

**Budget Committee Meeting
Minutes
April 27, 2009 6:00pm
Civic Center Council Chambers, 1175 East Main Street**

CALL TO ORDER

Chairman Lynn Thompson called the Citizen's Budget Committee meeting to order at 6:07 pm on Wednesday, May 6, 2009 in Council Chambers at 1175 East Main Street, Ashland Oregon.

ROLL CALL

Mayor Stromberg was present. Committee members Chapman, Everson, Gregorio, Heimann, Jackson, Navickas, Slattery, Thompson and Voisin were present. Boenheim, Douma, Lemhouse, and Silbiger were absent.

STAFF PRESENT: MARTHA BENNETT, CITY ADMINISTRATOR
LEE TUNEBERG, ADMINISTRATIVE SERVICES DIRECTOR
DICK WANDERSCHIED, ELECTRIC DEPARTMENT DIRECTOR
SCOTT JOHNSON, ELECTRIC OPERATIONS SUPERINTENDENT
MIKE AINSWORTH, INFORMATION TECHNOLOGY DIRECTOR
BRYN MORRISON, ACCOUNT REPRESENTATIVE
MELISSA HUHTALA, ADMINISTRATIVE SECRETARY

APPROVAL OF MINUTES

Approval of minutes from previous Budget Committee meetings dated:

4/28/2008 Budget Committee Meeting
5/1/2008 Budget Committee Meeting
5/7/2008 Budget Committee Meeting
5/8/2008 Budget Committee Meeting
5/14/2008 Budget Committee Meeting
5/15/2008 Budget Committee Meeting
5/22/2008 Budget Committee Meeting

Everson/Slattery ms to accept the minutes as presented. All Ayes

PUBLIC INPUT

Valerie Muroki from the CERT and Fire and Rescue spoke regarding CERT. She stated that because of being a member of CERT she feels strong and secure. She feels secure to work with a team and safely remove victims out of a collapsed building. She has studied First Aid. She spoke to this passed winter when we had cold weather she volunteered in the emergency shelters and saved lives among the homeless people. She concluded stated for the City to please keep CERT in mind and focus on resilience strength and safety when making decisions.

ELECTRIC AND CONSERVATION

PAGE 3-111 through 3-120

Dick Wanderscheid Electric and Utility Director and Scott Johnson, Operations Superintendent, presented the Electric and Conservation Budget. Mr. Wanderscheid stated the Electric Utility Department provides over 3.7 million dollars in support for the general fund. Rates are competitive with Pacific Power. Mr. Wanderscheid stated that Electric Utility Budget is a lien budget with no new positions and the budget is lower than last year's budget.

Mr. Wanderscheid discussed the budget over time and the 2010 proposed budget in millions of dollars (see attached). The proposed budget is 12.95 million dollars.

Mr. Wanderscheid stated the major projects for this coming year (see attached).

Mr. Wanderscheid discussed the Matrix Analysis. The analysis was broken in daily operations, new construction/infrastructure, and conservation and renewable programs. Daily operations are the day to day work to maintain the system and make sure the power keeps flowing. New construction refers to any new development in Ashland. New infrastructures are things that feature in the system that allows more efficiency (see attached).

Mr. Wanderscheid discussed significant budget changes for 2009 (see attached). Last year Electric was given a target of reduction of 97% excluding wholesale power costs and will be able to accomplish this by reducing temporary employee costs, new construction costs and other non critical maintenance costs. For FY 2010 Electric was given a target of 97% budget cost. Electric will be able to accomplish this by reducing PERS cost, construction expenses, tree trimming and capital cost.

Mr. Wanderscheid discussed proposed revenue increases for FY 2010 (see attached). Mr. Wanderscheid explained that wholesale power rates are set to increase 9-15% in October of 2009. Because of this retail rates will have to increase 3-7% in October.

Mr. Wanderscheid concluded stating that currently Ashland is 15 cents lower than Pacific power rates (see attached). By the end of the rate increase Electric hopes to be a dollar less than Pacific power.

The Committee questioned the chart (solar pioneer).

The public utility in Oregon regulates due to safety. Council makes rate setting contingencies.

The Committee questioned the increase in salary and benefit costs and increase in material costs for electrical supplies. With no new employees the rates have gone down. Mr. Wanderscheid answered that union that represents the Electrical workers have a wage increase that is scheduled to happen. PERS rate went down and Electric replaced a person in the Conservation Department. When referring to increased salary and benefit costs it's referring to the union contract salary increase.

The Committee questioned the increase in material cost for electrical supplies. Mr. Wanderscheid explained that with the down turning construction Electric does not have to put as much into the ground. With new construction Electric charges fees. The fees charged cover the costs for putting facilities in the ground. Electric has lowered capital cost for the coming year due to no construction coming back therefore won't be spending money on new things.

