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MINUTES

The Sunrise Water Authority Board of Commissioners held a Budget Committee meeting on Wednesday, April 25, 2012 at 6:00 PM, at Sunrise Water Authority, 10602 SE 129TH AVE, Happy Valley, OR 97086.

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

Staff Present: Wade Hathhorn, General Manager; Lin Rigutto, Finance Director; Dan Fraijo, Operations Supervisor; Christin House, Customer Service Supervisor; Tim Janssen, Staff Engineer and Kim Anderson, Government Relations Manager.

Visitors Present: Barbara Kemper, Patricia Holloway, and Grafton Sterling, CRW; and Myron Martwick, Oak Lodge Water District. David Blair, Citizen

Budget Committee members present: Randy Shannon, Sara Tarnovosky, Tom Ellis, Eric Hofeld, Mark Pedersen, and Peter Kreft.

1. CALL MEETING TO ORDER

The meeting was called to order at 6:05 PM by Chair Platt.

2. INTRODUCTION

3. WELCOME OF VISITORS

4. BUDGET COMMITTEE MEETING FOR THE 2012-2013 FISCAL YEAR BUDGET PER ORS 294.401

4.1 Election of Presiding Officer – Per ORS 294.336

A motion to nominate Randy Shannon as presiding budget officer was made by Garbarino and seconded by Grycko. Blake moved to close the nominations and cast a unanimous ballot for Shannon. Motion carried unanimously.

Shannon assumed control of the meeting.

4.2 Public Comment – Per ORS 294.401 (1) (b)

No public comment was received by Staff and no visitors were present that wished to provide public comment on the proposed budget.

4.3 Budget Message – Per ORS 294.391

Hathorn discussed the challenges that were faced during the past year and the successes that the organization has achieved. He commented on the struggle to raise rates last year in order to address the agency's lack of cash reserves and an operational budget that had been slashed by 40%. He commented that the increased cash flow generated as a result of the rate increase came in at almost exactly the \$1 million that was projected, with half being set aside as cash reserves and half being used to address pressing operational needs.

He commented that a larger number of meters were sold than was anticipated in the adopted budget. He spent some time discussing how the significant reduction in staffing had prevented staff from addressing regular scheduled maintenance issues on critical assets, such as hydrant and valve maintenance, and has also led to deferred maintenance issues on large assets, such as pumps and pump stations.

Hathorn discussed the efforts to transition from internal meter reading to meter reading by a contractor. He commented that as a result of the transition experienced field staff would be freed up to address more important maintenance activities, rather than being dedicated to routine service order issues. In addition to that transition, he stated that the proposed budget includes adding two field staff positions and two half time intern positions. He commented that the field and engineering staff have conducted a long range critical analysis of work that needs to be accomplished and laid out a staffing plan needed to address those requirements. He discussed the possibility of being able to fund those additional staff positions because the increased revenues from SDC's will reduce the amount that must be transferred from the General Fund to fund debt service. This will allow the agency to restore the operations staff that are necessary to achieve the level of service and accomplishment that we would like to achieve. The intent is to fill these positions as full time temporary assignments.

He indicated that the budget contains a proposal to set aside about \$500,000 for infrastructure rehabilitation and replacement.

Hathorn discussed his recommendation to dedicate the cell tower lease revenues to the vehicle and equipment replacement fund.

He commented that over all, the proposed budget represents a nominal increase from the 2011-2012 Budget in materials and services. There is a minimal increase in personnel services. He pointed out that there were some savings realized in materials and services that were transferred over to be used for additional expenditures for professional services to assist with legal issues, communications issues, and staff development efforts.

4.4 Budget Presentation and Discussion

Kreft commented that he, unfortunately, needed to leave the meeting but he wanted to enter his comments in support of the need to address deferred and current maintenance requirements in order to avoid more expensive long term repairs.

Kreft departed at 6:22 PM.

Hofeld asked if Sunrise has a five year capital improvement plan. Hathhorn stated that the focus of the energies of the agency has been on developing an asset management program and plan before a new capital improvement plan is developed. He commented that his first priority is in determining what portion of the depreciation of the assets remains unaccounted for. Hofeld asked if the asset inventory included a risk assessment. Hathhorn indicated that it is only included in a superficial way at present, based solely on materials and age. He commented that once an inventory is completed, a fuller risk assessment would be conducted in the future. He mentioned that the long term staff has a fairly solid knowledge of where the problem areas are within the system. Hofeld asked if he had developed a hierarchy for determining the relative priority of the risks. Hathhorn stated that we haven't reached that point yet, but it is planned for. He also commented that he has been postponing the investment of effort in a risk inventory as Damascus has indicated that they are about ready to start an intensive inventory and condition assessment and since Sunrise will be participating in that process it will be possible to avoid some redundancy in efforts.

Introductions were conducted.

Hofeld asked if there were increases in purchased water for the year. Staff commented on the increases in rates shown in the proposed budget. Hathhorn commented that the reason the water rates have gone up is related to lower demands. Sunrise has to meet the required minimum purchase in the agreement with CRW, which in turns means less water is purchased from the NCCWC. Since the fixed costs at the NCCWC won't go down the per-unit cost goes up to meet budget needs.

Shannon asked about the AMR system and if there were possibilities for realizing savings there. Hathhorn commented that the AMR system had proven entirely unreliable, with error rates about eight times what was promised, so Itron has replaced the AMR with drive-by technology because it was more dependable.

Miller asked if the proposed budget regarding staffing would leave Sunrise in the position of addressing only critical issues, just keeping up with daily requirements, or allowing Sunrise to achieve a particular level of service.

