McMinnville City Services Charge

Joint meeting

McMinnville City Council

McMinnville Budget Committee

McMinnville Water and Light Commission

February 16, 2022

City of McMinnville

City Services Charge Meeting

Presentation

Deborah Galardi, Galardi Rothstein Group
McMinnville staff

Discussion and Q & A

Policy guidance conclusions

1. Charge structure
2. Customer class pricing and overall charge revenue target for FY2022-23 budget
3. Other funding sources
4. Exemptions, discount program

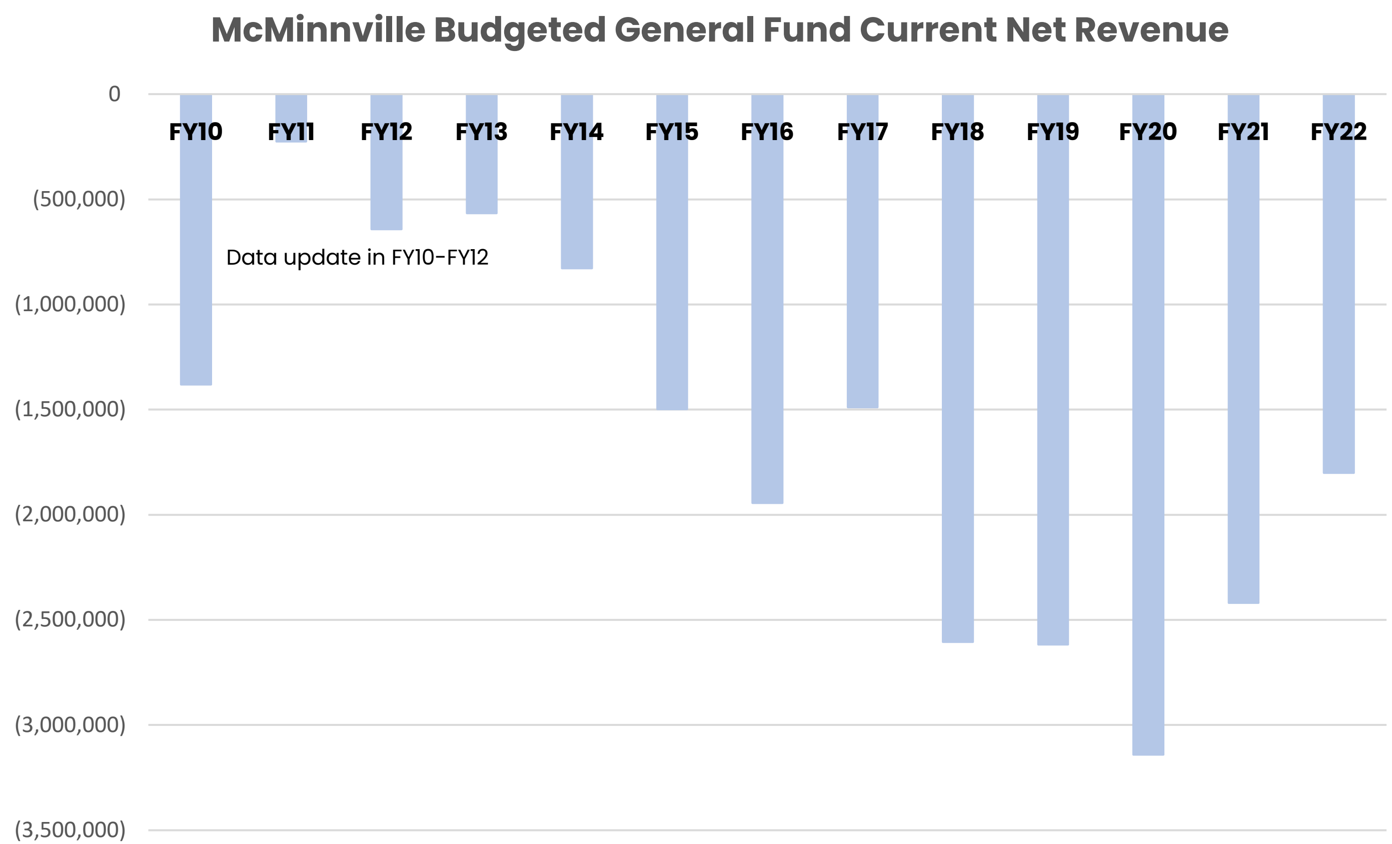
Background

[City Staff]

