

**Proposal to Adopt
a Temporary Wastewater Service Surcharge
Due to
Clackamas County
Termination of Service Contract**

City Council Regular Session
January 19, 2010



Requested Action

Adopt a temporary surcharge of \$2.00/ccf to current wastewater rates until a new treatment contract is negotiated with Clackamas County, or December 31, 2010, whichever occurs first.

What's a CCF?

- CCF stands for “Hundred Cubic Feet,” which is 750 gallons. This is a standard way of measuring flow, or water use. The national average for residential household water use is 250 gallons/day.
- $CCF \times \text{rate } (\$) = \text{what you pay for service}$

H2O Use **Cost of Service**
IF 7ccf AND \$2.00 (surcharge)

THEN \$14.00 MORE PER MONTH

Why?

The City's Wastewater Fund, which pays for:

- Management and maintenance of the collection system
- Treatment at Kellogg
- A portion of other Department's operating costs
- Negotiation and other costs of doing business with the County regarding wastewater

Is now in jeopardy of not being able to cover these costs...



How Did We Get Here?

- 1970-2008 – Wholesale Agreement between City and County governed Milwaukie's wastewater treatment costs
 - Milwaukie pays for Milwaukie's treatment
 - Milwaukie helps pay for Kellogg's operations
- 1975-2008 – Milwaukie contributes \$11 million to the Kellogg Plant
- June 2009 – County unilaterally terminates contract
- July 2009 – County notifies City of new terms
 - Milwaukie pays County-assigned rate (\$25.31/EDU/month)
 - County threatens terminating service if City doesn't agree to new terms by February 28, 2010



Wastewater Fund Unknowns

- Future cost of treating Milwaukie's wastewater treatment at Kellogg
- Future cost of treating the wastewater of others at TriCities
- Future cost of improving CCSD1's infrastructure
- Cost of prior years' treatment (2007-08; 2008-09) at Kellogg
- Prior and future costs of negotiating a new contract with the County



How Big a Problem is This?

- Unknown – most of these costs will either hit the Fund, or will become clear, in the next 6-12 months.
- In the worst case scenario, (without the surcharge) the Fund would be effectively out of money by the end of May.



Worst Case Scenario

- City pays the County \$25.31/EDU/month from August 2009 through June 2010, plus interest (\$2,600,000, based on 8870 EDUs)
- City pays prior bills as charged (\$585,456 or more)
- City continues to require legal and professional representation in negotiations (\$570,000 estimated)



What Will This Cost Me?

It depends.

...on how much water you or your business uses

...on how long it takes to reach a new treatment agreement
with Clackamas County

...on whether you qualify as a low-income customer



Could This Have Been Avoided?

- Likely future expenses exceed budgets and planned rate increases
- Actual future expenses aren't known
- Surcharge is temporary; to be replaced by a new rate and increase schedule
- City has negotiated in good faith with the County; attempted compromise positions
- City making regular payments for service (about half what county is charging)



Milwaukie Utility Bill Basics

- **Four items on a City Utility Bill:**
 - Water
 - Sewer
 - Storm
 - Street Surface Maintenance Fee
- **Sewer Charge has two components (not shown on the bill):**
 - 1) Collection (pipes and pumps)
 - 2) Treatment (Kellogg Plant)
- **Each bill covers two months of service**



Milwaukie Utility Bill Basics

- Water usage relates to water and sewer charges (since wastewater is water used in the home and flushed or drained into the sewer system)
- Both charges included fixed and variable (i.e. volume-based) components.
- Water usage is adjusted to calculate sewer charges. The City uses the customer's average winter water use from the previous year to calculate the variable charge. (since summer use would include outside irrigation which doesn't go into the sewer system)



Milwaukie Sewer Billing

Nov. 2005 City-Adopted Wastewater Rates

| YEAR | RESIDENTIAL | | LOW-INCOME | | COMMERCIAL | |
|------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Fixed (per unit) | Volume (per ccf) | Fixed (per unit) | Volume (per ccf) | Fixed (per acct) | Volume (per ccf) |
| 2006 | \$15.90 | \$2.25 | \$7.95 | \$1.10 | \$15.90 | \$3.15 |
| 2007 | \$16.85 | \$2.39 | \$8.43 | \$1.19 | \$16.85 | \$3.34 |
| 2008 | \$17.87 | \$2.53 | \$8.93 | \$1.26 | \$17.87 | \$3.54 |
| 2009 | \$18.94 | \$2.68 | \$9.47 | \$1.34 | \$18.94 | \$3.75 |
| 2010 | \$20.07 | \$4.84 | \$10.04 | \$1.42 | \$20.07 | \$5.98 |
| 2011 | \$20.83 | \$2.95 | \$10.41 | \$1.47 | \$20.83 | \$4.13 |

Rate increases were adopted to keep pace with rising maintenance and inflation costs, and to build up a reserve to help decommission Kellogg

Temporary Surcharge



Milwaukie Sewer Billing

Why volume-based?

1. Based on “real” use
2. Reduces subsidy effect (high usage payers being charged the same as low usage payers)
3. Encourages conservation



Milwaukie Sewer Billing

Collection Charge Component

- Pays for transmitting the wastewater to the plant for treatment
- City system; costs are predictable

Treatment Charge Component (1975-2009)

- Pays for treating the wastewater prior to discharge
- City/County partnership at Kellogg; costs change from year to year



Milwaukie Sewer Billing

Treatment Charge Component 1975-2009 (cont.)

