently under repair, pump one would be done in September, and the repairs were going well. Deep cleaning of filter beds at the plant was underway. Each filter is taken offline, drained, the top layer of filter media is skimmed, then the walls and troughs are cleaned. Cleaning takes two to three days per filter.

**Mr. Goodrich** reported HVAC system repairs in the Admin Building were nearing completion. System control and automation were replaced resulting in dramatic improvement to temperature control.

**Councilor Goodhouse** asked how old the intake pump motors were. **Mr. Goodrich** responded the new intake went online in 2015. The pump motor failure was premature and the work being done would prolong the life of the motors. **Councilor Goodhouse** asked what caused the damage. **Mr. Goodrich** said it was due to the variable frequency drive on the grounding system and the type of bearing material. There was spalling which caused premature failure of the bearings. **Mayor Studebaker** asked if the motors would be replaced with new. **Mr. Goodrich** replied they were being rebuilt. **Mayor Studebaker** asked if there would be a warranty on the rebuilt motors. **Mr. Goodrich** said there may be a 90 day warranty period. He added the new grounding system was more robust and the bearings would be ceramic coated adding to the life. The original bearings were not ceramic coated.

5. NEW BUSINESS

5.1 Depreciation Funding for Partnership Assets

**Mr. Goodrich** explained toward the end of construction Brown and Caldwell was tasked with developing a Renewal and Replacement Planning Model that would somewhat coincide with the Supply and Facility Capital Improvement Program (CIP). Brown and Caldwell developed an extensive list of approximately 5,500 line item assets identified with current value, replacement cost, and schedule for repairs. Brown and Caldwell presented their model to past Oversight Committee members and discussions with respective Councils resulted in a decision to wait five years, until 2021, before initiating depreciation funding. Now staff had analyzed the model and determined it only allowed for one replacement per asset but some assets like chemical pumps and filter media would need to be replaced more than once over a 50 year period. The Brown and Caldwell model didn't include repair cost or frequency of replacement, escalation, or an inflation estimate. It also carried some assets out to 2090, which staff addressed by limiting the time period for the model to a more realistic 50 years, although some assets would last beyond 50 years. Staff also determined many of the repair and replacement costs would be embedded in the annual budget so they decided to pull all assets less than $5,000 from the model which brought the total cost of repair and replacement down from $244M through 2090 to $180M over 50 years. He explained the idea behind depreciation funding was to have funds set aside for when a large expense arises and not have to increase utility rates to make up the deficit. Both Councils indicated they were not interested in borrowing more money until after the existing bonds expire in 2045 and 2038. He stated each City would determine how to fund their portion and the IGA did not dictate how funding would occur.
Mr. Goodrich explained Bonita Pump Station was 100% Tigard's responsibility and Tigard's allocation for pipeline was 60.24%. He noted the pipeline percentage was higher because pipeline from Waluga Reservoir to Bonita Pump Station was solely Tigard's responsibility. He said that portion of pipe was installed in the 60’s or 70’s, made of cast iron, and was undersized for the full 18mgd flow. He added it had been identified as a capital project within the Tigard Water Master Plan. Also, as pipeline nears Tigard, less Lake Oswego customers are served which also contributes to the higher pipeline allocation for Tigard. Regarding reservoirs, only Waluga Reservoir 2 is considered in the cost allocation. The River Intake and Water Treatment Plant are based solely on capacity allocation, 47.37% for Tigard and 52.63% for Lake Oswego. The total cost over 50 years would be $92.7M to Tigard and $86.9M for Lake Oswego or $1.9M per year for Tigard and $1.8M per year for Lake Oswego. The maximum annual cost for Tigard would be $16.5M in 2065 and $15.9M for Lake Oswego. Mayor Studebaker asked how they arrived at those maximum annual figures. Mr. Goodrich replied they tried to anticipate the time periods in which the costs would occur and the most possible expenditures in a year. The figures were a basis for assumption, but it may not happen that way. He added if a $16M expenditure were upcoming it would very likely be included in each of the City's 5 or 6 year CIP. Councilor Newton asked where the set aside money would reside. Mr. Goodrich responded the agreement states each City will hold the money in a restricted fund. He stated Lake Oswego was a bit ahead in that regard, partly because they’ve been operating a plant since the 60’s with a funding reserve and have built in 1% in the budget to go toward repair and replacement funding. He continued once each City determines their funding strategy they will then make a determination as to how the fund would be restricted. Councilor Goodhouse asked what funding source was being used for the Intake pump motor repair work being a premature, unanticipated equipment failure. Mr. Goodrich said the work on the intake pump motors was part of the annual budget and paid for by both cities through the budget allocation and cost share. Mr. Goodrich noted there wasn’t an escalator built in to the existing model and opined the Brown and Caldwell model was quite conservative. He noted the example that Brown and Caldwell put Granular Activated Charcoal replacement at five to seven years but the actual life cycle is longer. He said much of the repair and maintenance work listed in the Brown and Caldwell model would be included in annual budgets and a more thorough analysis of the asset management program would allow finer tuning of the numbers.

