

Dear Newport Utility Customer:

The City Council will be holding a public hearing on Monday, October 15, 2018, at 6:00 P.M., at the Newport City Hall, to consider approving a new utility rate structure for water, sewage, storm water, and infrastructure fees for the City of Newport. The City of Newport commissioned a rate study/analysis from FCS Group and has been reviewing the recommendations from this study since February of this year. The purpose of this study is to determine whether the current rates would generate sustainable revenues to operate, maintain, and rebuild the water, sewer, and storm water systems in the city, and whether the rate structure is fairly allocating the financial responsibilities for the system across the various types of utility customers. The City utility bill currently consists of a water, sewage, storm water rate, and an infrastructure fee.

**Rate Structure Recommendations:**

No utility rate increases have been approved for the current Fiscal Year (FY) 2018/2019 since the city has been evaluating the recommendations of the FCS utility rate study. (The fiscal year is July 1 through June 30 of each year.) Beginning July 1, 2018, the anticipated revenue necessary to fund operations and infrastructure will require adjustments in each fiscal year through FY 2025/2026. With this rate structure in place, the city plans to borrow capital funding in the fiscal year beginning July 1, 2018, and every two years thereafter, to pay for various system upgrades to the utility systems. The use of bonds enables the city to spread the impact of improvements over part of the life of the improvement, reducing the financial impact, to the ratepayers, of these improvements in the year that these projects are completed.

Two structural changes to the rate structure were recommended. The first is the implementation of a Cost of Service Analysis (COSA). The COSA allocates costs to the various customer classes (i.e. residential, commercial, industrial, etc.) corresponding to the level of service provided. Many costs for operating public utilities are incurred for the joint benefit of all customers, some costs benefit certain types of customers more than others, and other costs may benefit only specific customers. A COSA follows the principles of cost-causation – those that cause costs, pay costs. Thus, new rates are proposed to be allocated to the class of property served to meet those impacts on the utility systems.

The second structural change relates to the storm water fee and the infrastructure fee. Currently, the city charges a flat fee to customers for storm water expenses, and a fee based on meter size for infrastructure improvements. The FCS utility rate study recommends a significant change to these fees. A storm water fee is proposed to be implemented on July 1, 2019, which will be based on equivalent service units (ESU). An ESU represents a typical impervious surface associated with a single-family home or residence, which amounts to 2,700 square footage or one ESU. The commercial, industrial, and institutional properties will be charged based on ESUs for the area of surfaces that are paved or contain buildings. As it will take time to create this system of ESU's for the commercial, industrial, and institutional properties, the new storm water rate structure will take effect on July 1, 2019. When the ESUs go into effect, the new rate structure will be phased in over a three-year period while the current fees will be phased out over the same time period.

**Review by the City Council:**

Since reviewing these findings from the consultant, FCS Group, on February 5, 2018, the City Council has held a series of meetings, which have included a public information session on April 19, 2018, a Council work session on May 7, 2018, a public hearing on May 21, 2018, and additional work sessions on June 4, July 16, and August 6, 2018. In addition, the Budget Committee reviewed the fiscal impacts of these proposed rates on April 24 and May 8. A letter was sent to all utility customers on April 6 of this year describing the study and informing utility customers of the meeting schedules when utility rates would be discussed.

As a result of these discussions and considering public input through the course of the last six months, the City Council directed staff, on September 4, to make several changes to the rate structure as recommended by the FCS Group. These changes include phasing in the storm water ESUs and phasing out the infrastructure fee over a three-year period beginning on July 1, 2019.

The Council has also recommended the implementation of the COSA for the calculation of water and sewage rates effective December 1, 2018, with the next rate increase occurring July 1, 2019. As part of this rate restructure, the garden rate adjustment for wastewater would be eliminated, and the base fee for water would not include any units of water as part of the base fee. Please note that because of the ongoing rate study and evaluation, there has not been a utility rate increase since July 1, 2016.

In addition, the Council has directed staff to implement a low-income water and sewer program for customers who are at, or fall below, the 60% of Lincoln County median income. A third party will determine qualification for this plan.

**Impact on Rates:**

If the COSA is implemented, water customers for both single family and multi-family will experience a smaller increase in rates due to the impact that these customers have on the utility systems compared to commercial and institutional customers. These customers would experience a larger burden for costs as compared to an overall flat rate increase for all customers. For sewage customers, the residential users will see smaller increases while the multi-family, commercial, and institutional customers would see a larger increase of rates if the COSA were implemented instead of a flat rate increase for all customers. On July 1, 2019, the storm water ESUs would be implemented over a three-year period, phasing in the storm water ESUs and phasing out the infrastructure fee. This change would shift some of the burden for storm water expenses from residential and small commercial properties to properties that have large buildings and parking areas.

Examples of the impact that the proposed rates would have are as follows:

Resident Using 6,000 Gallons (5/8" or 3/4" Meter) COSA / Storm Water by ESU 3 Year Phase-In and Current Storm Water 3 Year Phase-Out							
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Water	41.80	42.50	45.05	47.73	50.59	53.66	56.88
Wastewater	65.00	60.68	65.53	70.78	73.63	76.53	79.59
Storm Water	8.25	8.25	18.73	13.79	8.62	8.82	9.02
Infrastructure Fee	7.30	7.30	-	-	-	-	-
Total	122.35	118.73	129.31	132.30	132.84	139.01	145.49

Medium Size Restaurant Using 42,000 Gallons 2 ESUs COSA / Storm Water by ESU 3 Year Phase-In and Current Storm Water 3 Year Phase-Out							
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Water	185.80	210.90	223.56	237.13	251.20	266.21	282.18
Wastewater	353.50	409.34	442.20	477.35	496.69	516.51	537.17
Storm Water	8.25	8.25	21.48	19.41	17.24	17.64	18.04
Infrastructure Fee	7.30	7.30	-	-	-	-	-
Total	554.85	635.79	687.24	733.89	765.13	800.36	837.39

Large Commercial Using 5 Meters 47 ESUs with COSA and ESU 3 Year Phase-In and Current Storm Water 3 Year Phase-Out							
	2016-2017 2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Water	594.45	670.08	710.30	753.36	798.11	845.83	896.58
Fire Line	20.85	20.85	20.85	20.85	20.85	20.85	20.85
Wastewater	1,045.30	1,210.42	1,307.56	1,411.55	1,468.69	1,527.31	1,588.40
Storm Water	41.25	41.25	209.14	304.98	405.14	414.54	423.87
Infrastructure Fee	65.60	65.60	-	-	-	-	-
Total	1,767.45	2,008.20	2,247.85	2,490.74	2,692.79	2,808.53	2,929.70

Should you have any comments please send them to following email address:

[publiccomment@newportoregon.gov](mailto:publiccomment@newportoregon.gov)

**Additional information:**

Additional information about the proposed rates can be found at the following link on the City of Newport website:

<http://newportoregon.gov/dept/fin/utilitybilling.asp>

For your review are the:

- 1) October 30, 2018 Utility Bill insert
- 2) Report to the City Council on Rate Adjustments: September 17, 2018 (Including low-income policy)
- 3) April 6, 2018 Fact Sheet
- 4) May 5, 2018 FCS Group Report - PowerPoint.