Purpose of City Service Charge

- The city is required by law to adopt and operate within a balanced budget
- The new resource will be used to maintain existing staffing, programs, and services in our fire, library, parks and recreation, police, and administration – which are all funded by our General Fund
- The City Services Charge will fund the city's "core services" – basically *what* we do and *how* we do it
- MacTown 2032 includes new work that the community aspires to – new resources will allow the city to advance on those goals as well

How did we get here?



A persistent budget gap of approximately $2 million exists in the general fund, which has a negative impact on the city's ability to sustain current service levels

Sustainable Resources Process

City Council adopted 2021 Annual Goals on June 22, 2021, which included among them:

> Right-Size Services: Address insufficient resources by finding new sustainable funding sources; look for ways to bring additional revenue into the City's general fund

Staff researched 17 resource options identified by Budget Committee as worthy of more study from an original list of 36 different municipal revenue options

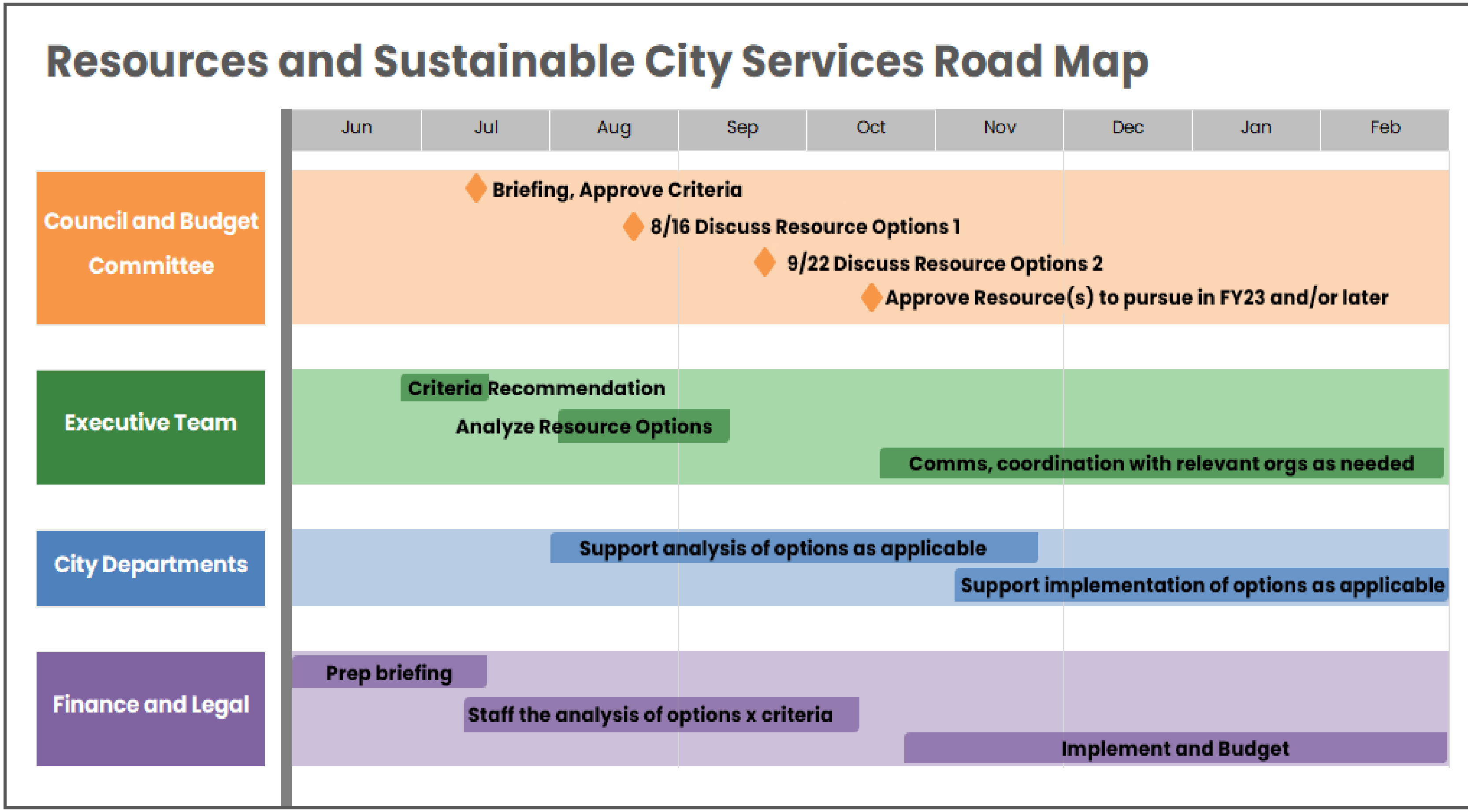
Sustainable Resources Process

Budget Committee recommended the city follow up on initiating a service fee, among other actions, to support general city services at its October 20, 2021, meeting

Resolution 2021-55 regarding sustainable funding sources

- Passed on November 9, 2021
- The City Services Charge paid via utility billing is included in resolution
- Other strategies are also noted including review of franchise agreements

Sustainable Resources Process



City Services Charge

[Deborah Galardi]

Council policy decisions

Charge Structure

- Basis for charge (accounts, units, meters)
- Uniform rate vs. class-specific pricing

Pricing & Revenue Targets

- Annual net revenue overall
- Pricing by class (revenue allocation)

Other Funding Sources

- Payment in Lieu of Tax on electric service
- Franchise fees

Billing Policies

- Exemptions
- Low-income discounts

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City Services Charge: High Level Work Plan

Rate Structure Evaluation

- Review other city charges
- Review available billing system data
- ID options for development

Develop Rate Options

- Estimate annual units of service
- Customer class pricing and revenue scenarios
- Sample customer bills

Implementation Plan

- Data verification
- Billing system modifications
- Policies and procedures
- Customer outreach

