

HERMISTON CITY COUNCIL

Work Session

October 11, 2021

Mayor Drotzmann called the work session meeting to order at 6:00pm. Present were Councilors Hardin, Peterson, Barron, Primmer, Davis, Spicerkuhn, Duron, and Myers. Staff members in attendance were City Manager Byron Smith, Assistant City Manager Mark Morgan, City Attorney Richard Tovey, Chief Edmiston, Finance Director Mark Krawczyk, Planning Director Clint Spencer, Hermiston Energy Services General Manager Nate Rivera, and City Recorder Lilly Alarcon-Strong.

Hermiston Energy Services (HES) Updates

HES General Manager Nate Rivera gave information (PowerPoint presentation attached) regarding HES updates, to include:

- HES's history, background and present status
- Rate update and adjustments both previous and present
- Residential rate comparisons
- Changes to billing cycle to make it user friendly
- Energy audits, rebates, and other customer programs
- Deferred maintenance and capital improvement projects
- Rate deficiencies
- Capital Debt
- Possible rate increases in the future

Sanitary Disposal Sale Updates

Assistant City Manager Mark Morgan gave information (PowerPoint presentation attached) regarding Sanitary Disposal Sale updates, to include:

- Sanitary Disposal being sold to Waste Connections
- Current franchise agreement and future agreements that must be approved by City Council
- Current trash collection services
- Curbside recycling
- Sanitary Disposal options and recommendations that will come before the Council at a later date
- Future financial forecasts
- City has received positive references from other cities who use Waste Connection services

After much discussion and answering questions from the Council about both presentations, Mayor Drotzmann adjourned the work session at 7:01pm and stated the City Council would convene the regular City Council meeting immediately.



ENERGY SERVICES

Council Update – October 11, 2021



Hermiston Energy Services

- HES is a Consumer-Owned, Non-Profit Electric Municipality formed October 1, 2001 after acquiring PacifiCorp's Hermiston distribution facilities.
- HES currently serves 5,463 customer-owners, with annual sales of 108 million kilowatt-hours.
- HES's facilities consists of 36.3 miles of overhead and 19.6 miles of underground primary distribution lines.
- HES serves approximately 63% of Hermiston.



Hermiston Energy Services

Rate Adjustment Update



HES's Rate Model Goals

- Ability to collect appropriate revenue.
 - Rates are stable and predictable.
 - Rates are equitable among customer classes.
 - Rates are easy to understand and feasible for HES to implement.
-
- To achieve this, we work with an independent third-party firm to perform a Cost-of-Service Analysis on behalf of HES customers.



HES Rate Update

- Knew and shared that existing rate structure did not collect retail rate revenue based on actual costs needed to serve individual customer classes.
- In FY's 2018-21 HES Offset revenue deficiencies
 - Used \$2.4m From Bond Restructure Savings & Reserves
 - Reduced Spending
 - Deferred maintenance and Construction Work Plans.
 - In 2018: 1.2m (12.7%) deficit in rate revenue.
 - Used reserves, Moved all CWP & Maintenance to Dept. 33.
 - Council approved 1.87% rate adjustment in 2018.
- In FY 2020-21 HES had a \$1,011,195 revenue deficiency.
 - \$500,000 was BPA increase in Oct. 2019.
 - \$450,000 in System Maintenance/Capitol (move back from Dep 33)



2020 Council Rate Action



Individual Rate & Customer Class Adjustments

0%



2020 Council Rate Action

In November of 2020 Council Approved HES Rate Adjustments in Two Phases

- **Phase 1: 6.98% Overall Adjustment**
 - January 1, 2021
 - Residential Customer averaged \$117 per-month.
 - 20¢ per-day average increase.
- **Phase 2: 6.9% Overall Adjustment**
 - October 1, 2021
 - Residential Customer will average \$124 per-month.
 - 22¢ per-day average increase.



