

MINUTES
City of Newport
Infrastructure Task Force Meeting
City Hall Conference Room "A"
Wednesday, July 31, 2013

Task Force Members Present: David Allen, Ralph Busby, Mark Saelens, Patricia Patrick-Joling, Fred Springsteen, and Mark McConnell.

City Staff Present: Interim City Manager Ted Smith, Community Development Director (CDD) Derrick Tokos, Public Works Director Tim Gross, Interim Finance Director Bob Gazewood (by conference call), Assistant Finance Director Linda Brown, and Executive Assistant Wanda Haney.

I. Call to Order. Smith called the meeting to order at 3:00 p.m.

II. Election of Chair and Vice-Chair. First order of business was to elect a Chair. Patrick-Joling nominated David Allen. Allen was elected unanimously in a voice vote and took over as Chair to conduct the meeting. He noted that it is good to have a Vice Chair as backup. Since he was a City Council member serving as Chair, he thought it would be good to have a Budget Committee member serve as Vice Chair. Fred Springsteen expressed interest, and McConnell nominated him. Springsteen was elected unanimously in a voice vote.

Introductions were made around the table. Interim Finance Director Bob Gazewood was attending by phone. It was noted that Dave Morgan with News Lincoln County was present as the only audience member.

Gazewood was asked to give his background and experience. He explained that he began his career in 1965 when he was an auditor for flood disaster claims. He worked a total of 11 years in the state of Washington. He moved into municipal government in 1978 with Moses Lake, WA. In 1980, he began working as Finance and Taxation Director for Clatsop County. In 1986 he was Finance Director for Troutdale, Oregon. He retired at the end of November 1999; after which he did some consulting services for Troutdale. In 2003, he returned to Troutdale as Interim Finance Director for two engagements. 2007 was when he came to Newport once before. He said, that his background will lend itself to talking about municipal financing issues.

III. Review Resolution and Scope of Work. Allen read the resolution adopted by the City Council on June 17th as a result of concerns raised as far as the extent to which the City is increasing water, sewer, and storm water rates. He said that the Public Works Director had given the Council and the public good information and had tried to set a timetable moving forward for raising rates; but the City Council felt it was important to review that issue and look at various funding options to mitigate the rate increases. Allen read the scope of work as noted in the resolution. He said they left it open intentionally to get ideas thrown out and get some input from staff and the taskforce on what we are really talking about when talking about different funding options.

The rest of the resolution named members. Finally, the goal is to get a recommendation back to the City Council by the first meeting in January of next year. Allen said that the intention is at this meeting to hopefully try to set a meeting schedule for the next several months.

Allen summed up that the resolution explains the scope of work, lists who is on the task force with City staff assisting, to move forward as quickly as possible, and get recommendations to the City Council in January.

IV. Task Force Goal Setting Discussion. Allen said the idea is to open up options and then see whether we want to group and prioritize them so we then can schedule them. He thought that right now, we should see what options we are considering.

Gross said that during the course of discussion of the proposed rate increases, he suggested doing something like this. He added that it was a bit selfish. He has spent more time in the last three years working on financing and understanding it more than any other single topic. He understands how it works internally. He is frustrated in trying to communicate that. He felt he needs a larger audience; more people around the table to discuss how we work internally and what are the external options so he doesn't feel he is trying to educate rather than update. His personal goal is to get a lot more people better aware of options.

Smith said that as he has talked with Gross and Tokos. The most obvious thing and what scares him the most is that we take the \$275,000 a year from the water department for franchise fees. We charge water and wastewater to use the rights-of-way. We find that is not something we do alone; other cities do it as well. It is one way of getting money from an enterprise fund into the general fund. We do that regularly. He said that when healthy, enterprise funds have some money in them and we can use them. He said that he is unsure that is the case now. That is the part that scares him. The general fund doesn't have any money coming

into it. He said if this is something we are considering; it helps one department, but will hurt others. It will be a give and take and will hurt other general fund departments.

Allen agreed that is how we handled the budget with water and wastewater. He noted that also we initially charge for services provided by finance and administration that is already going into the general fund. He said that what Smith is talking about is on top of that another fee that comes into the general fund for use of the rights-of-way as we would charge other companies. He said he went back and found that when he first came on the Council in 2002, there was a fee in lieu of franchise established. Water and wastewater was increased 5% with the understanding that it would go into the general fund for the use of rights-of-way. It has been happening for the past eleven years, but we haven't been able to find that there was ever a formal adoption by resolution for that to happen as is required by law. Allen said it is the same concept as a company being able to use the rights-of-way; it is the City charging itself.