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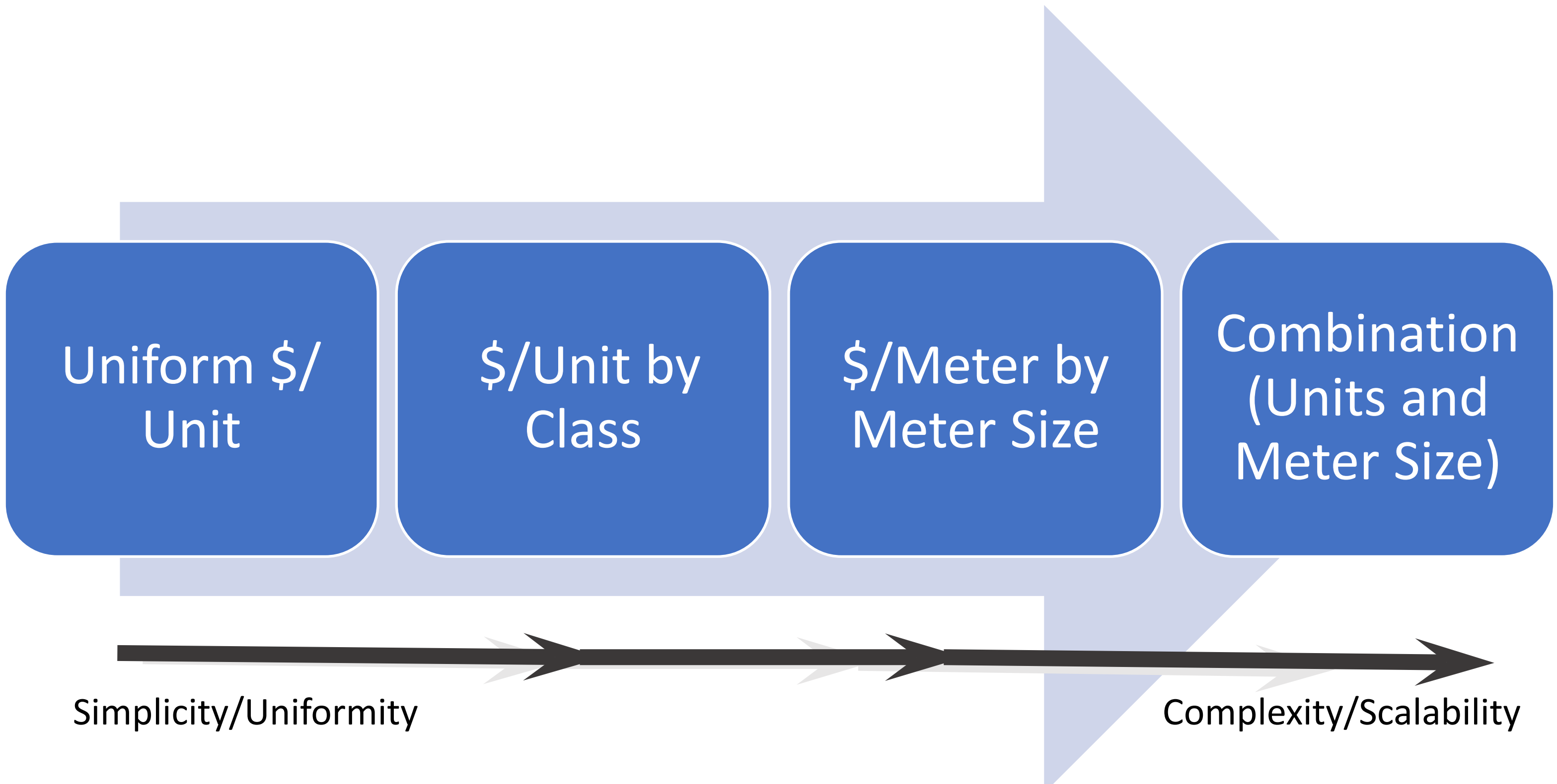
Rate Structure Types



Rate Structures in Practice

Structure Type	Example City(ies)
Uniform $/Unit	Gresham, Medford
$/Unit by Class	Keizer, Salem, Sandy
$/Meter by Size	Corvallis, Newberg
Combination ($/Unit and Meter Size)	Albany

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Preliminary City Services Charge Structure Options*

Option	Charge Basis by Class		Pricing by Class
	(Residential & Multi-unit Commercial)	Nonresidential (Single Unit)	
1	Number of Units	Per Account	Varies
2	Meter size	Meter Size	Uniform
3	Number of Units	Meter Size	Varies by type of unit for single family & multifamily
4	Number of Units	Meter Size	Varies by type of unit for all classes

*All options:
1) include low-income residential discount
2) Based on $2 M projected revenue for illustration only
3) *Revenue estimates are preliminary pending further data verification*