HES Rate Adjustments

	Energy Charge		Demand Charge		Customer Charge		% Change*	
	Phase 1	Phase 2	Phase 1	Phase 2	Phase 1	Phase 2	Phase 1	Phase 2
Residential	7.05¢	7.39¢	-	-	\$18.5	\$21	6.1%	6.74%
Small Commercial	6.8¢	7.32¢	\$6.75	\$7.50	\$41.50*	\$45.50*	7.92%	7.58%
Large Commercial	5.07¢	5.43¢	\$6.75	\$7.25	\$160	\$160	8.67%	6.92%
Irrigation	5.44¢	5.87¢	\$6.50	\$6.75	\$46.00*	\$49.50*	7.57%	6.91%
Overall Rate Adjustment							6.98%	6.9%

Individual customer's % change will vary based on usage.

Residential Rate Comparison



* Based on 1,400 kWh per-month



HES Rate Update

In FY 2020-21 HES was projected to have \$1,011,195 revenue deficiency.

– Phase 1:

- Reduced the use of reserves to cover budget shortfall in February 2021 to about half (45k per-month).
- Ended FY 2020-21 with \$822,603 revenue deficiency.
- As of September 1, HES was 0.6% ahead of COSA projections for Phase I.

– Phase 2:

- Overall rate increase gets utility to break even in mid October 2021.
- No longer use reserves starting in November.
- Full System Maintenance Cost Recovery.

– Does Not Include:

- Capital Improvement Projects
- State/Federal Mandate Changes (Energy Assistance/Debt Forgiveness; Conservation/EE)
- Contracts
- Inflationary Costs
- Restore/Build Reserves.



HES Programs

The best way for you to reduce the amount of your electric bill is to use less energy while still having the comforts you desire and deserve. Energy efficiency can help accomplish these goals.

- Energy Audits
- Heat Pump Replacement
- Weatherization Programs
 - Windows Replacement
 - Insulation Upgrades
- Clothes Washer Rebates
- Water Heater Rebates



Billing Date Change

Customers Have Shared Billing Data Can Be Confusing And Sometimes Difficult To Compare.

- Over the past 12 months, HES has slowly moved the billing cycles for customers.
- Beginning October 1, Customers' bills will be actual calendar months.

Customer Benefits

- Easier to understand Bill
- Energy Efficiency and Conservation Decisions

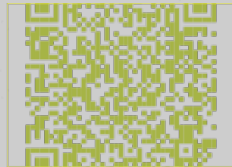
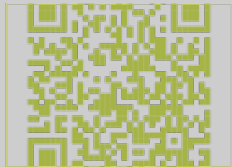
Benefits for HES

- Easier accounting for month-end and year-end
- Coincides with our Bonneville Power Administration Power Purchase Bill
- COSA data is more accurate.





HES's SmartHub portal allows customers to manage their account from a computer or mobile device.



Download today and manage your account anywhere!



Questions

Where Life is Sweet™



SANITARY DISPOSAL SALE

City Council Work Session 10/11/2021



What's Happening?

- Request to Assign Solid Waste Franchise from Sanitary Disposal to Waste Connections.

