

SPRINGFIELD UTILITY BOARD
223 A Street, Suite F
Springfield, Oregon 97477

BUDGET COMMITTEE MINUTES
2019 PROPOSED BUDGET
November 1, 2018

ATTENDANCE:

Budget Committee: Board: David Willis, Chair; John DeWenter Vice-Chair, Virginia Lauritsen, Pat Riggs-Henson; Mike Eyster. Lay Members: William Belcher, Budget Committee Chair; Robert Scherer; Neal Forrester; Michelle Bronson; Kris McAlister; Steve Moe; Bobbie Adams, absent. Staff: Jeff Nelson; Bob Fondren; Sanjeev King; Greg Miller; Cindy Flaherty. Others: None.

CALL TO ORDER:

William Belcher, Budget Committee Chair, called the meeting to order at 6:00 p.m. and led everyone in the Pledge of Allegiance.

**ELECTION OF CHAIR FOR
2019 BUDGET COMMITTEE**

Chair Belcher called for nominations for a 2019 Budget Committee Chair.

- * John DeWenter motioned, and Mike Eyster seconded, to reappoint William Belcher as Chair of the 2019 Budget Committee. This motion **CARRIED** unanimously.

**UPDATE ON
REAPPOINTMENT OF
BUDGET COMMITTEE
MEMBERS**

Jeff Nelson noted that there were four members of the Budget Committee whose terms were expiring at the end of 2018. The following members were contacted and are interested in being reappointed: Bobbie Adams, Steve Moe, and Neal Forrester. Board Chair Willis updated everyone that Ken Boyst will be resigning from the Budget Committee and will be sending an official letter of resignation.

Mr. Nelson said that the Board may take action at the next board meeting to reappoint Bobbie Adams, Steve Moe, and Neal Forrester to a 3-year term that will expire on December 31, 2021.

ADDITIONAL ITEM

Chair Belcher added that General Manager Nelson would like to know if the Budget Committee has any specific questions or concerns regarding the proposed budget for 2019.

Following brief discussion regarding Budget Committee questions on the proposed 2019 budget, Mr. Nelson explained that these questions will be answered during his review of the proposed 2019 budget; and if some aren't, then he will follow up with budget committee members in the near future.

Chair Belcher then asked Jeff Nelson to begin the review of the proposed utility operating budget for 2019.

REVIEW OF PROPOSED 2019 BUDGET:

Mr. Nelson began by referring to his overheads (Exhibit A), and said that he will review the budget and rates planned process, 10-Year Plan highlights, reserve levels and debt schedule, 10-Year Plan assumed rate increases, power cost overview, energy efficiency, and water supply and infrastructure.

He explained tonight he will provide the presentation on the proposed 2019 utility operating budget, and the first public hearing will be held during the November 14 board meeting. However, the Board will not take action at that meeting. There's a second budget committee meeting scheduled for December 5, although, if the Budget Committee completes its deliberations tonight, then the December 5 budget committee meeting will be cancelled. The second public hearing with potential Board action is scheduled for the December 12 Board meeting.

Public hearings will be held in November and December 2018 for a proposed 2019 water rate increase that would be effective on all bills rendered on or after January 1, 2019. There are also public hearings planned to be held in March and April of 2019 for both the proposed electric rate increase and dark fiber rate increase and, if approved by the Board, are to be effective May 1, 2019.

Mr. Nelson noted that SUB is proposing a \$10 million third party loan for the Water Utility in 2019, which has not been executed, and a \$17 million loan is planned in 2024 to help fund the cost of the new water treatment facility. There is also \$1 million proposed spending for additional Telecommunication infrastructure.