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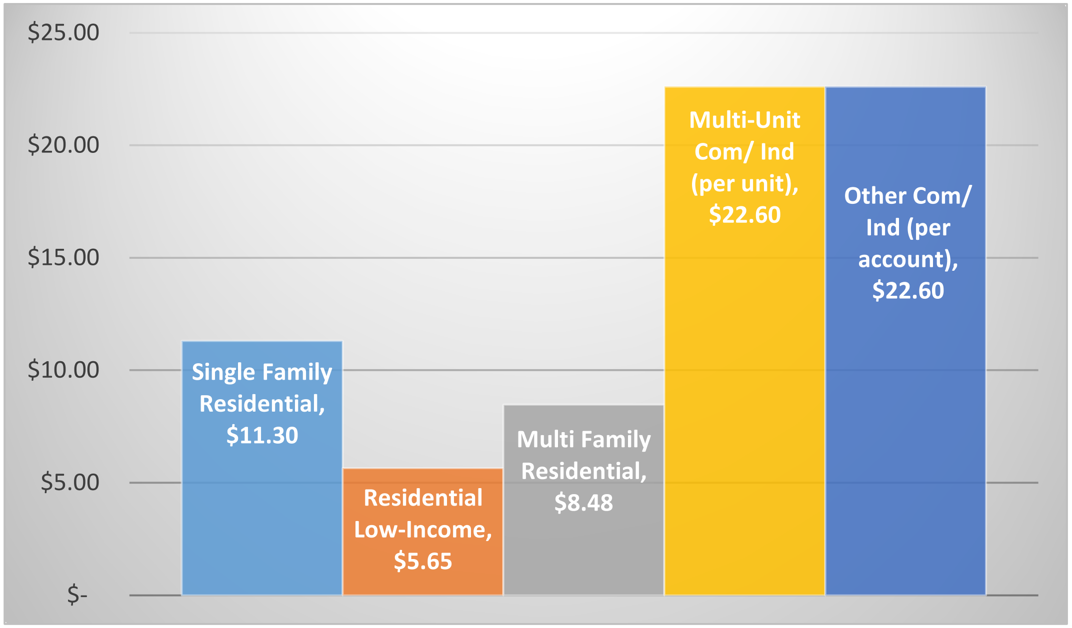
Option 1: Charges per Unit or Account *($/unit varies by class)*

- Multifamily $/unit = 75% single family reflecting lower average dwelling unit occupancy.
- Nonresidential pricing a policy decision (2 X single family for illustration.



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Option 2: Charges by Meter Size *(Uniform charges by class)*

- All single-family residential charged based on ¾” meter.
- Meter factors reflect hydraulic capacity factors.

Meter Size	Meters	Meter Factor	Option 2 $/Month
Residential & Gen Svc 3/4"	10,651	1.0	$11.40
1"	237	2.5	$28.50
1 1/2"	158	5	$57.00
2"	182	8	$91.20
3"	30	16	$182.40
4"	23	25	$285.00
6"	7	50	$570.00

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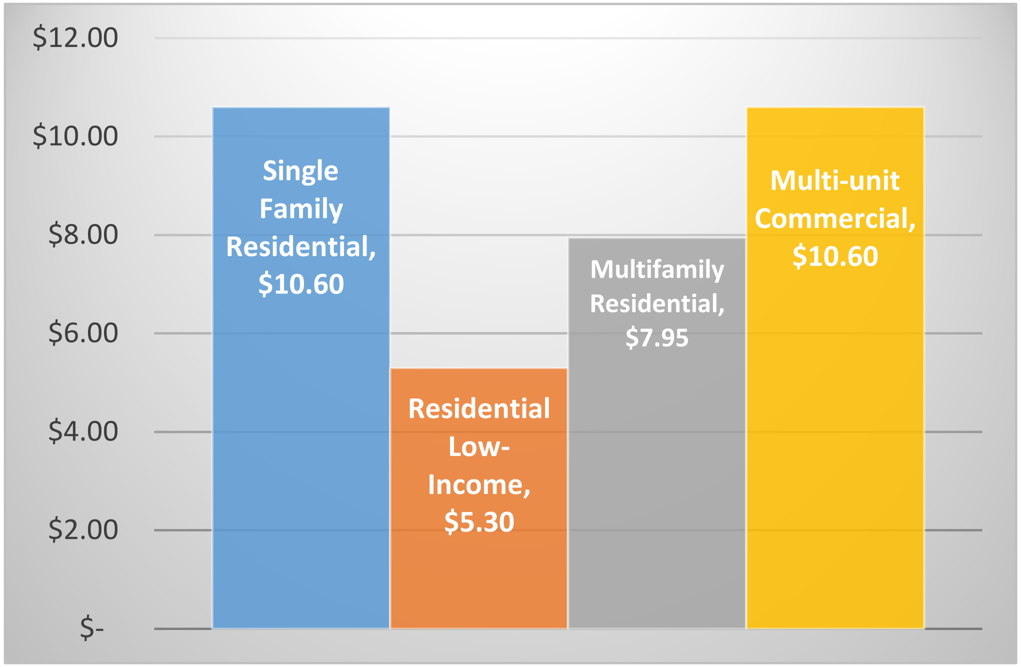
Option 3: Residential & Multi-Unit Commercial $/Unit; Nonresidential by Meter Size *(Different $/unit by dwelling type)*



