SUNRISE WATER AUTHORITY

10602 S.E. 129th Avenue
Happy Valley, OR 97086
PHONE: (503) 761-0220
FAX: (503) 761-7406

M I N U T E S

A work session of the Sunrise Water Authority Board of Commissioners was held on Wednesday, November 9, 2011 at 6:00 PM at Sunrise Water Authority, 10602 SE 129th Avenue, Happy Valley, Oregon, 97086.

Board Present: Ernie Platt, Chair; Ron Blake, Vice Chair; Terry Roskey, Secretary; Judy Grycko; and Mike Kuenzi.

Staff Present: Wade Hathhorn, General Manager; Dan Fraijo, Operations Supervisor; Christin House, Customer Service Supervisor; Tim Jannsen, Staff Engineer; Kim Anderson, Government Relations Manager; and Elizabeth Edgar, Engineering Intern.

Visitors Present: Barbara Kemper, Patricia Holloway, and Grafton Sterling, CRW; Steve Gaschler, City of Damascus; and Dave Green and Mark Anderson of CH2MHill.

1. CALL MEETING TO ORDER

The meeting was called to order at 6:02 PM.

2. INTRODUCTIONS & WELCOME OF VISITORS

3. FLAG SALUTE

4. PUBLIC COMMENT

No public comment had been received.

5.1 INTRODUCTION TO ASSET MANAGEMENT

Hathhorn introduced the topic of asset management. He discussed the need to manage the installed assets in a manner that will avoid or minimize repairs as a result of failure and recovery actions, which invariably cost more than managed maintenance and repair.

Hathhorn provided the Board with information regarding the estimated value of the installed assets owned by Sunrise. He conceded that the asset valuation is not precise at this point, but reiterated that even if there is some variance from the estimated number it is still a very large value. He commented that every type of asset has a life expectancy and that there is a need to actively manage the asset to extend the life each asset as long as possible and to manage finances in a way that allows Sunrise to be in the position of replacing the asset when necessary. He explained that if asset management is fully implemented, Sunrise could anticipate expending about $3.5 million annually on rehabilitation and replacement of assets. Sunrise currently accounts for the financial needs of construction and maintenance in the annual budget, but does not address the issue of depreciation of assets in any way. He explained that the problem with this scenario is that only the initial cost of the asset was covered and that no rehabilitation or replacement funds are being accumulated to address those issues when they become necessary at the end of the assets useful life.

Hathhorn displayed a graph illustrating the inflow of revenue in relation to the projected costs for system construction, replacement, and rehabilitation. He pointed out that unanticipated catastrophic system failures are likely to have large costs associated with them and severe impacts on service levels. He commented that the whole process should be linked to establishing benchmarks for desired levels of service.

Hathhorn discussed a nine step program to address asset management.

1. An asset inventory must be conducted to assess what assets are owned by Sunrise.
2. A condition assessment of the inventoried assets will assess the condition of the asset and the stage of the asset lifecycle that it is at.

Hathhorn commented that achieving a management condition of the assets will result in substantial savings. To illustrate how this might occur, he discussed the problem that occurred at the Sunnyside Reservoir last fall; pointing out that emergency mobilization and emergency nature of material acquisition did not allow Sunrise to obtain optimal pricing and that damage remediation is a cost consideration also. He stated that emergency response is always more expensive than planned maintenance or replacement and that asset management therefore has impacts on cash flow as well.

Hathhorn discussed his expectations in relation to an asset management program at Sunrise. He stated that it will take years of work to achieve a managed level of performance and that it will require the buy-in of the entire organization. He also emphasized that it will require a commitment to an upfront investment in order to reap returns over the years.

Hathhorn defined some of the programmatic requirements for implementation of an asset management program. He discussed the need for better information management, including a migration to a GIS based information system to assemble records and documents related to assets and to store knowledge gleaned from employees. He discussed the need to deliver a sustainable infrastructure system and to adjust the budgeting process to incorporate the need for resources dedicated to the program and revenues committed to actively addressing infrastructure rehabilitation and replacement needs.

An overview of the progress made on asset management was presented by Hathhorn. It included the initiation of a detailed inventory of the current assets and a preliminary condition assessment, based primarily on age and type of asset, although breakage records and identification of cast iron product was also being factored into the assessment. The work that is underway to develop a linkage to the CRW GIS data and mapping system was also discussed. It was noted that it is possible to access map records at CRW from the SWA desktops at the moment but the intent is to have that information available to field operators via lap-tops. He commented that an initial maintenance and replacement schedule has been started and that it will have implications for the next budget cycle.

Platt commented that he correlates asset management to the long term maintenance of a home.

Roskey commented that there are locations where ductile iron pipe has been bedded directly on sand. Hathhorn commented that there several assets that are known issues, such as those mentioned that need to be addressed.

Platt shared his perception that the initial costs of starting the process will be different from the ongoing costs and the costs of the system upgrades. He asked if there was a standard interval for assessing these costs. Hathhorn stated that it should be included as part of the annual budgeting process.

Roskey commented that it was his impression that the original number at the start of the discussion was only the material cost associated with the assets. Hathhorn clarified that it was a constructed cost number, inclusive of labor. He pointed out that the bigger issue is that each year that recapturing or accounting for necessary funds for asset management is postponed the organization gets closer to the likelihood of encountering catastrophic expenses.