Bob Fondren then shared a brief update on reserve levels. He noted that in 2012 the Board and Budget Committee discussed adequate reserve levels and the decision was to use three

months of the operations budget as a benchmark. Three months of operations using the 2017 budget was approximately \$13 million for the Electric Utility, and \$3 million for the Water Utility. In 2019, the operations budget is approximately \$60 million for the Electric Utility, and \$16 million for the Water Utility. The three month reserve levels would be \$15 million for the Electric Utility, and \$4 million for the Water Utility. Currently the reserve levels for the 2018 budget are \$13 million for the Electric Utility, and \$2.5 million for the Water Utility.

Following brief discussion on reserve levels, Jeff Nelson briefly reviewed the following graphs with the Budget Committee: *10-Year Plan Assumed Electric Rate Increases; 10-Year Plan Assumed Water Rate Increases; and 10-Year Plan Assumed Dark Fiber Rate Increases; Where Each Dollar Expense Goes for the Electric and Water Utilities; SUB's Total Bill by Year for the Average Residential Customer for the years 2004 to 2019.* He then shared a graph; *Monthly Electric and Water Bill by City (projected for 2019)*, which shows that SUB's bill remains competitive with the seven other local/regional cities used in this comparison chart.

Mr. Nelson then shared a power cost overview. Bonneville power and transmission costs charged to SUB represent approximately 66% of electric costs. Bonneville adjusts rates every two years. SUB's 2% electric rate increase in 2018 covered a portion of Bonneville's increases; and an increase of 2% effective May 2019 is proposed to cover a portion of the Bonneville increase. The budget proposes to use reserves to cover the revenue shortfalls budgeted in 2019. Bonneville has some contribution to utilities for essentially to cover some of their administrative costs to implement its energy efficiency program, and that's built in to the structure of the incentive payments that SUB receives from Bonneville, and further discussed that process.

He also shared his graph, *Annual Incentive Dollars with Energy Savings kWh*; which represents incentives paid out to SUB's customers, by type, and the kilowatt hour (kWh) savings for each customer type. His next two slides detailed how much energy savings was received per customer type for every dollar spent over the past three fiscal years.

Because the Bonneville power structure on the measures changes the future activity of the Energy Efficiency Program, explained Mr. Nelson, SUB is projecting more commercial Heating Ventilation and Air Conditioning (HVAC) efficiency projects; more residential weatherization; continued support for industrial projects; lower incentives for commercial lighting; and residential lighting incentives will likely be gone by October 2019. The reason for this, he explained, is that the LEDs that are mandated by the 2007 Energy Independence & Security Act (EISA) which is basically a federal standard established that says manufacturers must produce a more efficient light bulb, and because those are becoming more efficient, there is no reason to provide an incentive for something that already is required at the state level, as with building codes.

Mr. Nelson shared information on SUB's water supply and infrastructure. He said SUB's water sources are from wells and surface water (Willamette River); SUB continues to move forward with investments to develop its water rights on the McKenzie River with a new surface water treatment facility; SUB has developed and continues to develop new upper level pump stations and storage reservoirs; new water mains are planned for further integration of SUB's systems; and water main replacement continues to be implemented.

Mr. Nelson discussed the MountainGate area and noted that the 66th and Jessica Drive area has been referred to as MountainGate Phase II. (Lots are platted, streets are in, water infrastructure is in, but they have no water service as there is currently no fourth level water facilities to serve those lots in this Phase II area.) SUB has been in discussions for many years and he explained that SUB recently received approval from the Board, working with the developer on a transaction where the developer would contribute a significant amount of funds towards the improvements needed for upper level water service for lots in the MountainGate area. In the future, SUB will be planning for and moving forward with \$1.6 – \$1.8 million worth of new facilities that were not anticipated in the fire 10-Year Plan. Other things that impacts the 10-Year Plan are projects driven by third parties, such as when the Oregon Department of Transportation (ODOT) informs SUB that they're working on a project to resurface a street, and the ODOT right-of-way is controlled by ODOT. So SUB has to move these types of projects to the front of the line. There's limited ability to

eliminate other projects off the budget, he explained, due to the need to meet deadlines on those other projects, so these types of third party projects get added on to proposed revenue projects.