Commercial/Industrial	$/Meter
3/4" Meter	$ 10.60
1" Meter	$ 26.50
1.5" Meter	$ 37.10
2" Meter	$ 53.00
3" Meter	$ 84.80
4" Meter	$ 169.60
6" Meter	$ 265.00
8" Meter	$ 912.00
10" Meter	$ 2,394.00

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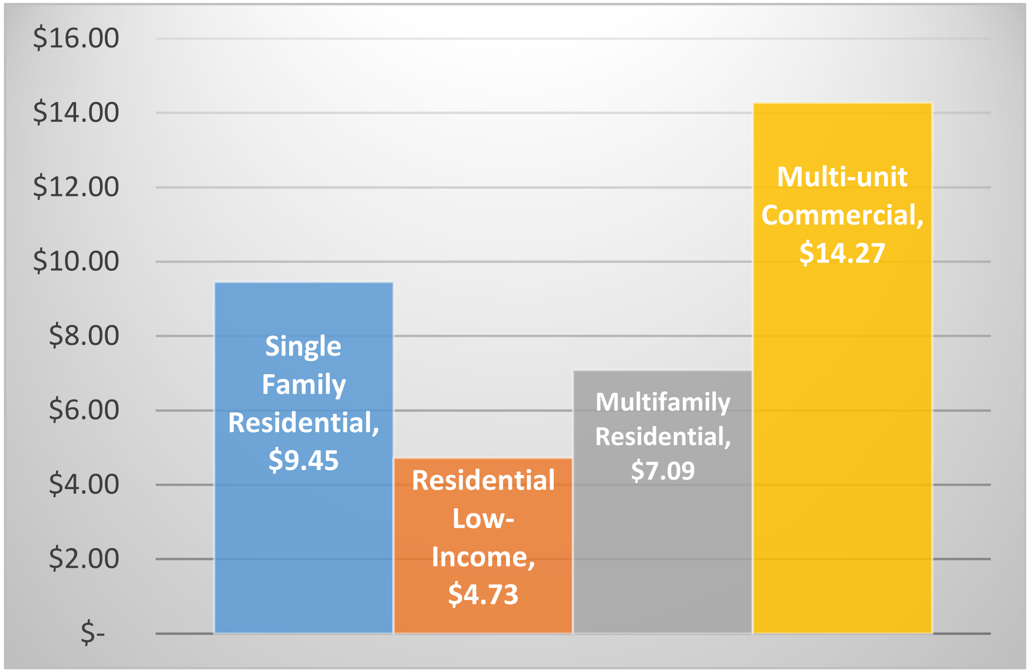
Option 4: Residential & Multi-Unit Commercial $/Unit; Nonresidential by Meter Size
(Different $/unit for all classes)



Commercial/Industrial	$/Meter
3/4" Meter	$ 14.27
1" Meter	$ 35.68
1.5" Meter	$ 71.36
2" Meter	$ 114.18
3" Meter	$ 228.36
4" Meter	$ 356.81
6" Meter	$ 713.63

Nonresidential revenue = 31% (based on employees as a percent of population + employees)