The Committee questioned the possibility of cutting Electric budget to 92%. Mr. Wanderscheid answered that the budget has already been cut to the core but if there are more cuts Electric will look at possibly cutting some tree trimming or materials and services.

The Committee questioned how the accounting works for new infrastructure. Mr. Tuneberg responded that as far as new infrastructure that a developer puts in the City accepts the infrastructure and charges permit fees. For new development the City gets revenue that is recognized in that year. In Oregon system development charges cannot be used just electric fees can be used. For commercial actual costs are charged. In residential there are fees based on per lot and engineering fees.

The Committee questioned the projected \$400,000 drop in sales. Mr. Wanderscheid stated it could weather related and price induced. People are being more conservative. In 2008 it was 11 million then projected it would be 12.4 this year and it is actually coming in at about 12 million.

The Committee questioned the status of Pioneer 2. Mr. Wanderscheid explained that 110 panels were sold out of 363. So there is about another 3 years of debt service.

Mr. Wanderscheid discussed that the Reeder Gulch Hydro upgrade energy gets about 2-3 million kilowatt hours a year which depends on how much water is used since it is managed for water not for energy. It saves \$160,000 to \$240,000 a year on wholesale power cost. It is all paid for with no debt service.

The Committee questioned this year's budget. Electric is spending \$735,000 more than revenues. Mr. Wanderscheid stated that the Ending Fund Balance last year was close to where Electric needed to be. The requirement was 1.4 million and the ending EFB projected was 1.3 but Mr. Wanderscheid feels Electric is getting into situation where rates may have to be raised or cut costs elsewhere.

The Committee stated concern of cost structure falling outside of the revenue structure creating a long term problem. Need to come to grips with the long term. Discussed options for other areas to squeeze in Electric budget and lessen the need for rate or tax increases.

Mr. Wanderscheid discussed that Electric runs a lenient budget. The City of Ashland only has one meter reader. If Electric was to cut operational cost places to look for cutting down would be tree trimming and conservation. If the EFB continues to go in the downward direction other things will have to be cut.

The Committee questioned what would be cut to reach the \$735,000 shortfall. Mr. Wanderscheid answered that with Electric operation and crew size are mandated with state regulations. Cutting back personnel could be a problem with getting work done. On the revenue enhancement side the only way to enhance revenue would be rate increases.

Mr. Wanderscheid explained that intergovernmental revenue is various things Electric gets for utility bills paid to Electric by other departments. Revenue is down due to low sales.

Mr. Tuneberg explained that Electric used a surcharge for years to balance the wholesale power to the revenues generated off of utility bills and over time tried to do away with the surcharge because it did not generate a user tax. The 2009 budget was created a year ago when the City was anticipating a rate increase and good sales. The weather has played a factor in causing flat sales.

Mr. Tuneberg continued to explain that the City chose to offset the surcharge with a rate increase which led to the electric fund losing 1.3% in revenues. Secondly, because sales were flat they are down 5-6% in sales. Any increase in revenue Electric gets has to pay 10% of the revenue to the General Fund.

Mr. Tuneberg explained that since the City does not know what sales will be like this summer the City has to wait to hear from BPA in August and talk to Council in September/October to decide what kind of rate adjustment needs to take place.

The Committee discussed that 48% of contingencies are spent on an average. The contingency may not be consumed but moved. The Committee continued to discuss the structural integrity of revenues verses expenditures and the fact that the City seems to be moving to a greater deficit. When looking at out years the projection shows there is no longer a deficit based on a 5% rate increase each year in the fall but sales are still falling.

Mr. Tuneberg explained that when modeling in out years contingencies aren't used. In the out years there is a larger contribution to the telecommunications debt. The Committee questioned what inflation factor is used in calculating expenditures. Mr. Tuneberg stated that 6% is used on Personnel cost and 3% on Materials and Services. In the next couple of years will be facing inflation and the numbers projected now would change.

The Committee discussed how in the past Committee has been careful in not raising rates. At some point the process needs to be addressed if the operating costs are not covered and rates need to be raised.

The Committee questioned how many years can Electric trim budget before impairing the ability to do basic work that needs to be done. Mr. Wanderscheid stated he doesn't feel close to non-functioning. The balance in Electric is currently good.

INFORMATION TECHNOLOGY

PAGE 3-15 through 3-22

Mike Ainsworth, Interim Information Technology Director/Operations Manager for AFN, presented the Information Technology budget. Mr. Ainsworth discussed strategic department goals; continue integration of the City databases, continue support of the Police and Fire communications and data networks, and continue strategic expansion of the Ashland Fiber Network.

Mr. Ainsworth discussed the IT AFN Internet, High Speed, and Computer Services budget over time (see attached). Mr. Ainsworth stated that the division goals for the internet division are to maintain infrastructure health and liability and perform preventative maintenance. Due to the recovering economy the prediction is increased demand for internet services. Internet users grow larger and larger as more retail commerce will be done on the internet. The significant budget change for internet is all travel and training was cut and increased bandwidth.