Greg Miller explained that a section of South 28th Street, from the railroad tracks to the mill race, is currently a gravel road. SUB has water lines that come out of SUB's Willamette Wellfield source and go up South 28th Street and connect to the rest of SUB's water distribution system. South 28th Street is scheduled for reconstruction in 2020. Prior to that reconstruction, SUB will have to replace infrastructure where portions are 20 inch steel water mains. This is just one example of projects driven by a third party.

Jeff Nelson noted that this is a proposed budget, and if the Budget Committee wishes, it could make a recommendation or re-look at rate increases. There are other rate increase scenarios with higher rate increases over the next few years, and SUB could borrow less money and still have the same outcome.

After some general discussion, the consensus was to table the discussion and move into the proposed 2019 budget presentation, and then if time allows at the end of tonight's meeting, to further summarize the next steps that the Budget Committee would like to give guidance to SUB's staff regarding the proposed 2019 budget.

Mr. Nelson expressed his appreciation of everyone's feedback and work on the budget.

BUDGET SUMMARIES

Referring to the Proposed 2019 Budget binders, Mr. Nelson began with the Budget Summaries and reviewed some highlights in the Electric, Water, and Telecommunications Comparative Summaries, which reflect general sales and some items that he will highlight. SUB is seeing higher interest rates on reserve levels of working capital, so we are seeing more interest earnings. The funding for SUB's Project Share is under the Board's department, and he will review more on if this is it at the right funding level, later in the proposed budget.

Mr. Nelson then discussed full-time equivalent (FTE) employees identified in the Personnel Summary on page 66, in the

Proposed 2019 Budget binders. He noted that SUB is proposing a reduction in FTEs, however the proposed budget will show an increase in FTEs in Water Production, which is in anticipation of in-house staff to be trained to be able to address and manage SUB's diverse water supply; and there is a proposed reduction of 1 FTE in Customer Service.

The Electric Utility shows the \$277,066 payment in 2018, and the \$726,238 payment in 2019 for the Telecommunications Utility, which is roughly the \$1 million commitment that the Board approved for telecommunication infrastructure.

The Water Utility reflects payment for System Development Charges of \$915,000 by year estimated end; this reflects the onetime payment by the developer in the MountainGate subdivision to pay for upper level facilities, yet to be constructed. SUB's cost for those upper level facilities is projected to be \$1.6 to \$1.8 million. There are increases in purchased water cost for Rainbow Water District; the 2019 proposed budget also shows the loan proceeds of the \$10 million loan on the Water side, and increased debt service cost associated with that for a period of next year, starting July 1, 2019.

The Telecommunications Utility shows the revenues from Electric to Telecom for telecommunications transfers. The telecom infrastructure revenue are the funds he discussed earlier about how the investments made for fiber to the premises for the home or business; if a third party leases the fiber, then SUB would receive payment over time for the use of that infrastructure.

GENERAL MANAGEMENT DIVISION

Referring to the proposed budget for Department 10 – General Manager, Mr. Nelson reported there is a decrease in Account 1280, Rent Expense due to purchase of rental property. He explained that SUB is in discussions to acquire the property from the property owner, and SUB would no longer be a renter.

Jeff Nelson referred to the proposed budget for Department 11 – Board of Directors. In 2018, SUB received a one-time reimbursement from the Oregon Municipal Electric Utilities (OMEU) (SUB is a member) associated with an adjustment for all members due to higher than needed financial reserve levels

within OMEU. In 2019, it is proposed that SUB not continue its full membership in Northwest River Partners (NWRP). SUB's membership in NWRP is approximately \$17,000 per year.

Account 1470, Community Donations, includes opportunity funding for projects which may include funding for failed underground street light feed repair, additional limited income bill payment assistance, and/or other projects. Underground street light feed repair grant funding is expected to increase in 2018, due to additional feed repair projects pursued by the City. This cost is expected to drop off in 2019, as many of the failed underground street light feeds are expected to be completed.