Allen said there needs to be the understanding that the purpose of this committee is not to question the scope of projects. We are not looking at the projects themselves. We all recognize that there is a need for infrastructure repairs. We have to make sure that we are just looking at funding for projects and not the projects themselves. Allen said that his understanding is that at budget time, Gross outlined his projects for short-term and long-term. We know these projects are necessary, the goal of this committee was to determine how we go about funding and to look at what else is available other than raising rates. McConnell noted that the Master Plan project list didn't get identified and paid attention to until Tim came.

Allen said if members feel something is an issue and should be on the table, then put it on and as a group we can decide whether that rises to the top or not; let the group decide how we want to proceed. McConnell said that the Council had worked very diligently on the long-term effects of labor, insurance, and retirement. He still believes there is money to be found in the existing operation. Allen said that the task force is not going to delve into the general fund. If someone wants to say that one recommendation to the City Council is to look at ways of finding more money within the budget to help the enterprise funds; that could be suggested for the next budget period. He added that the taskforce is not the budget committee. McConnell agreed that the taskforce could recommend that certain policies are adopted. Saelens said that he applauded the fact that through Gross' requesting and Allen's establishing this committee how fast it got started. He said his observation was that he wasn't armed with enough information to help support what Gross was trying to do. He said that part is good. He said for the component within the budget that we should be really clear that we already have an audit committee to focus on an audit. How much we delve into how money is expended seems appropriate for some recommendation on how to approach for next year's budget cycle; especially any potential support on the way we operate internally already. It's not necessarily more important than really spending time on what other funding options are; but it is a conversation that we need.

Tokos said there are two objectives of this committee. One is to encourage a holistic approach to look at infrastructure. Additionally, at the next meeting to determine what does infrastructure mean in this committee. The taskforce will have to provide structure to get through this in a meaningful amount of time and come out with a recommendation that is reasonably vetted. Busby agreed that one thing to come out is financial information that we don't have; and hopefully we will have a list that we are not currently seeing.

Allen said he is trying to deal with this from a structured point of view. He wondered if it is important now to list options that we think would assist with infrastructure; like general obligation bonds, low-interest loans, an Urban Renewal District being created, the budget itself, and LIDs. He said that what would be helpful for him is to see where this taskforce is now on various options to think about; and related to that, what is the scope of infrastructure we are talking about; water and sewer only or are we throwing in roads. We don't have to limit it to water, sewer, and storm. He thought that maybe we should determine what we are talking about; what kind of projects we are referring to.

Gross said that his concern is that this group is considering long-term finances; and there are options we can do short-term. For instance if he had a G.O. bond, we may do those projects and then in five years have maintenance needs and we haven't dealt with the long-term. It might be a good stop gap. It may take 15-20 years, and in the meantime we have some stop gap. That is one methodology of approaching it. He said that we need to have an understanding of how to long-term our infrastructure. We have to make sure how it fits into our long-term strategy. McConnell said that we have to make sure the plan for reserve funds or long-term maintenance funds would be added in each year; otherwise we will end up in the same place fifteen years from now. Patrick-Joling thought that it was really important that we have policy and to stick with it and don't raid it for other things. We need to just concentrate on the City's responsibilities. She said that happens with a lot of municipalities; they are going off on other tangents and not focusing on infrastructure.

Options: Allen went to the board to record options that the group were throwing out that together might satisfy both short-term and long-term needs. The following were suggested as possible options: **general obligation bonds; continued increases in water and sewer rates; budget (fees in lieu of franchise fees); creation of a north side Urban Renewal District; low-interest loans; LIDs (which have direct impact to property owners); SDCs; exactions; asset management; budget efficiency and management (look at whether allocations are at right levels; money to continue operations and service; money for the**

system on an ongoing basis; money to bring the system back to expected levels); grants; room tax and fuel tax; full faith credit bonds; annexation (property the City already serves); overall fees.

Regarding asset management, Patrick-Joling said that she has no problem with selling property; but some of that was purchased for a specific reason. A lot of that knowledge was never written down. Busby noted that one thing the taskforce needed was a list of real assets.