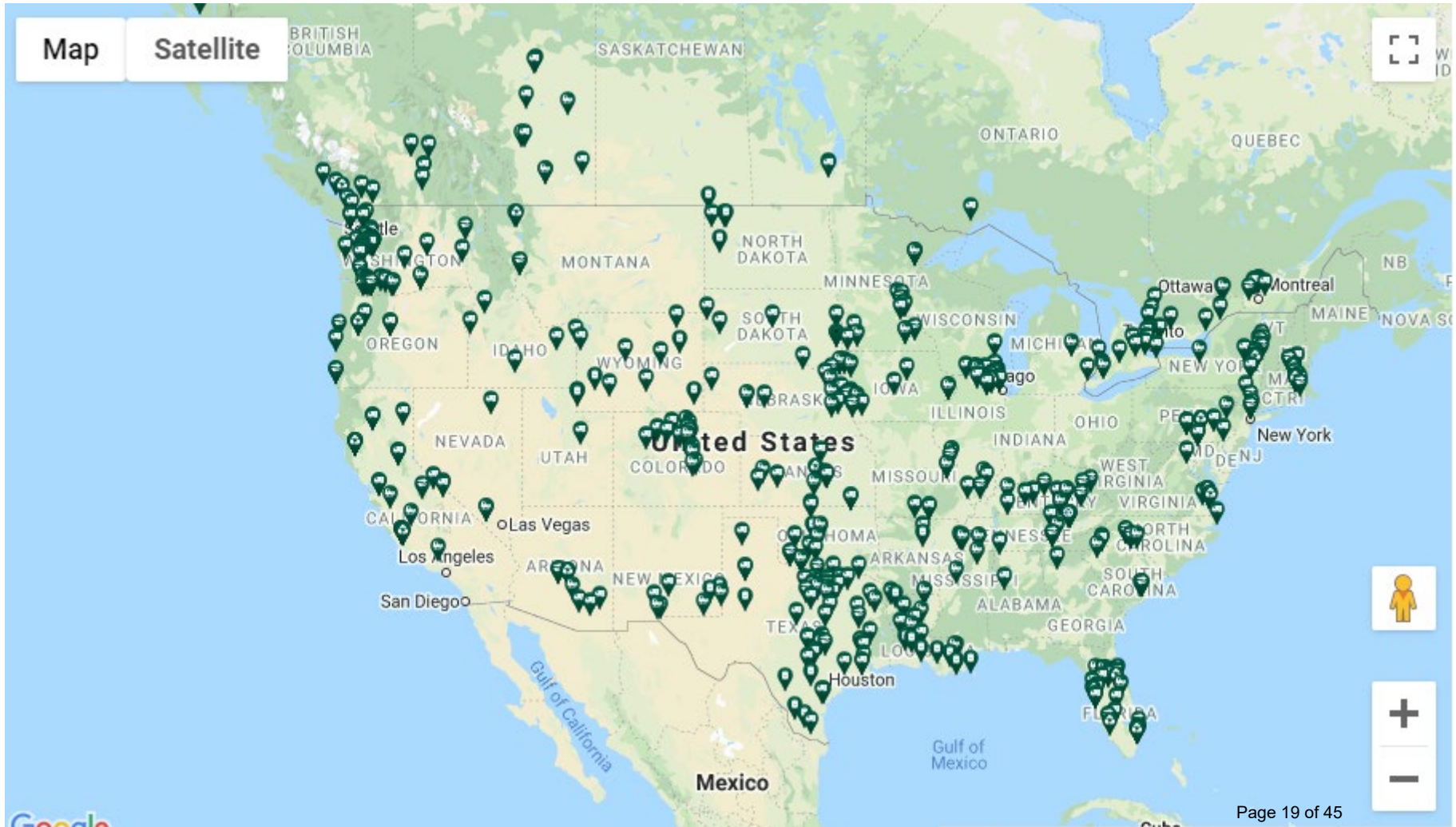


Why do we care?

- Garbage service provided by Franchise
- City Awarded Franchise Protects service from competition, and guarantees stable environment for City & Franchisee
- Franchise can't be sold/transferred without City Approval



Who is Waste Connections?





Who is Waste Connections?

- National Solid Waste Hauler
- Recently Acquired Finley Buttes Landfill
- Nearby Operations
 - The Dalles Disposal
 - Hood River Garbage





Sanitary Disposal, Inc. (SDI)

- Current Franchise Dates to 1994
- Regional provider for ~50 years





SDI Services

- Curbside Trash Collection
- Commercial dumpsters, rollofs, etc.
- “Opportunity to Recycle”
 - Recycling Depots (State DEQ Requirement)
 - Geer Road
 - Cardboard
 - Plastic
 - Etc.