Mr. Ainsworth discussed the IT AFN High speed. For 2010 the budget is lower due to deducting some advertising expenses.

Mr. Ainsworth discussed IT AFN Computer Services. The significant budget changes are postponing Microsoft licensing and decreased a computer replacement budget line by 25%. Travel and training has been cut as well. There is a savings in 2009 projected which is due to the under filled the vacant IT direct position temporarily.

Mr. Ainsworth explained the 2010 proposed budget (see attached).

Mr. Ainsworth discussed that for the 2010 budget IT will continue to rebuild and refresh the network, launch products such as Wi Max, higher speed wired connections, AFN to become an ISP, research and implement usage based IP billing and work with the City and Ashland Chamber of Commerce to provide products needed as the economy recovers.

Mr. Ainsworth stated that with using the consumptive based billing will only affect about 10% of the customer base. People who use less will pay less. The computer activity is metered. People who use more will eventually start paying more. The proposed cap is 250 gigs a month. Most people won't get there the average residential user uses 2-3 gigs a month.

Mr. Ainsworth explained the matrix analysis (see attached).

Mr. Ainsworth the significant budget changes from FY 2009 (see attached).

Mr. Ainsworth discussed revenue increases for 2010 (see attached). IT is projecting a 10% internet increase by expand their network. IT projects to get a 7% increase of TV sales, through installations, services and leases. IT plans on growing its market by launching Wi Max. There will be 2 towers and will be able to reach homes almost reaching to Talent. The Committee questioned how many new customers would the City gain from this. Mr. Ainsworth answered about 4,500.

Mr. Ainsworth discussed significant budget changes FY2010 (see attached).

The Committee questioned where the debt is paid. Mr. Tuneberg answered that by 2011 the total debt service on telecommunications is about 1.4 million dollars. Currently about 1.5 is allocated to the different departments with \$356,000 coming from AFN. By next year or the following year as debt service grows the City will have to allocate more debt to different departments.