Platt stated his opinion that $3.5 million is likely to small a number. Hathhorn clarified that the number is an average of the amount that it is anticipated that should be spent year over year moving forward.

Kuenzi stated that in Washington state another approach that has been used to determine the annual projected expenditures uses an actuarial approach to isolate the areas to be addressed.

Hathhorn emphasized that one of the first steps to take to address this issue is to begin accumulating cash reserves.

Platt asked if there was a schedule for implementation. Hathhorn said that the schedule would be more defined and would be a consideration in the budget process in the spring. He went on to state that as zones to be addressed are identified it may be necessary to bring in consultants to obtain more specific condition analysis on specific projects within the identified zones.

Kuenzi commented that Hathhorn had asked him to share his experiences with asset management with the Board of Commissioners. He commented that there is a paradigm shift occurring within Clackamas County Service District #1 as it moves from a growth driven to maintenance driven organization. He discussed the CCSD #1 background with asset management. He discussed the calculation of replacement values used in the process and the fact that most of the facilities over 30 years old were built with federal money, so there was little actual investment by CCSD#1 in those facilities. One aspect of the CCSD #1 experience that he called out as being different from Sunrise is that it was necessary to identify assets that were solely owner versus those that were shared assets and determining appropriate allocations of fiscal responsibility for shared assets. He stated that forecasting needs for rehabilitation and replacement was also part of their process.

Kuenzi stated that identification of a $12 million annual shortfall in R & R forced the agency to do financial scenario planning to determine the possible means of addressing the issue. The scenario planning estimated a rate impact based on full replacement at book value that was equivalent to $12.20 per month per equivalent dwelling unit. This process compelled CCSD #1 to discuss the relative value of certain scenario characteristics (such as predictability in rates). He displayed graphs illustrating how adding R&R numbers to the rate projections impacts the rates and what portion of projected rates R&R would represent.

Kuenzi stated his opinion that if the process only resulted in an R&R program that results in a scenario in which 50% of R&R is achieved it was still valuable in terms of bringing about a realization of what the true driver in determining rates will be in the future and how the various rate components work together. He commented that the total utility fees in the future will be high. Hathhorn commented that combined water and sewer rates are a function of household income and area factor that is considered when assigning bond ratings.

Hathhorn concluded the discussion by stating that this was intended as only an introduction to the topic and that it will be addressed on an ongoing basis.

Hathhorn introduced Steve Gaschler, the public works director and planning director for the City of Damascus.

Gaschler commended Hathhorn for addressing an issue that has not been historically.

Gaschler offered introductory comments regarding why the City of Damascus had chosen to pursue integrated water resource management (IWRM) as a process to address some of the major issues confronting the city in providing public facilities. He introduced Dave Green and Mark Anderson of CH2MHill.

Anderson gave a brief review of the current standards in utility service delivery and provided a scenario illustrating how an integrated system functions. He discussed the reasons that the timing had been right for Damascus to investigate the option; the number of service provider discussions, the relative blank slate in Damascus as it relates to public facilities, and the fact that the principles of IWRM were closely aligned with the core values as described by the community.

Anderson discussed the evaluation criteria that were used in assessing possible water facility options and how those criteria were selected and the utility of considering facility provision for each of four sub-areas or basins within the City and the goal of maximizing the use of basic specific resources.

He stated that in the final evaluation it was determined that while it would be possible to meet all of the demand using in-basin resources, it was not the most practical or most affordable option. Anderson presented a scatter chart showing cost for each scenario that provided a basis for a discussion at the City regarding how the costs for each option related to how well the option met the values structure of the community.

Anderson stated that the evaluation concluded that there needs to be a short term and long term solution to meet the City's needs. He stated that the short term solution needs to work within the growth patterns, existing regulations, and financial considerations of the City. He stated that the best short term solution is the provision of potable water by Sunrise Water Authority, while emphasizing that there will be continued evaluation of the ecosystems services model and constructing stormwater systems in conjunction with development in order to maintain flexibility within the system. He stated that in the long term, the expansion of the dual pipe water system would likely use non-potable groundwater initially.

Green added comments regarding the current impediments to immediate implementation of the dual pipe system, specifically the current regulatory environment and public perception issues.

Platt commented that a lot of the work seemed revolve around the four sub-basins, but that would seem to him to have more relevance to the waste water and storm water issues than it would to potable water. He went on to state that there are huge political and policy implications from this work and that it will influence the phasing of development.

Green agreed that the fact that sewer is available in some areas sooner than others will likely dictate where early development is likely to occur. He stated that Gaschler has been charged with completing public facility master plans by 2013 and that keeping key players in the IWRM discussions together will help create a more integrated solution going forward.

Kuenzi commented that he sees the infrastructure planning as being relatively straightforward but that figuring out how to manage the issues related to pre-financing will be more difficult. He expressed the view that those issues cannot be dealt with now or it will create obstacles to getting the planning completed.

A motion to adjourn was made by Roskey and seconded by Grycko. Motion carried unanimously.

The meeting adjourned at 7:40 p.m.

ERNIE PLATT, CHAIR	TERRY ROSKEY, SECRETARY