Mr. Goodrich noted the Brown and Caldwell presentation included options for reserve funding at 1% - 5% and their recommendation was in the 2% to 2 1/2% range. Staff analyzed the Brown and Caldwell data further to provide more detail of what each percentage would look like. With the reserve at 1% annually a funding shortfall would occur in 2030 and the amount of the shortfall at that percentage would be approximately $400 - $500k which could possibly be absorbed in to the annual budget but not year after year. He noted Tigard’s debt would retire in 2046 and Lake Oswego's in 2038 and perhaps new bonds could be a funding strategy for repair and replacement after that time. Councilor Goodhouse asked if funding at 1% takes in to account that Lake Oswego already has 1% built in to their budget and then Tigard would start setting aside their 1%. Mr. Goodrich replied it would be 1% for each city and Lake Oswego would need to determine if their current practice would be adequate. Lake Oswego would need to reserve $869k per year and Tigard would reserve $972k per year. Councilor Goodhouse wanted clarification that Lake Oswego would or would not need to change their current practice. Mr. Goodrich stated the Lake Oswego Finance Director felt there would be no change in the Lake Oswego rate structure. Councilor Goodhouse noted a 1% rate change in Tigard may be necessary. Councilor Newton pointed out Lake Oswego could go in to a deficit in 2030 if there were no changes. She noted Tigard's debt would retire in 2046 and Lake Oswego's in 2038 and issuing new bonds may be a strategy for each Council’s consideration. Councilor Goodhouse asked if utility rates would decrease after the current bonds expire. Mr. Goodrich said there are many variables and it would be hard to
predict that far in to the future. Councilor Goodhouse asked how much was paid toward the bond annually. Mr. Goodrich replied $8.8M so after the bond was paid there would be $8.8M additional funding each year that wouldn't be going toward debt. He added either City could utilize that strategy. Councilor Goodhouse asked what 1% would equate to as a rate increase. Ms. Naluai clarified it wouldn't be a 1% increase to rates but setting aside 1% of the repair and replacement total each year.

Councilor Goodhouse restated his question and asked how much the rate increase would be if the annual amount of $927k were passed on to rate payers. Mr. Goodrich said it would be $2.16 per month per EDU but SDCs were also an option as well as passing the cost on to a portion of customers with higher usage. Mayor Studebaker clarified 1% of the maintenance already in the Lake Oswego budget would cover the 1% reserve annually. Mr. Goodrich affirmed but stated nothing was currently being collected. Councilor Goodhouse stated Lake Oswego already had 1% built in but Tigard doesn't. Ms. Rooney stated rates already were such that there was 1% in reserve. It's not that it's being collected separately but Lake Oswego happened to have that much built up in the ending fund balance in the water fund. Mayor Studebaker asked if that could be put in a separate fund. Ms. Rooney said it could and when the percentage is agreed on by both Councils that amount would be taken from the ending fund balance and put in to its own fund. Mr. Goodrich presented another option to reserve 1.5% annually since 1% wouldn't be enough in the long run. At 1.5% the deficit wouldn't occur until 2045 and Councils at that time could determine what to do regarding debt service and put money in reserve instead of paying bonds. The reserve amount at 1.5% would be a total of $2.7M total, $1.4M for Tigard and $1.3M for Lake Oswego. Mr. Goodrich presented a third option called inclining block strategy which would start with a lower reserve amount in the beginning years and then increase the reserve percentage in blocks over time. The approach would address intergenerational equity. Current rate payers have experienced increases as a result of the new water infrastructure and future customers would pay more having to accept some of the depreciated value. Each city could customize this approach based on their schedule. A possible example for Tigard would be to reserve 1.25% fiscal years 2021 - 2030, 2031 - 2040 1.75%, 2041 - 2050 2.25%, 2051 - 2060 2.5%, and 2061 - 2067 2.75%. Although there would be minor shortfalls along the way the amount wouldn’t be significant. For Lake Oswego the recommendation from the Finance Directors was a reserve of 1.15% through 2038 then up to 2.5%. He noted the graph showed a $5M deficit just prior to 2038 which also would be when the bond retires so that savings could go toward reserve funding. Mr. Goodrich stated the Finance Directors from both cities like the option three approach because of the flexibility. He summarized both cities want to avoid rate shock and don't want to borrow additional funding prior to the bonds being paid off.

