



OFFICE OF THE CITY MANAGER
City of Newport, Oregon
169 S.W. Coast Hwy.
Newport, OR 97365
541-574-0603
s.nebel@newportoregon.gov

April 6, 2018

Dear Newport Utility Customer:

A public information session will be held on Thursday, April 19, 2018, at 6:00 P.M., at City Hall, to review the recommendations from a utility rate study conducted by FCS Group for the City of Newport. 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 sewer 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. Your utility bill consists of a water rate, a sewage rate, a storm water rate, and an infrastructure fee.

Summary of Newport, Oregon
Water Sewer and Storm Sewer System

As a city of 10,000, Newport's permanent residents maintain a significant infrastructure system in a challenging climate and geologically active area. The infrastructure operated by the city is larger than most towns of similar size because Newport hosts industry with heavy water demands, along with a thriving tourist industry and the associated services, hotels, vacation homes, restaurants, and tourist-related businesses. As a result, the infrastructure systems of the city are larger and more extensive than most small cities. The City of Newport operates and maintains a five MGD membrane water treatment plant, seven water storage tanks, five water booster stations, and two dams that store the city's water supply in the Big Creek Reservoirs. The city also operates and maintains a five MGD wastewater treatment plant, with the wastewater system spread across approximately 11.2 square miles. The city owns over 62.5 miles of gravity pipelines ranging in size from approximately three to 36 inches in diameter, 1,400 manholes, nine major pump stations, 16 minor pump stations, and 12 miles of sanitary force mains. In addition to water and wastewater systems, the city maintains approximately 60 miles of asphalt and gravel streets, and a comprehensive storm sewer system.

Newport developed as a small fishing village and tourist destination, and the city has continued to expand along the coast and into the toe of the coastal mountains. As growth

and development occurred, ravines running water to the ocean were piped and filled with structures and roads constructed over the top of them. These pipes became a combined sewer and storm sewer system, often up to 40 feet deep, and discharged into the ocean. In the late 50's and early 60's, the first wastewater pipes and wastewater plant were built. The original combined sewer system is still mostly in service and functions as the current storm sewer system. Newport provided domestic water beginning in 1904 and still operates the two original tanks constructed in 1906 and 1908. Several water districts have since been annexed into Newport, and the city took over operation and maintenance of these systems. These annexed areas were originally within the non-urbanized county and were characterized by narrow gravel roads and minimal or non-existent storm drainage.

Aging infrastructure and road systems that were annexed into the city, but not constructed to city standards, create significant financial and human resource burdens in the maintenance and the meeting of regulatory permitting requirements. This burden increases annually as infrastructure continues to age and fail, and construction and replacement costs continue to escalate.

A utility rate study was conducted for water, wastewater, and storm sewer to develop a longer- term plan to assure that resources will be available to allow for the continued upgrade and operation of these key utility services.

Recommendations Regarding Water Rate Structures

There were no water rate increases approved for the current Fiscal Year (FY) 2017/2018 since the city was conducting a utility rate study. (The fiscal year is July 1, 2017 through June 30, 2018.) Beginning July 1, 2018, the anticipated revenue necessary to fund operations and infrastructure, will require 6% growth each fiscal year through FY 2025/2026. With this rate structure in place, the city plans to borrow capital funding in the fiscal year beginning July 1, 2018, and every two years thereafter, to pay for various system upgrades to the water utility.

The biggest outcome of this rate study was a Cost of Service Analysis (COSA). The COSA allocates costs to the various customer classes (i.e. residential, commercial, industrial, etc.) corresponding to the level of service provided. Many costs are incurred for the joint benefit of all customers, some costs benefit certain customers more than others, and other costs may benefit only specific customers. A COSA follows the principles of cost-causation - those that cause costs, pay costs. Thus, new rates are proposed to be allocated to the classes served; and will be phased-in via adjustments applied in the first year and across the board increases thereafter

Because of this study, it has been determined that residential (single family and multi-family) users have been paying a disproportionate share of the utility costs with commercial customers not fully supporting the costs of the utility. COSA is recommending that separate water rates be developed for residential, multi-family, and commercial, based on the impact that each class of users have on the water system.

Recommendations Regarding Wastewater Rate Structures

There were no wastewater rate increases approved for the current Fiscal Year (FY) 2017/2018. Beginning July 1, 2018, the anticipated revenue needs will increase by 8% each fiscal year for three years, then 4% thereafter. As with the water rate, the city plans to issue debt in the fiscal year beginning July 1, 2018 and every two years thereafter. For required infrastructure improvements to adequately collect and treat wastewater and eliminate overflows, which are an environmental problem, the COSA was also applied to the wastewater rates. The COSA is proposed to allocate these expenses to the various customer classes served (i.e. residential, commercial, industrial, etc.) corresponding to the level of service provided. As part of the COSA phase-in, the current Winter/Garden rate will cease and become part of the new rates.

Because of the study, it has been determined that single-family residential users have been paying a disproportionate share of the utility costs, with multi-family and commercial not fully supporting the costs of wastewater collection and treatment. COSA is recommending that separate sewage rates be considered for residential, multi-family, and commercial users based on the impact that each class of users have on the wastewater system.

Recommendations Regarding Storm Water Rate Structures

The city currently charges a flat fee to customers for storm water expenses, and a fee based on meter size for infrastructure improvements. The rate study is recommending a significant change to these fees. A storm water fee is proposed to be implemented on July 1, 2019. The new rate will be based on a unit called ESU, or Equivalent Service Unit, which represents a typical impervious surface associated with a single-family home or residence. It will take time to set this system of ESU's, so a new rate structure will not be effective until July 1, 2019. As with the water and wastewater rates, the city will be issuing debt for storm water improvements in FY 2019/2020, which will be tied to the water and wastewater issuances going forward. For July 1, 2018, no increase will be recommended to the existing storm water and infrastructure fees.

As part of the COSA phase-in in 2019, the current infrastructure fee rate will cease, and at that time, become part of the new rates. The net result is that customers with large impervious areas will pay a larger share of the cost to address storm water issues in the community. Residential customers will see flat storm water fees and the elimination of the infrastructure fee.

On February 5, 2018, the consultant, FCS Group, presented findings to the City Council. Based on subsequent Council direction, FCS updated their PowerPoint presentation made to Council. You are invited to review the updated presentation that, along with this letter, can be found on the city website or by following this link: <http://newportoregon.gov/dept/fin/utilitybilling.asp>

The City of Newport would like to hear from you. You are invited to attend a public information session on April 19, 2018, at 6:00 P.M., at City Hall. The Council will meet on

May 7, 2018 in a work session, at noon, to discuss the outcomes from the April 19 meeting. On May 21, 2018, the City Council will hold a public hearing and formally propose for adoption the new utility rates for the 2018/2019 fiscal year. Please note that the Budget Committee will be reviewing the fiscal impacts of these proposed rates on April 24 and May 8 at 5:00 P.M., and on May 15 at 6:00 P.M. All meetings will be held at City Hall, and the public is invited to attend.

Please email me at m.murzynsky@newportoreogn.gov if you have questions.

Sincerely,

Michael A. Murzynsky

Michael A. Murzynsky
Finance Director