ADJOURNMENT

Meeting adjourned at 8:47 pm

Respectfully submitted,
Melissa Huhtala
Administrative Secretary

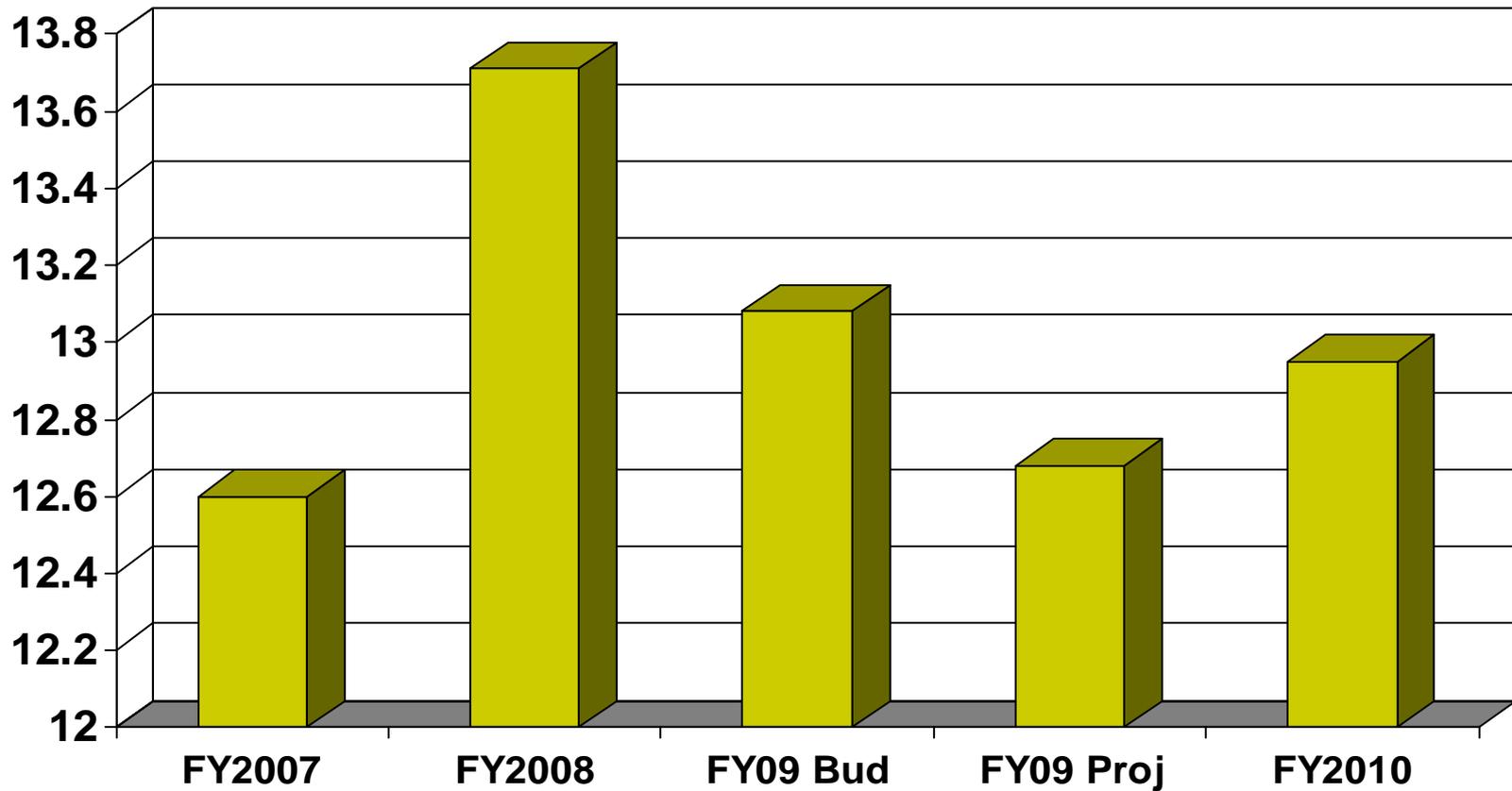
Electric Department City Of Ashland

Proposed Budget for 2009-2010
April 27, 2009

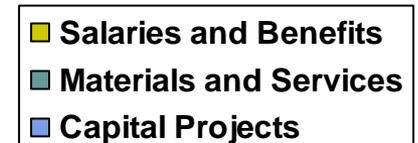
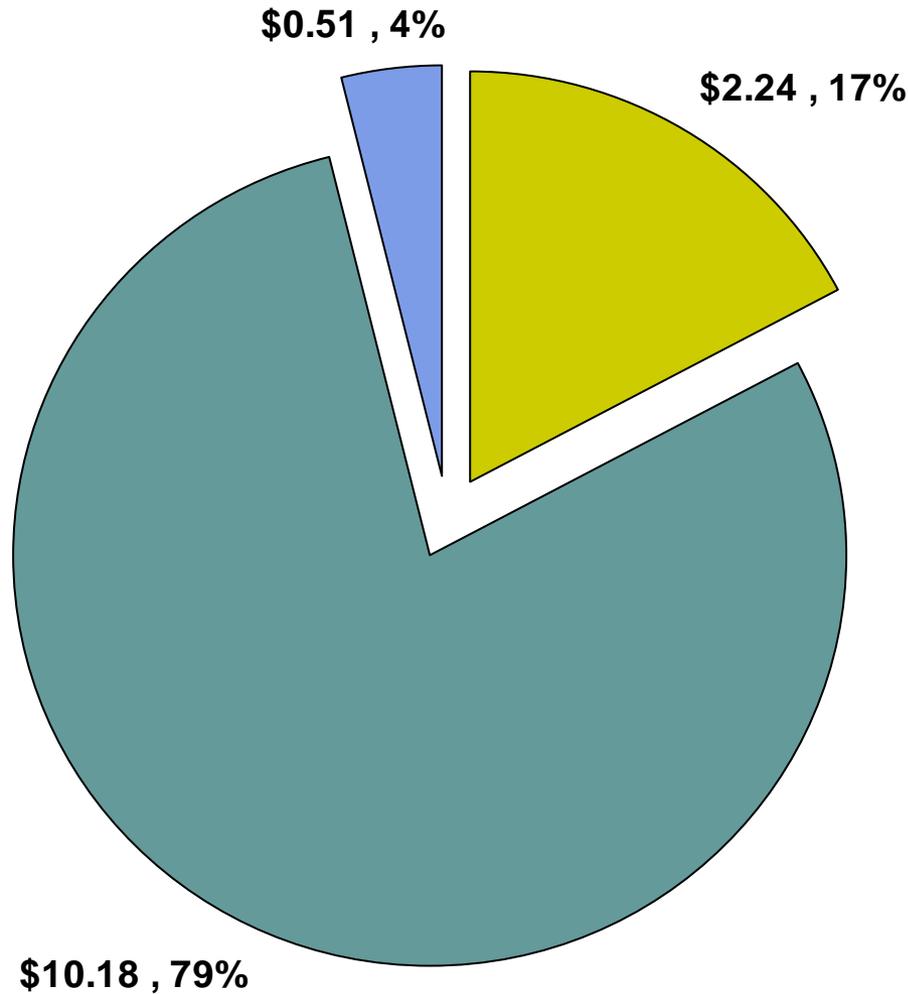




Budget Over Time (million \$)