Councilor Goodhouse asked in addition to this potential increase were any other increases anticipated, say for inflation. Mr. Goodrich explained Tigard would be conducting a water rate cost of service analysis to identify a plan based on Oversight Committee or Council recommendation for reserve funding then a model would be built to analyze different scenarios to illustrate what that would mean financially over time, including potential rate increases for all customers or just higher volume customers. Councilor Newton expressed interest in the inclining block strategy and exploring how the different variables and funding sources would play in to that. She stated she wasn't comfortable with the 1% annual reserve but the 1.5% seemed responsible because it would provide funding through 2045. Mayor Studebaker asked if the two cities would each come up with their own plan. Mr. Goodrich affirmed. Councilor Goodhouse opined common milestones should be set for the cities even if each were to adopt a different strategy. Mayor Studebaker thought it would depend on the plan each city selects. Councilor Goodhouse stated both cities should make equal progress toward the overall reserve goal. Mr. Goodrich said the CIP would be a guiding resource to anticipate upcoming expenditures within a five year plan. Councilor Newton clarified the cities would agree on a common annual reserve percentage so both cities have funding available when needed. Mr. Goodrich stated the plan could be adjusted by agreement of both Councils in the event the reserve fund grew to a level that
far exceeded anticipated expenditures or vice versa. Ms. Naluai added with this strategy the reserve becomes one input in to the long term financial plan for the water utility along with all the other inputs/revenue requirements like CIP, O & M, and rates. There are several factors that go in to the calculation, reserve is one factor so when there are repair and replacement costs, both cities will fund in proportion to ownership. Mr. Goodrich said during the current fiscal year a new pump would be installed at the River Intake and each city would fund their allocated cost. The pump was identified in Lake Oswego’s CIP but it is also SDC eligible because the pump adds capacity to serve future customers. Mr. Goodrich stated staff would like a recommendation from the Committee to the Councils. He said at the end of five years, each City would be required to decide on a funding strategy to ensure there would be reserve revenue to meet future repair and replacement costs. Mayor Studebaker asked when staff would like a decision. Mr. Goodrich replied within the fiscal year and in time to include it in the next fiscal year budget. Mayor Studebaker requested a more concise illustration of the three options. Ms. Naluai said she would prepare one. Councilor Goodhouse asked why in the option two graph some years the reserve amount was higher for Tigard and others it was higher for Lake Oswego. Ms. Naluai responded the difference was due to the facility needs, for instance, a year Tigard’s reserve amount was higher than Lake Oswego’s was indicative of more funding for more Tigard centric facilities like Bonita Pump Station. It factors individual assets, each city’s proportionate share, and which fiscal year. Councilor Newton said before heading in to the cost of service analysis, she would like to discuss reserve options amongst the Tigard Council before proceeding, to get a sense of the Tigard Council’s preferences. Councilor Goodhouse voiced support for option two because it was more consistent whereas the block strategy had variables that could change over time. He asked if the plant would need to be replaced at some point. Mr. Goodrich responded it was built to the best standards known in 2014 and those standards would change and new technology would be developed. The Lake Oswego Tigard water rights on the Clackamas River likely would not increase so the plant footprint wouldn’t need to be expanded. Pumps and motors would need to be replaced but that could be managed with a good asset management plan.

5.2 Joint Lake Oswego Tigard Water Management and Conservation Plan Review - tabled to October meeting

5.3 Oregon Water Agency Response Network (ORWARN) Shared Worker Agreement

Mr. Goodrich stated both Lake Oswego and Tigard are members of ORWARN and through the Regional Water Providers Consortium, which both cities are also members, a Shared Worker Agreement had been developed. It addresses stranded workers in the event of an emergency who may not be able to make it to the city they work for but they can report to assist in the city they live or happen to be at the time of the event, with the expectation they would be paid for that work. The agreement will go before each city/entity for approval by their governing body. Councilor Newton asked if there was some exchange of information as to who might show up to work in each city. Mr. Goodrich said the timing of a disaster can’t be anticipated so the location of employees at that time also can’t be anticipated. Mr. Rager said the sharing of rosters had been discussed at emergency management exercises but had not been implemented. He said employee ID could be presented. Ms. Rooney added it would be difficult to maintain with people moving and changing employment.
6. FUTURE AGENDA ITEMS

6.1 Operating Agreement per the IGA, Article 15

6.2 Depreciation funding update

7.0 ADJOURN

Councilor Newton made a motion to adjourn the meeting. Mayor Studebaker seconded the motion. Councilor Goodhouse adjourned the meeting at 6:56 pm.

Next Meeting Date - Monday October 7, 2019 at 5:30 - 7:00 pm at Lake Oswego Main Fire Station, 300 B Avenue, Lake Oswego, OR 97034

Respectfully Submitted,

[Signature]

Susie Anderson
Administrative Assistant

Approved by the Oversight Committee:

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October 23, 2019