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Sample Bill Comparison

Customer Class	Units	Meter Size (")	Option 1: Rate per Unit & Class	Option 2: Meter Size	Option 3: Units/Meter Size	Option 4: Units/Meter Size
Residential (All Customers)	1	3/4	$ 11.30	$ 11.40	$ 10.60	$ 9.45
Residential Low Income	1	3/4	$ 5.65	$ 5.70	$ 5.30	$ 4.73
Multi Family						
Small complex	4	1	$ 33.90	$ 28.50	$ 31.80	$ 28.36
Large complex	88	4	$ 745.80	$ 285.00	$ 699.60	$ 623.88
Commercial/Industrial						
Small	1	3/4	$ 22.60	$ 11.40	$ 10.60	$ 14.27
Medium	1	2	$ 22.60	$ 91.20	$ 84.80	$ 114.18
Large	1	6	$ 22.60	$ 570.00	$ 530.00	$ 713.63
Commercial - Multi-Unit						
Small	2	3/4	$ 45.20	$ 11.40	$ 21.20	$ 28.55
Medium	9	2	$ 203.40	$ 91.20	$ 95.40	$ 128.45
Large	20	2	$ 452.00	$ 91.20	$ 212.00	$ 285.45
Estimated Total Revenue ($M)			*$2.0*	*$2.0*	*$2.0*	*$2.0*

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Comparison of Options

Criteria	Option 1 $/Unit (Class)	Option 2 $/Meter (Size)	Option 3 $/Unit and Meter Size	Option 4 $/Unit & Meter Size
Single Family Bill	$11.30	$11.40	$10.60	$9.45
Large Nonresidential Bill	$22.60	$570.00	$530.00	$713.63
Preliminary Revenue Allocation (%)				
Residential	67%	68%	63%	57%
Multifamily	15%	7%	14%	12%
Commercial/Ind.	18%	25%	23%	31%
Scalability	Low	Med	High	High
Administrative Complexity	Med	Low	Med	Med

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Comparison of Charges and Revenues

Option	Class	$2 M	$4 M	$6 M
Option 1	Single Family Residential	$11.30	$22.60	$33.90
	Large Nonresidential	$22.60	$45.20	$67.80
Option 2	Single Family Residential	$11.40	$22.80	$34.20
	Large Nonresidential	$570.00	$1,140.00	$1,710.00
Option 3	Single Family Residential	$10.60	$21.12	$31.68
	Large Nonresidential	$530.00	$1,056.00	$1,584.00
Option 4	Single Family Residential	$9.45	$18.91	$28.36
	Large Nonresidential	$713.63	$1,427.26	$2,140.88

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Example Other City Charges

City	Parks	Public Safety Fees	General Operations Fee	Residential Total[1]
West Linn	$19.26			$19.26
Gresham[2]			$15.00	$15.00
Medford	$5.35	$9.42		$14.77
Corvallis[3]	$0.50	$13.04		$13.54
Cornelius			$9.75	$9.75
Albany			$9.00	$9.00
Salem[4]			$8.34	$8.34
Keizer[5]	$4.00	$4.00		$8.00
Oregon City		$6.50		$6.50
Tigard	$6.16			$6.16
New berg[6]		$5.26		$5.26
Sandy		$4.50		$4.50
Average				**$10.01**
Median				**$8.67**

[1]Excludes utility fees for water, wastewater, and stormwater and streets
[2]Single multi-services fee for police, fire, parks
[3]Public Safety fee includes two separate fees for police and fire
[4]Single multi-services fee for public safety, parks and libraries.
[5]Sr. And Low Income = $2.24
[6]Public safety fees include two different public safety fees for staff postitions

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Billing Data Verification

- **Confirm billing data includes all accounts that should be billed and excludes other accounts:**
  - Include water only accounts (primary service)
  - Exclude secondary meters (irrigation, fire, etc)
  - Exclude the City? City currently pays electric but not water or sewer
  - Validate against property tax data or other sources to identify accounts to be added
- **Verify customer class assumptions if selected structure includes variable charges by class**
  - Residential vs. nonresidential
  - Multi-unit residential vs. nonresidential (dwelling units vs. multi-tenant commercial)