SDI Services

- Transfer Station on Kik Street
 - Not governed by City Franchise
 - Accepts waste from across region
 - All Hermiston collection trucks dump at Transfer Station (<5 mi. vs. 20 mi @ Finley Buttes)





Recycling

- Hermiston Curbside Pilot Project- 2015
 - 5 Months
 - 100 customers invited
 - 17 Participated
 - “Test of Concept”
 - Estimated Cost: +\$4.50/mo (~20%)





Recycling

- China “National Sword” Policy- 2017
 - Not Cost-Effective to sort waste from recyclable
 - “Wishful Recycling”
 - Recycling items that “*should be*” recyclable
 - i.e. Pizza Boxes covered in cheese & plastic coating





Recycling Today

- International Markets In-Flux
 - Competition for Commodities in different locales
- Size of Local Source Market
 - Storage: Batch Truck-Load sizes
- Distance to Recycling Wholesale Markets
 - 250 Miles by truck to Seattle
 - Seattle batching to Ocean-Ship size
 - Seattle batching to Unit-Train size





Recycling Ahead

- Recycling Governed by Oregon DEQ
- Oregon Legislature still “Wishful Recycling”
 - More Complicated Requirements on the way
- Greater Hermiston “Opportunity to Recycle”
 - Out-growing size exemptions
 - Additional requirements likely soon





Assign Franchise Proposal

Where Life is Sweet™



Assignment Terms

- WC Purchase Most SDI Assets
 - Collection Trucks, Carts, Transfer Station, etc.
- Status-Quo Services
 - Curbside Garbage, No Curbside Recycling
 - State Recycling Mandates Looming
- Status-Quo Rates, Terms, Etc.





Current Franchise Term- Length

- “Continuing Five-Year Franchise”
 - Automatic Annual Renewal
 - 5-Year Notice (without cause)





Current Administration

- City Staff does all billing inside City Limits
 - City keeps 11% Gross Revenues
 - \$280,000/yr
- Franchise Fee (privilege of monopoly)
 - City Keeps 2.5% Gross Revenues
 - \$64,000/yr





Options to Consider

Where Life is Sweet™



Options

- Accept Proposal to Transfer (Recommended)
- Seek Other Offers by RFP
- Take over with City Service





Accept Proposal to Transfer

- Status Quo Terms (Billing, Fees, etc.)
- Good References from similar-sized cities
- National/State-wide Expertise:
 - Recycling Transition
 - Evolving State Requirements
 - Etc.





Seek Other Offers (RFP)

- Very Limited Qualified Pool
 - Waste Management, Republic, Pendleton Sanitary
- SDI Already Sought Financial Offers
- Bifurcation of Regional Service
- WC Still May own Transfer Station & Landfill





Municipalization

- Model: Cheney, WA (2011)
 - 13,000 Population
- Intern 2011
 - Developed Solid Waste Management Plan
 - Financial Forecasts Holding Up





Municipalization

- 10-Year Operating Margin (Profit): 6.3%
 - Labor
 - Tipping Fees @ Finley Buttes
 - Materials & Services
 - Equipment/Debt
 - Billing Fees & Franchise Fees Constant





Municipalization

- 10-Year Operating Margin: 6.3%
 - Labor
 - Public Sector
 - PERS
 - Insurance
 - COLA's
 - Step/Grade
 - Drivers/Backup Drivers/Supervisor





Municipalization

- 10-Year Operating Margin: 6.3%
 - Tipping Fees @ Finley Buttes
 - Annual Fee Increase @ CPI
 - Tonnage Growth at 1.25% annual





Municipalization

- 10-Year Operating Margin: 6.3%
 - Materials & Services
 - Insurance
 - Machinery/Equipment Repairs
 - Fuel/Oil
 - Etc.





Municipalization

- 10-Year Operating Margin: 6.3%
 - Equipment/Debt
 - Residential Collection Trucks
 - Rolloff Trucks
 - Residential Carts (5,000)
 - Commercial Dumpsters
 - Steel 3-Bay Building
 - Debt Service





Municipalization

- 10-Year Operating Margin: 6.3%
 - \$170,000/yr
 - \$2.57/mo Per Customer





Municipalization

- Regional Impacts?
 - 97838 Zip Code
 - Umatilla
 - Stanfield
 - Etc.





Municipalization

- Recycling Mandates?
 - Opportunity to Recycle Expansion?
 - Curbside Recycling Requirement?



Recommendation

- Negotiate/Finalize Franchise Transfer
 - Council Approval Nov. 8
- Maintain all Billing
 - Ability to “self-compete” against potential rate hike requests