- City makes monthly payment based on estimated total cost for running Kellogg
- City's payment was proportioned based on flow (not EDUs)
- Each year, City pays a "true up" charge equal to actual costs to Milwaukie, minus Milwaukie's monthly payments for that year



Milwaukie Sewer Billing

Treatment Charge Component 1975-2009 (cont.)

Treatment component of the sewer charge:

- Is estimated when the City sets Wastewater Rates (last done in Nov. 2005)
- Must be large enough to cover expected future costs of treatment
- Actual per household treatment cost varies year to year based on previous year's treatment costs
- Over the past few years, actual treatment cost per household has been about \$11.00/month.



What Changed?

Treatment Charge Component ~~1975-2009~~ 2010

- The City does not have a contract to ensure the cost (or future provision) of treatment
- The County has assessed a new monthly charge per EDU (household) of \$25.31
- Charge to City no longer based on flow (EDU based)
- The County has stated Milwaukie must now share the cost of treatment at other plants, for the benefit of others.
- The County has held that in the next contract, it (the BCC) will set Milwaukie treatment rates (not the City Council).



Treatment Charges

Treatment Charge Component ~~1975-2009~~ 2010

- Clackamas County is now billing the City \$224,500 per month for service (\$2,600,000 per year)
- The City has not agreed to pay this charge.
- The City could only cover this charge by using all of its reserves



Wastewater Fund Summary

| FY 09-10 Revenue (Projected) | | FY 09-10 Expenses (Worst Case) | |
|---------------------------------|----------------|---|---------------|
| Beginning Fund Balance | \$1.1m | Treatment for 2009-10 | \$2.5m |
| User Fees (Rate Revenue) | \$3.5m | Treatment for Prior Years | \$0.6m |
| Reserves | \$1.2m | Other Operating Expenses ^[1] | \$2.8m |
| Total | \$5.8m | Total | \$5.9m |
| Ending Fund Balance | -\$0.1m | | |

^[1] Includes \$570k in ongoing professional and legal fees for negotiations and/or litigation concerning new contract.



Temp. Surcharge Effect

- Maintain a Fund reserve
- Enable continued legal and professional representation in negotiations
- Lessen the shock of future rate hikes for treatment (phase-in effect)
- Provide flexibility for allocating resources



Temp. Surcharge Effect

- Maintain a Fund reserve
 - 45-day reserve for operating expenses
 - Capital Improvement and Maintenance Projects
 - Unanticipated costs, including (historically) the True-Up amount
 - Transfers to other City Departments that support the utility



Temp. Surcharge Effect

| FY 09-10 Revenue Available (Projected) | | FY 09-10 Expenses (Projected) | |
|--|---------------|---|---------------|
| Beginning Fund Balance | \$1.1m | Treatment for 2009-10 | \$2.5m |
| User Fees (Rate Revenue) | \$3.5m | Treatment for Prior Years | \$0.6m |
| Reserves | \$1.2m | Other Operating Expenses ^[1] | \$2.8m |
| Total | \$5.8m | Total | \$5.9m |
| Ending Fund Balance | (\$0.1m) | | |
| Additional Revenue from Surcharge | \$0.8m | | |
| Total with Surcharge | \$6.6m | | |
| Ending Fund Balance (with Surcharge) | \$0.7m | | |

^[1] Includes \$570k in ongoing professional and legal fees for negotiations and/or litigation concerning new contract.

Wastewater Fund Unknowns

- Future cost of treating Milwaukie's wastewater treatment at Kellogg
- Future cost of treating the wastewater of others at TriCities
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Recommendation

- Adopt a temporary surcharge of \$2.00/ccf to be charged in addition to the monthly sewer rate
 - Anticipated to raise approximately \$800k
 - Qualified low-income customers exempt
 - Effective until new service contract signed with County
 - Council can elect to return any surcharge funds collected but not needed for managing the Wastewater Fund



WHERE WOULD THE MONEY GO?

| Rate Details | Old Wholesale Contract (Existing Condition for Ratepayers) | Temporary Surcharge | Current County Positions | New Wholesale Contract (to be negotiated) |
|--|--|--|---|--|
| Cost per Typical Water-Consuming Household | \$11/month | Additional \$14/month (\$25 total) | \$20-\$25/month | To be determined |
| Enacted by | Milwaukie City Council | Milwaukie City Council | Clackamas County Board of Commissioners (BCC) | To be determined |
| Paid To | Clackamas County | City of Milwaukie | Clackamas County | Clackamas County |
| Pays For | Cost of treating Milwaukie's wastewater at the Kellogg Plant only | Higher treatment costs, wastewater-related professional/legal costs, capital improvement and maintenance costs | Cost of expanding infrastructure to treat wastewater produced and treated outside of Milwaukie | To be determined |
| Stays In Place | Already expired. Agreement terminated by Clackamas County on 7/31/09 | Until execution of a new Wholesale Contract, or December 31, 2010 | Until BCC adjustment, to be considered annually "based on all factors...(concerning) the District's system" | To be determined |
| Contributes to Kellogg's Downsizing or Decommissioning | No | Yes | No | To be determined |

Alternatives

1. Adjust the proposed methodology to either
 - a. Change the amount of money raised
 - b. Distribute the total burden differently
2. Adopt but delay implementation
3. Reject proposal; cut Fund costs
4. Reject proposal; enact permanent rate increase



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Thank you.