Account 1840, Tax Assessments-ODOE, Mr. Nelson noted that SUB is in the process of suing the Oregon Department of Energy (ODOE) for the Energy Supplier Assessment (ESA), along with a number of other utilities.

Mr. Nelson referred to the proposed budget for Department 25 – Human Resources, has the following significant changes: an increase in 0110, Regular Salaries, to reflect reclassification of HR Coordinator Position to HR Analyst; an increase in Account 0700, Professional Organizations, to reduce duplication of benefits offered; an increase in Account 1540, Professional Services, Consulting, in anticipation of needs related to compliance with the Oregon Pay Equity Law and to prepare for collective bargaining in early 2020; an increase in Account 1600, Insurance – Plant/General, to reflect current actual costs; an increase in Account 1650, Training & Seminars, to cover additional costs for in-house Facilitative Leadership Trainer Certification, anti-harassment and supervisory training in 2019; and Account 5100, Data Processing Hardware, includes funding for an HR laptop to improve efficiency.

There are no significant changes in the proposed budget, Mr. Nelson said, for Department 27 – Safety and Risk Management.

RESOURCE MANAGEMENT DIVISION

Jeff Nelson said Department 15 – Director of Resource Management has no significant changes. He noted that the Utility Analyst and the Utility Planner split their activities between Resource Management at 0.95 FTE, and the balance of 0.05 FTE for the Telecom Utility.

Referring to Department 12 – Office Facilities, Mr. Nelson noted some significant changes, mainly increase in costs for Account 5400 – Buildings and Remodeling; this includes the replacement of heat pumps, a building expansion, and painting on some capital projects for facilities. A decrease in Account 6300, Technical Consultants, Design and Engineering, which includes update design to roof to eliminate leaks for the Electric Service Center, and design of office building expansion and design and scope for emergency generator for the Water Service Center.

Referring to the proposed budget for Department 13 – Efficiency Services, there are some significant changes and Mr. Nelson explained that these changes are due to the dynamics around how those programs move and how SUB has to balance the program(s) depending on how Bonneville is measuring those measures and incentives.

Referring to Department 17 – Customer Connection, and Department 19 – Key Accounts; there are no significant changes in these departments.

CUSTOMER SERVICES AND MARKETING DIVISION

Referring to the proposed budget for Department 24 – Customer Services, Mr. Nelson shared the following significant changes: the elimination of one full-time Customer Service Representative position; a decrease in Account 1200, Main Telephone Sys/Pagers expense due to a change in process in communication with field personnel; an increase in Account 1370, Bank Fees expense due to increase in fees to process debit transactions; and an increase in Account 1340, Public Relations Write-off expense due to increase in water leak credit amount.

He added that there are no significant changes in the proposed budget for Department 29 – Marketing Communications.

MANAGEMENT INFORMATION SERVICES DIVISION

Bob Fondren reviewed the departmental budgets for his division. He noted that the Management Information Services Division covers Accounting, Information Technology, Billing, and Meter Reading departments. Management Information Services also administers the SUB pension plans, investment administration, and all other banking relationships.

Referring to the proposed budget for Department 80 – Director, Management Information Services, there are just a couple of significant changes: Account 1560 – Contract Services, we will be upgrading the security system and fire alarm to an internet based protocol instead of a modem communication; as well as upgrading the key card door locks at the Fleet Shop, Water Service Center, and the Electric Service Center.

As for Department 81 – Accounting & Finance, there are no significant changes in the proposed budget.

Mr. Fondren referred to Department 83 – Information Technology, and shared some significant changes for that department. There's an increase in Account 0110, Regular Salaries, as there's an overlap in positions due to two retirements; an increase in Account 1560, Contract Services, for enhancements to the SUB web pages; a decrease in Account 5100, Data Processing Hardware, for the completion of the new phone system install; and an increase in Account 5200, Data Processing Software, for the replacement of human resource and payroll systems, due to end of life of the current database program.