Hathhorn indicated that he wasn't certain, largely because there has never been a level of service established for the agency and that during the peak staffing period the majority of staff effort was directed to installation of new services. Kuenzi asked if there is a benchmark for the industry such as in FTE per million gallons sold. Hathhorn stated that Sunrise has been tracking that. Hathhorn stated that he hasn't quantified a benchmark for Sunrise as of yet, but based on his observations of area providers Sunrise is still very, very lean per mile of pipe than other agencies. He also commented that the nature of the Sunrise system is such that the

staff has to address a lot more pump stations per mile of pipe, more pressure zones and more lift in the system. Kuenzi commented that Sunrise would be one of the very few organizations in the area that would be adding staff so a benchmark of that sort would be pertinent in defending the additional staff. Miller commented that he wasn't here last year but it is important to remember the court of public opinion and wondered how consistent this action is with the message that was sent last year.

Platt commented that in years past there has been considerable concern about cash flow, and the agency came out better than anticipated last year. He asked for Hathhorn's view on projections for cash flow in the next budget year. Hathhorn pointed out that in FY 2011-2012, the additional 135 ERU's sold beyond the budgeted number of 100, generated cash that went directly into reserves. Hathhorn commented that based on the previous two years, the budget has been increased to anticipate 150 ERU's.

Hofeld asked what Hathhorn would consider a sufficient cash reserves for an agency the size of Sunrise. Hathhorn stated that one reason he wants to get the asset inventory done is so that he can more accurately calculate the amount of depreciation he should be recapturing for infrastructure replacement, which is critical to establishing a reserve number. He discussed that a simple calculation on pipeline assets would indicate that we should be expending \$1 to \$1.5 million per year on renewal and replacement, without including expenditures for other significant components of the infrastructure. He stated that he could easily envision a \$10-12 million capital plan that would be required in the next ten to fifteen years. He stated that his goal would be to move the agency away from debt financing the replacement cost for the major infrastructure components as much as possible to assure the long term health of the agency. Hathhorn stated that he would anticipate having a very good number by this year next time. Hofeld commented that he was concerned that too much emphasis was being placed on developing cash reserves when there are pressing infrastructure issues and deferred maintenance is continuing to grow. Hathhorn stated that the agency has made some strides in the past year; replacing some critical cast iron lines with ductile iron. He declared that he is extremely concerned about the condition of the pump stations, which don't even have a baseline on service condition.

Garbarino asked if any of the bonds were going to pay off in the near future. Rigutto commented that the 172nd loan pays off in seven years, but that the majority of the bond indebtedness will not pay off until 2026. Shannon asked if there was any chance to refinance any of the bonds. Rigutto stated that staff was talking to some investment and security advisors about the potential in 2013, but that the rates just weren't right for that at this time.

Morris stated that he did not see a proposal for a rate increase in this budget. He asked if that was correct. Staff stated that they heard the message last year and sought to budget accordingly. Hathhorn stated that he believes that the agency is on the right trajectory. He commented that Rigutto has done a good job on crafting a twenty year cash projection; however, the capital outlay and the depreciation haven't been included yet.

Hofeld asked if there was perhaps too much focus on salting money away and not enough on capital outlay. Hathhorn stated that in the event of a worst case scenario he would be more comfortable with ten million dollars in the bank, but that in light of the rate increases it would take to get there the half million that has been budgeted is a beginning point. The hope is that

there will be an increase in meter sales and that the additional money generated will free up general fund money to apply to capital outlay or reserves.

Miller asked how comfortable Hathhorn was with the amount budgeted for the community relations and communications program. He replied that he wasn't, but that since the agency has done nothing specific in this area for some time this is a starting point. Hathhorn added that since he intends to take a primarily digital approach in the initial stages it will minimize the need for more costly paper based materials in the near term. He commented that the plan is to try one or two things at a time and then spend some time asking customers what they would find useful.

Shannon asked if the vacancy rate is still as extreme as it has been. House stated that there are still quite a few vacancies but that it is not as severe as it was. Hathhorn pointed out that there is a marginally higher projection in water sales to account for the increased occupancy rates.

Hofeld asked about the increase in overtime. Rigutto commented that the anticipated increase was included as a result of the trends in main breaks and other off-hours staffing requirements.

Hofeld asked about the budgeted increase for legal fees. Hathhorn commented that the majority of that expense is related to the ongoing litigation related to water rights on permit applications and the efforts to combine forces with another local district that may require a judge's finding to establish that it is a legal path forward.

Hofeld commented that the funds budgeted for water system maintenance have gone down, however that is contrary to what Hathhorn has been saying is the focus for the agency. Hathhorn pointed out that some of the items that were formerly accounted for under maintenance have been moved to capital programs.

Ellis asked if there is an equipment replacement fund. Hathhorn stated that the funding for vehicle replacement will be coming from the cell tower leases. He discussed the conversations that he has been having with operations staff in relation to determining a schedule for replacement and setting a standard for determination of useful life on vehicles.

Rigutto commented that she has an email from Markley Drake indicating that he approves of the proposed budget.

The group reviewed the budget calendar.

Hofeld asked about the vulnerability of the treatment facility. Hathhorn commented that it is relatively secure due to its recent construction date and the back-up power that was included during construction. He commented that the worst threat to the plant is at the intake structure, since it is in the river it is vulnerable to damage from debris during floods.

Ellis wanted to take a moment to give kudos to the staff and management for having really stepped up the past year and he commented that he feels that they are on the right track with the work that is being done.

4.5 Approval of the Budget – Per ORS 294.406

A motion to approve the proposed budget for Fiscal Year 2012-2013, was made by Hofeld and seconded by Blake. Motion carried unanimously.

A motion to adjourn the Budget Committee meeting was made by Grycko and seconded by Roskey. Motion carried unanimously.

The meeting was adjourned at 7:02 PM.



ERNIE PLATT, CHAIR



TERRY ROSKEY, SECRETARY