Brown had a concern about the full faith and credit bonds. Allen said as Brown had noted when we started looking at the general funds, these bonds could impact the City's bond ratings. Gazewood said that full faith and credit limited obligation bonds are a good route to take from the standpoint that the authority is there for the governing body to move in that direction without going to an actual vote within the corporate limits. They include certificates of participation bonds. He said that is an option as compared to regular general obligation bonds where you have to get voter approval, which is not always a successful way to go. Gazewood said that the only one on the list that in his mind stands out as a very expensive way of doing it is LIDs. It directly impacts that property owner. It is always a big hit for that individual to have to give the annual or 6-month payment, which based on a lot of LIDs can be several thousand dollars. They are tough to administer. You have to follow up to make sure you are collecting that money. He said that from the finance department's point of view, it is an enormous work load. He said that an Urban Renewal District as a whole is probably the best way to accomplish a long-term project because it is going to satisfy the portion of the tax that is already there, and it just starts reducing the other taxing district's take to a certain level. That may restrict the amount of money the school district gets overall, but it is the least impact on the taxpayer. Regarding the budget, Gazewood said we would have to set down and do a good financial analysis of the general fund and take a look at projects for at least a 5-year period and what that general fund would look like based on revenues. Then in terms of that, we would need to look at what does the City actually need in un-appropriated fund balances to operate the City over a given period of time. He said that is a policy of the City Council with input from the Budget Committee. He said that is a thing that can well be looked at. He said that he did notice that we could take a look at what is in the existing budget and financial data. He noticed that a general obligation water bond went off the books in 2012. There is a little residual money in that fund. There was a little over \$43,000 collected in delinquent taxes. The statute allows the City Council by resolution or ordinance to designate what they want to do with that money since it is not being used for that purpose any longer. That is something we can look into. The City Council can legally designate what they want to do with those proceeds.

Allen asked Tokos about the annexation policy he had suggested. Tokos said there is the potential in South Beach where the City extended infrastructure down to 50th. There is a huge block of unincorporated land surrounded by the City. The City will have to look at our annexation policy. Tax revenue is a piece of it. Another is better, more productive use of the land; which we want to see. Gross said even if we annex the property, we already serve it. We serve a lot. Tokos said that we will have to explain to folks that this is what they get immediately and here is what they will likely get down the road. Patrick-Joling asked about an agreement with Seal Rock Water District. Gross said that we bought a portion of water service. We have a bond we are paying directly to. Brown added that it is long-term. Gross said that we bought a part of Seal Rock's water system on long-term. We also buy water to send to the airport. We serve south to 62nd Street, Southshore, and county properties; anything south of that is Seal Rock fed.

Allen thought that was a good start for a list of options. He thought that now that we have the options, perhaps the next step was to clarify what kind of infrastructure we are talking about; what are the projects and needs we want to have out there. Then we can collate options with certain infrastructure.

McConnell said that to continue to operate what we have going, we need to set money aside for ongoing maintenance and repair and need to have reserves above and beyond. If we are going to raise a bunch of money, some has to go toward long-term sustainability.

Springsteen said we need to know the cost of projects; what we are going to spend in the near-term and what in the long-term; and which projects will be eliminated. We need to know the operating cash flow, and how much can go into reserve. McConnell said we need to know how much money is needed to go into replacement and review it on an annual basis. Even if everything is up to snuff, that doesn't mean that we shouldn't be going back every year and replacing the oldest. Gross said he knows how much line we have in the ground and how long it lasts.

Regarding short-term and long-term projects, Gazewood wondered if the City Council had every received an adopted 20-year strategic plan on infrastructure. Gross said yes we took the water system master plan and wastewater over twenty years and estimated costs over twenty years. Gazewood asked about the list of projects with cost estimates. Allen said that is in the budget document adopted by the Council. Gross said that we have the master plan. We looked at a one-year capital plan and behind that is a five-year capital plan. We know the next five years what we need to do. We program over five years so we can prioritize. Gazewood asked if fees and services were updated recently. Brown said yes, every year. Allen added it was right before the budget was adopted. Gross said that we didn't do a full fee schedule. Gazewood asked if other fees and charges have been updated on a recent basis. He said that might be something we should pull out and see when the last update was and see if

anything needs to be updated in terms of charging on a schedule. McConnell said there hasn't been a study done for quite a while; 2009. We do have most fees set to be revisited each year and updated by CPI. Most everything set up gets revisited and changed every year based on the economy.

Saelens asked if when properties are annexed and they connect to city services and those that we are now servicing, does that come with a promise of an additional level of service we will be providing to them and have we accounted for that. Gross said that people outside the city's boundary pay more. With annexation, enterprise funds would go down, but property taxes go up. Saelens said thinking as a citizen, his thought would be what else it means; paved roads, all those things. Gross said it is a policy thing. Now those outside the boundary that we provide service to have to sign a consent to annex document. He said the fact that they have services at all means they should be in the city. Saelens said this could be an opportunity to correct that. Tokos said the taskforce could make a recommendation of a policy choice. Those property owners are not likely going to want to come in. Gross said the percentage is only about 3% of revenue; but the total acreage is quite a bit. Their tax rates will go up, but it was uncertain if their values are re-assessed. The Assessor will give that information.