In Department 21 – Meter Reading, Mr. Fondren said, there are three significant changes: a decrease in Account 0110, Regular Salaries, the mass replacement project has been completed; an increase in Account 2000, Small Tools, for the purchase of grey meter seals. This is for a 3-year stock purchase; he explained that whenever the meter readers pull seals to check if the meters have been tampered with, they replace them with grey meter seals. There's also an increase in Account 2020, Safety Materials & Supplies, for an increase in boot allowance costs, as there's now a new OSHA requirement on boots.

There are no significant budget changes for Department 26 – Billing, he said.

ELECTRIC DIVISION

Sanjeev King reviewed the departmental budgets for his division.

In Department 40 – Director, Electrical Engineering and Operations, we have an increase in Account 5300, Land and Land Rights, which Jeff Nelson discussed in his Budget

Message related to purchase of easement for transmission line for the Glenwood Substation; and an increase in Account 7433, SUB Telecom Payment, transfer to cover estimated costs associated with new Division 9 Telecommunications. Mr. Nelson added that the property which SUB is currently renting and is in discussions to acquire is also included in that 2019 figure.

In Department 41 – Engineering, there’s a reallocation of labor costs in Department 41, 44, and 46 for Associate Electrical Engineer; there was a vacancy on the Engineering Team last year, and that position has been filled, however that FTE is reallocated differently than it was in 2018, so the numbers are a little different but they all add up to one FTE for Departments 41, 44, and 46. There’s also a reallocation of labor costs in Department 41, 46, and 32 for an existing FTE for the Standards & Planning Engineer to include a little time in the Telecommunications Division, as we move forward with connected clusters. Then there’s an increase in Account 1160, Maintenance Contracts, due to expiration of a discounted multi-year software maintenance contract in conjunction with an increase in software maintenance costs overall.

In Department 43 – Tree Trimming, there is one significant change in Account 6200, Payments to Contractors, for transmission right-of-way clearing.

Mr. King said in Department 44 – Substations, there are significant changes: a vacant Journeyman Station Wireman position to be filled with Apprentice Station Wireman; a decrease in Account 1160, Maintenance Contracts, for 2019 from multi-year maintenance contract for SCADA made in 2018. In Accounts 6200, Payments to Contractors; 6300 Technical Consultants; and 6400 Electric Materials; all reflect changes in work plan primarily due to Glenwood Substation construction and replacement of Laura Bank #1 substation transformer due to failure.

In Department 45 – Construction, there are two significant budget changes: an increase in Account 6200, Payment to Contractors, reflects changes in work plan; and an increase in Account 6400, Electric Materials, also reflects changes in work plan.

In Department 46 – Metering, Mr. King explained, again there’s

been some reallocation of labor costs, as noted earlier. There's a decrease in Account 6400, Electric Materials, due to completion of accelerated meter replacement project; and an increase in Account 5010, Tools & Equipment, for replacement of one meter test bench.

There is one significant change in Department 47 – Materials and Fleet Management. There's an increase in Account 5000, Construction/Transportation Equipment, which reflects the 5-year vehicle replacement plan. He explained that a vehicle that was due to arrive in December 2018, is now going to arrive in January 2019, due to some issues of a factory fire and a delay of the manufacture of the chassis for the Digger Derrick.

WATER DIVISION

Greg Miller reviewed the departmental budgets for his division.

Referring to the proposed budget for Department 60 – Director, Water Engineering & Operations, there are two significant changes: an increase in Account 5300, Land and Land Rights, includes the \$700,000 for year-end for purchase of the land acquisition of the MountainGate property for the 4th level facilities; and an increase in Account 7540, Debt Service, due to new \$10 million loan mid-year 2019.