2010 Proposed Budget in Millions of Dollars



Here's the work we see coming in FY 2010



- Completion of Mountain Ave Substation
- Completion of Reeder Gulch Hydro upgrade
- Further implementation of the SCADA System
- Decide on the type of TIER 2 energy product the city will purchase from BPA
- Continue with succession planning
- More aggressive conservation activities



Matrix Analysis

Highest Priority Criteria	Daily Operation	New Const /Infrastruct	Conser/ Renewable
Federal and State Mandates	X	X	X
City Charter and Code	X	X	
Contractual obligations and bond covenants			
Emergency response	X		
Basic needs public health & welfare	X	X	X



Matrix Analysis

Medium Priority Criteria	Daily Operation	New Const /Infrastruct	Conser /Renewable
Operational efficiency/risk management/ fiscal health	X	X	
Support for local economic health	X	X	X
Environmental protection above mandated levels			X
Emergency preparedness	X		
Service only available from government	X	X	X



Matrix Analysis

Lowest Priority Criteria	Daily Operation	New Const /Infrastruct	Conser /Renewable
Enhance quality of life/desirability of Ashland	X	X	X
Support for residents' health beyond basics	X	X	X
Quality citizen service	X	X	X
High priority for local control	X	X	X

Significant Budget Changes from FY 2009



- Electric was given and will achieve a 97% target reduction for FY 08 - 09 actual spending (excluding wholesale power costs). This was accomplished by reducing temporary employee costs, new const. costs and other non critical maintenance costs.
- We have also prepared a FY 09-10 budget that is 97 % below last year's approved budget (excluding wholesale power costs). This will be accomplished by reduced PERS costs, reduced new construction expenses, reduced tree trimming and capital cost reductions.



Proposed Revenue Increases

- The City is facing a 9%-15% wholesale power rate increase from BPA in October 2009.
- The final decision on this increase won't be known until August 2009.
- We suspect that our retail rates will need to increase by 3-7% in October to offset this cost increase and higher personnel, benefit and material costs.
- A 5% rate increase for a home that uses 950 kWh's would equate to a bill that goes from \$75.90 to \$79.70 per month, a \$3.80 increase.



Comparison to Pacific Power Total Residential Bill (950 kWh's)

Ashland (includes Tax)

\$75.90 Now

+ 3.80 (5% rate inc)

\$79.70

Pacific Power

\$76.05 Now

+ 4.79 (6.3% rate inc)

\$80.84

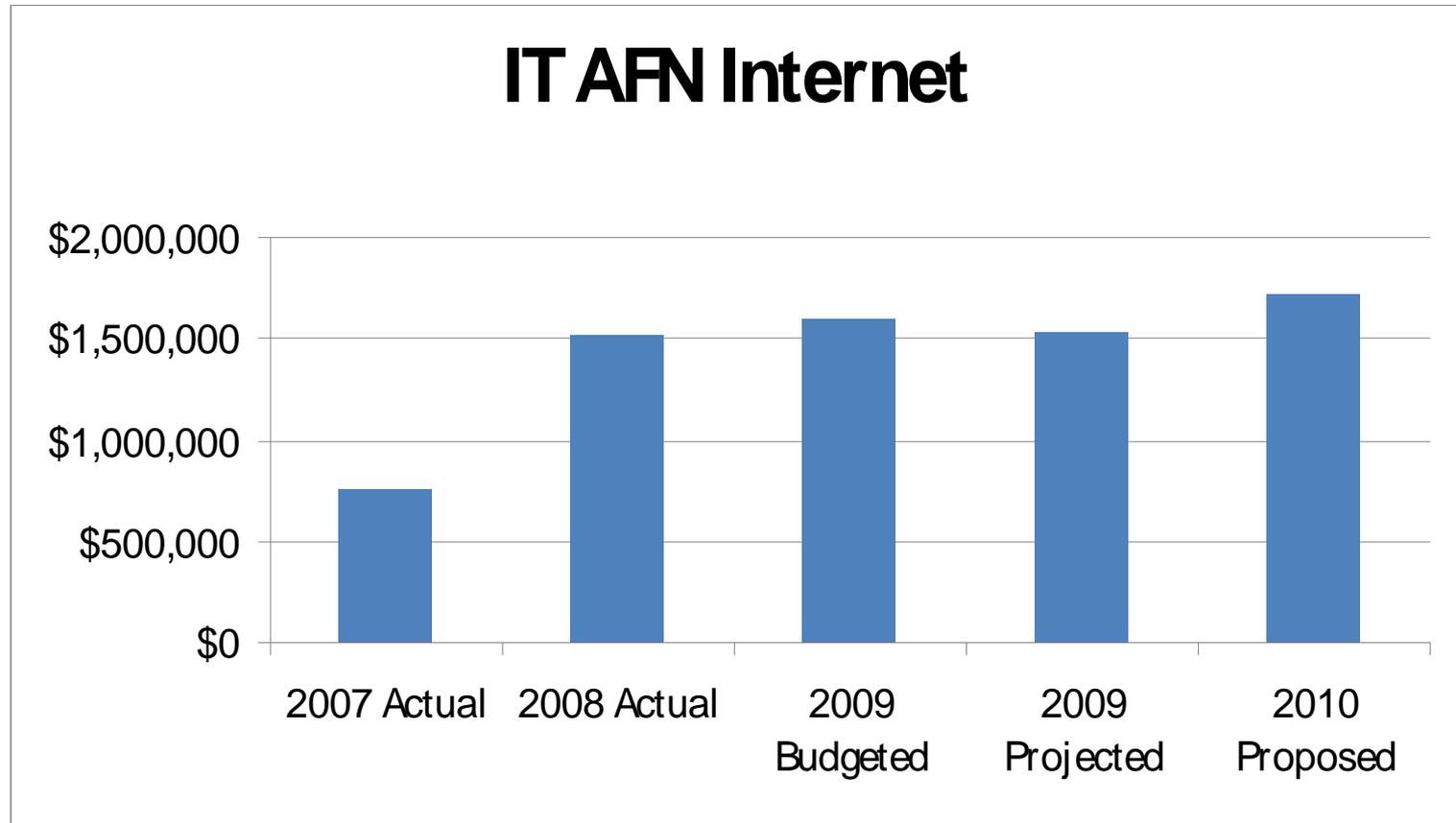
Information Technology Department City Of Ashland