Infrastructure: Working off the CIP, Allen began making a list of what constitutes infrastructure needs for both the short-term and long-term. Ideas were thrown out, and the list that the Taskforce came up with included: **water projects (for both distribution and treatment); wastewater projects (both collection and treatment); stormwater projects (water quality projects); streets, roads, and sidewalks; airport facilities; city buildings (public owned, city maintained, and relocation and expansion needs); parks (both active that contain structures such as Coast Park and passive such as Forest Park); public rights-of-way (including common open spaces and landscaping); raw water supply (reservoirs, water rights, and dams).**

Gross said that the water treatment portion is at least half of the cost. The treatment piece is very expensive. It's likewise for wastewater. It is also the most regulated. Regarding buildings, Gross said there are eleven commercial buildings that the City maintains. McConnell wondered if treatment of storm water should be added. Gross didn't think so. He said in the next 15-20 years the City will have to have water quality standards with the way we handle our storm water. We will have to invest. Storm water is going to go off the charts because of water quality. Tokos said it will apply to private properties as well.

Saelens said that we need to look at the way we list those public works infrastructure; airport, city buildings, parks. We could easily list those things that people think of for city infrastructure (police and fire). He noted that there has been a lot of discussion about vehicle replacement and wondered if that is part of this. Gross said it would be permanent structures; something sticking out of the ground, underground, or above the ground. If it moves, it's not infrastructure. Gross had said that reservoirs, dams, water lines, and raw water collection should be included because he was thinking of Rocky Creek; and we need to make that investment in our water supply long-term.

V. Setting Topics of Discussion for Future Meetings. Tokos had a suggestion for a flow for the meetings to set this information out that provides a logical flow for where we want to go. He thinks there will be half a dozen meetings. The first two meetings will cover the current part and the projected needs. The third would be to cover the existing funding structure and maybe services to reduce because Gross added that we want to look at things we don't want to fund any more. New funding sources will be discussed at the fourth meeting. Meetings five and six will be to look at options for restructuring our existing approach to services and to funding. We will need to cover the infrastructure piece and get more information before we can delve into the funding side. Tokos said we want a recommendation out of the last meeting.

Allen said we need to talk about those options and what to really put at the forefront. Patrick-Joling thought water and sewer fees. Gross said that it's important to remember that the purpose of this group is to set the course we need to go; not exactly how to do it yet. If something is very important and must be done before the next budget cycle or in the next five years, that's how we will chart that course. Allen suggested leaving it open-ended because he can't predict when a recommendation will happen. Smith said there even could be more than one. Allen thought we need to have at least one meeting within the next three weeks and wondered if the next meeting could be scheduled.

VI. Set Future Meeting Dates and Times. The next meeting was scheduled for Thursday, August 15th from 3:00-4:30 p.m. Springsteen will be out of town, but will be copied on everything. Patrick-Joling suggested that it would be good to get a financial snapshot at the next meeting to get good clarification of where we are. McConnell thought that would fit into the third meeting. Tokos and Gross said that the next meeting will be more or less an overview of the list of infrastructure we have; buildings, airport, parks and rights-of-way, water, wastewater, storm, and streets and sidewalks. There was agreement that that would be a good baseline. Allen said we may not want to worry about setting meeting dates or times now; we may want to leave it open. It was suggested that the taskforce may need to meet twice a month. McConnell made a proposal that the group meet on the first and third Thursday of each month; with the next meeting being August 15th, and then not meet again until September. The consensus was to go ahead and schedule the meetings that way. For now, the meeting schedule was set from 3:00-4:30 p.m. on the first and third Thursdays of each month at least through the first part of December as follows: **August 15th, September 5th**

and 19th, October 3rd and 17th with an option of the 31st, November 7th and 21st, and December 5th. Tokos and Gross will be giving a presentation at the next meeting.

VII. Public Comment. No one was present to present public comment.

VIII. Other Comments. Gross wanted to give an update on a grant that we secured for some FEMA projects. He noted that we recently acquired a \$216,000 grant through the state Infrastructure Finance Authority that will pay the 25% share that is the City's responsibility for Big Creek Road repair; so with that award there essentially will be no cost to the City. He said that this will go before the City Council on Monday. We need a resolution to execute the grant, and then that project can start. He said he hasn't been able to begin engineering on the SE Moore Drive/Bay Boulevard stormwater and realignment project; and this frees up dollars that were going to be used for Big Creek so that now he can begin the design of the Moore Drive project. Gross said we are constantly pursuing funding outside the norm. Allen noted that this all came about two months ago following a conversation they had at lunch with some of the agency folks.

IX. Adjournment. Having no further business to discuss, the meeting adjourned at 4:25 p.m.

Respectfully submitted,

Wanda Haney
Executive Assistant