In Department 61 – Engineering, has some significant changes to note: an increase in Account 5010, Tools & Equipment, reflects 2019 purchase of GPS/GIS data gathering survey equipment; a decrease in Account 5300, Land & Land Rights, reflects change in schedule of construction and projects (McKenzie River Intake Structure) from 2018 to 2020; an increase in Account 6300, Technical Consultants, (2018 year-end) reflects expedited services to complete design, planning and construction of 4th level pumping and storage facilities; and an increase in the 2019 Proposed - reflects a change in scope of construction and engineering related projects as scheduled in the 10-Year Plan.

Mr. Miller said that Department 62 – Warehouse, shows a decrease in Account 0110, Regular Salaries, which reflects discontinuation of Lead Storekeeper position and conversion of Storekeeper/Water Crew Helper position to Storekeeper Position.

There are significant changes in the proposed budget for Department 63 – Construction: an increase in Account 5000, Construction/Transportation Equipment (2018 year-end), which

reflects manufacturer cost increase for Large Vector Truck scheduled for 2018 purchase in the 5-year vehicle replacement plan; a decrease in Account 6200, Payment to Contractors (2018 year-end), that reflects shift of planned contractor projects for work performed by SUB crews; a decrease in 2019 Proposed - reflects changes in construction as scheduled in the 10-Year Plan; and a decrease in Account 6400, Electric/Water Materials/Supplies, that reflects changes in construction projects scheduled for 2019 in the 10-Year Plan.

In Department 64 – Production, there are significant changes consisting of an increase in Account 0110-Regular Salaries, that reflects removal of the Water Production SCADA/Controls Engineer position and the addition of two Water Production Crew Helper positions; an increase in Account 1160, Maintenance Contracts, which reflects cost adjustment made to Fiber Optic lease agreement and cost increases to various control system software maintenance agreements; an increase in Account 1650, Training and Seminars, which reflects the addition of two Water Production Crew Helpers and the associated operator training needs and CEU requirements; an increase in Account 200, Safety Materials & Supplies (2018 year-end and 2019 proposed), reflects unscheduled purchases of required Air Monitoring and Fall Protection equipment as determined through recent OSHA consultations; a decrease in Account 5200, Data Processing Software, reflects completion of major software version upgrades to SCADA and Security systems for Water Production facilities in 2018; a decrease in Account 6200, Payment to Contractors (2018 year-end), reflects change in schedule of construction and projects (McKenzie River Intake Structure) from 2018 to 2020; an increase 2019 Proposed - reflects changes in Production projects scheduled for 2019 in the 10-Year Plan.

In Department 65 – Water Quality, he said, there are two significant changes: an increase in Account 0700, Professional Organizations, reflects new membership fee to The Water Research Foundation; and an increase in Account 6200, Payment to Contractors, reflects payment to contractor for residential backflow inspections. That expense is expected to be recovered through customer voluntary participation in backflow inspection/billing program and applied to Division 2 annual revenues.

TELECOMMUNICATIONS
DIVISION

Jeff Nelson reviewed the departmental budgets for this division.

Department 32 – Telecommunications, shows a breakdown of the different personnel requirements which reflects an increase in Account 0110, Regular Salaries, for the Electric Engineering Manager and the addition of Standards & Planning Engineer; and in Account 6200, Payments to Contractors, the increases for 2018 and 2019 reflect additional infrastructure such as connected cluster projects.

After discussion, Budget Committee Chair Belcher noted that the next steps will be to hold a second Budget Committee meeting for further deliberations on the proposed budget, and to come back with some recommendation with a different level of borrowing and balancing against rate increases. Chair Belcher then shared that we are here to work in the best interest of SUB, but that we are also community representatives and have to think about the needs and viability of the community.

Mr. Nelson added that he will provide further scenarios and requested information and will also provide data regarding late fees versus rate increases, as well as disconnects versus rate increases at the next Budget Committee meeting scheduled for December 5, at 6:00 p.m.

ADJOURNMENT:

The meeting was adjourned by consensus at 8:35 p.m.

David Willis, Board Chair

ATTEST:

Jeff Nelson, Board Secretary