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Costs of City Services Charge

- **Identify one-time costs to establish program**
  - Invoice redesign and programming ($10,000 to $15,000 estimate)
  - Education campaign ($8,000 initial estimate)
  - Cost of McMinnville Water and Light staff (have requested initial invoice for time spent to date)
  - Consultant support ($30,000 estimate)
- **Identify carrying costs of program**
  - Customer service support
  - Accounting, reporting and compliance

Other Funding Sources

[City staff]

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Other Funding Sources

PILOT – Payment in Lieu of Tax

	Total FY21	PILOT %	PILOT Rev	
cat 1 - Gen Srv Ph3	9,702,753	6%	582,165	27.43%
cat 2 - Gen Service	2,430,190	6%	145,811	6.87%
cat 3 - Lrg Industrial	16,555,945	3%	496,678	23.40%
cat 4 -Residential	14,958,586	6%	897,515	42.29%
	43,647,475		**2,122,170**	

* City actual revenue received in FY2020-21 was $1.97 million

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Other Funding Sources

PILOT – Payment in Lieu of Tax

If City adjusts rate structure so that all payers contribute a **uniform 6%** level, revenues will increase approximately **$500,000** per year.

The balance of residential electrical users to commercial, industrial and institutional users will shift from 42%/58% to 34%/66%.

If City adjusts rate structure so that all payers contribute at a **new 7%** level, revenues will increase approximately **$930,000** per year.

The balance of residential electrical users to commercial, industrial and institutional users would remain 34%/66% in this scenario.

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Other Funding Sources

Franchise fees

Currently, the City does not pay water utility bills. To offset that revenue impact on McMinnville Water and Light, the City does not impose a franchise fee on water customers.

A component of the implementation work that staff is undertaking includes assuring that the City is paying full freight on the cost of implementing the City Services Charge and updating a variety of billing procedures.

Discussion of making a move towards full cost recovery for McMinnville Water and Light on water and related franchise work has also been flagged as an important topic to address for the future.

Implementation

[Deborah Galardi and City staff]

Billing Policy and Procedure Examples

Exemptions

- Outside city
- Secondary service (fire or irrigation)
- Undeveloped or unoccupied properties (with conditions)

Low Income Discount

- Applies to total utility service bill
- Specific to City Services Charge

Updating

- Update interval
- Annual Inflation adjustment
- Sunset clause

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Other Policies and Procedures

Delinquencies

- Public safety may be given preference over other services in cases of partial payment
- Generally, no lien on property or water disconnect for nonpayment of public safety or parks fees

Other

- Appeals processes

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Implementation Plan

Work with McMinnville Water and Light staff

- Have charge in place for the July 2022 billing cycle (though latest information from MWL staff indicates they now believe a 6-9 month implementation timeline is required)
- Collaborate on data available to refine revenue projections and assure all beneficiaries of city services are included as payers of the charge

Business process needs include:

- Cost recovery methodology
- Payment application across three utilities and new fee
- Bill dispute procedures and authorities
- Accounting, revenue recognition, funds transfers

Implementation Plan

Communications plan includes:

- Education campaign through billing inserts and informational sessions with local groups
- Website update
- Social Media Video campaign (councilors and staff)
- FAQs and customer service representative support

Council Next Steps

Ordinance will be crafted to reflect the rate structure and other pertinent details for the service charge

Resolution to address updates in the City's payment in lieu of tax (PILOT) for electric utility customers

FY2022-23 Proposed Budget will include the anticipated revenue and direct costs associated with the City Service Charge

Guidance on policy decisions

Charge Structure
- Basis for charge (accounts, units, meters)
- Uniform rate vs. class-specific pricing

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- Annual net revenue overall
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Billing Policies
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