Proposed Budget for 2009-2010
April 27, 2009



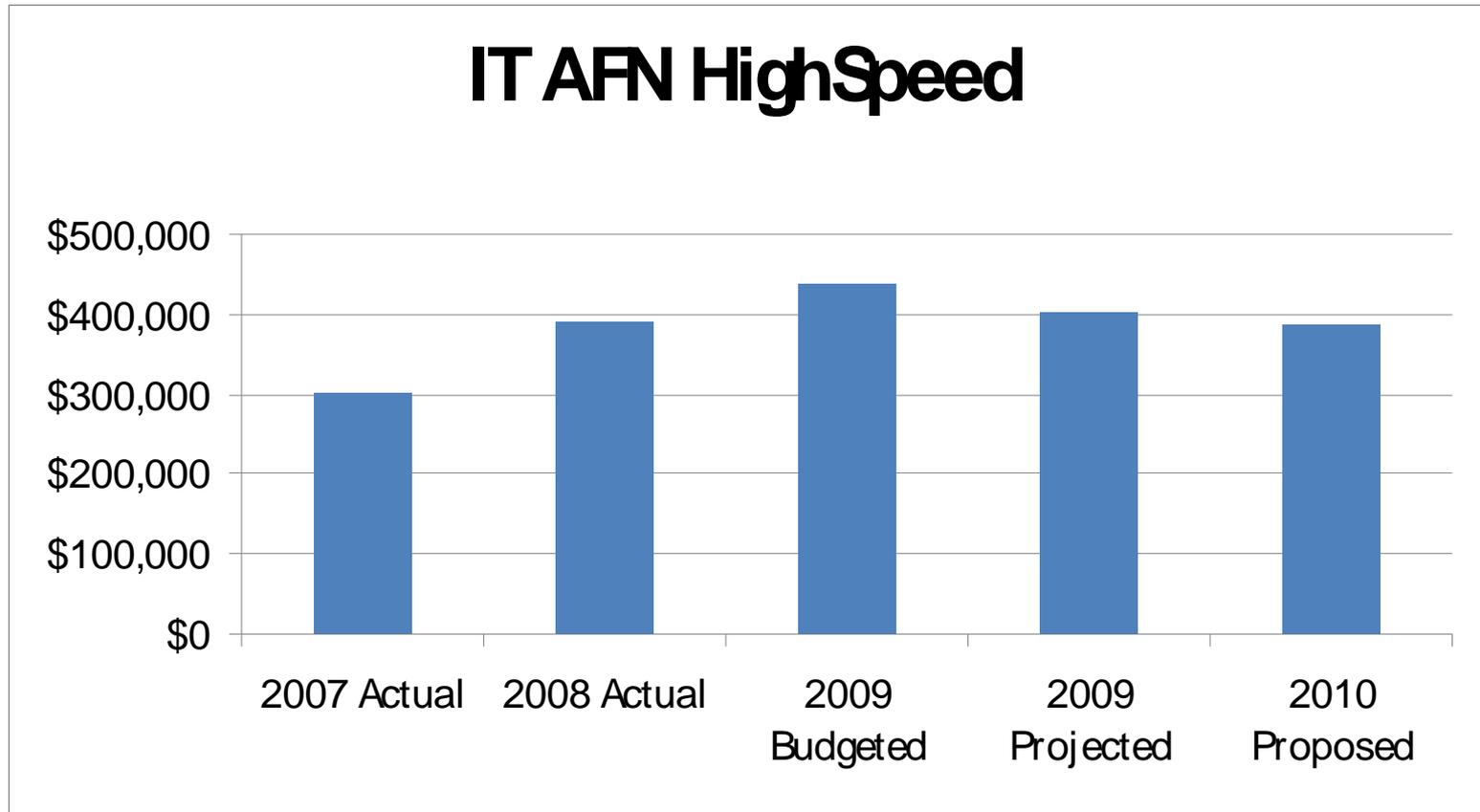


Budget Over Time



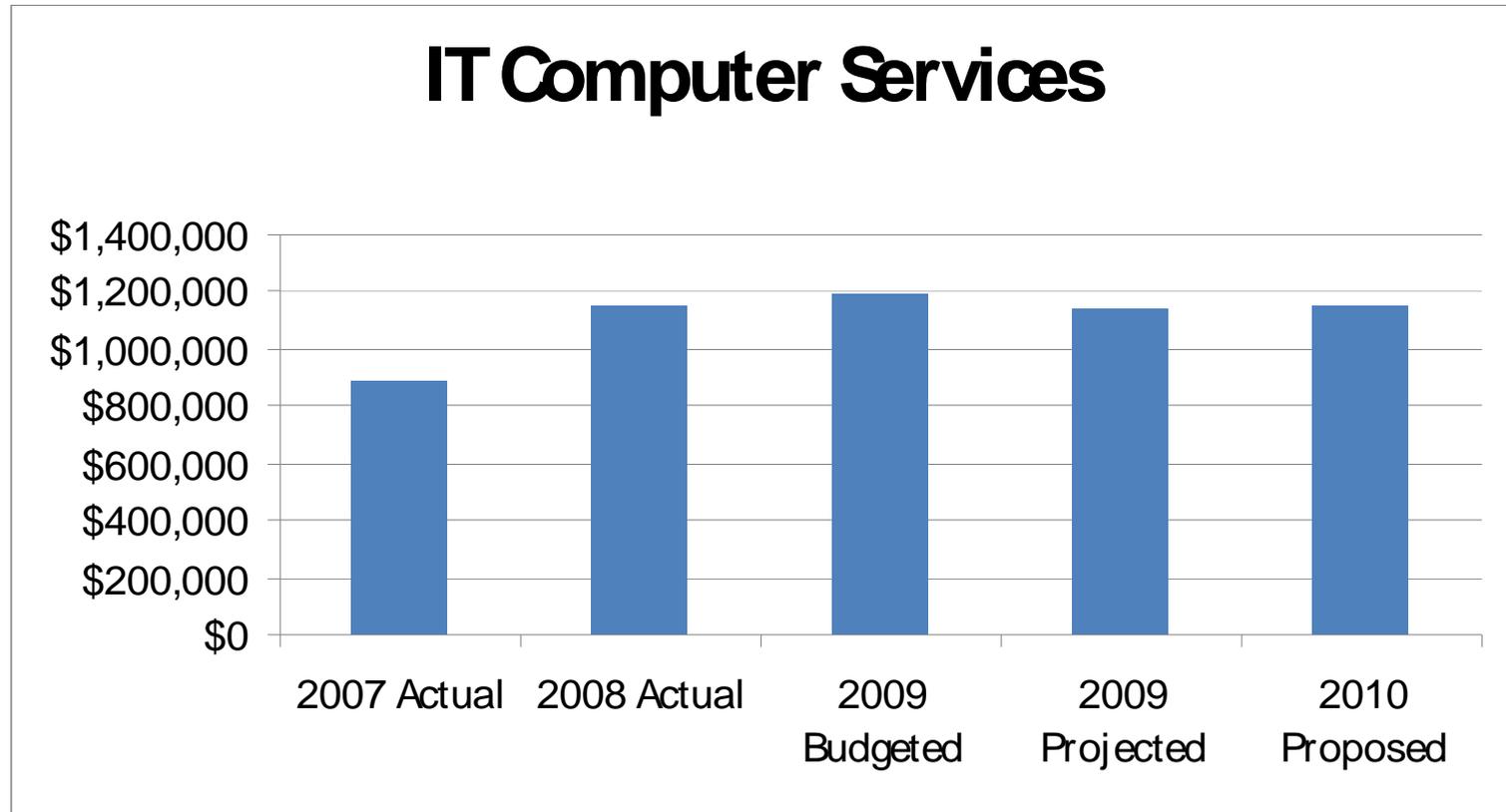


Budget Over Time



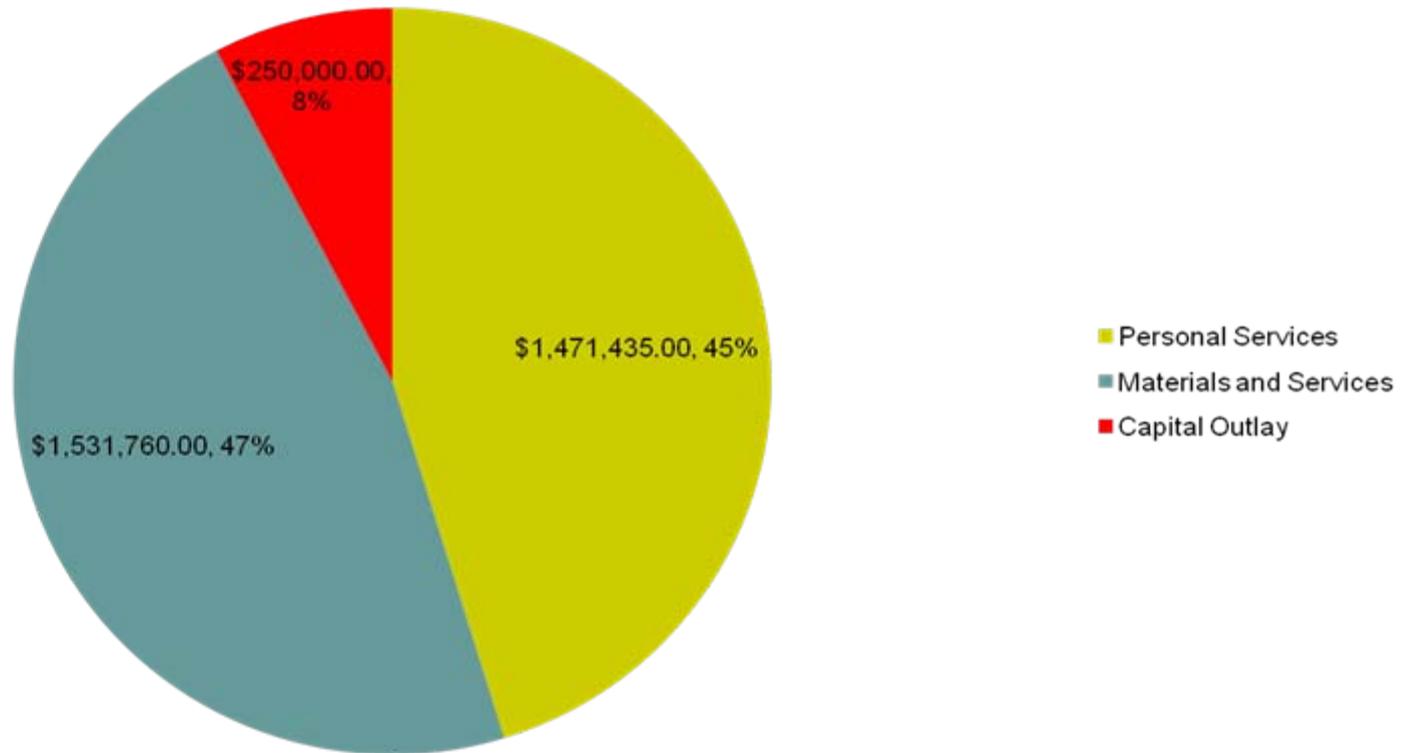


Budget Over Time





2010 Proposed Budget



Here's the work we see coming in FY 2010



- Continue to rebuild and refresh network
- Launch products: Wi Max, higher speed wired connections
- AFN as ISP
- Implement usage based IP billing
- Work with City and Ashland Chamber of Commerce to provide products needed as economy recovers



Matrix Analysis

Highest Priority Criteria	Daily Operation AFN	Daily Operation Comp Svcs	Network / Hardware / Software
Federal and State Mandates	X	X	X
City Charter and Code	X		
Contractual obligations and bond covenants		X	
Emergency response	X		
Basic needs public health & welfare			



Matrix Analysis

Medium Priority Criteria	Daily Operation AFN	Daily Operation Comp Svcs	Network / Hardware / Software
Operational efficiency/risk management/ fiscal health	X	X	X
Support for local economic health	X		
Environmental protection above mandated levels			
Emergency preparedness	X	X	X
Service only available from government			



Matrix Analysis

Lowest Priority Criteria	Daily Operation AFN	Daily Operation Comp Svcs	Network / Hardware / Software
Enhance quality of life/desirability of Ashland	X		
Support for residents' health beyond basics			
Quality citizen service	X		
High priority for local control	X	X	X

Significant Budget Changes from FY 2009



- Temporarily under filled Director position
October 08 through June 09
- Reduced advertising \$30,500
- Reduced Airfare, lodging, uniforms, books
totaling \$3,500



Revenue Increases

- 9.7% projected Internet sales increase
- Network extension with Wi Max grow market size
- 7% projected increase to Cable TV sales (Lease & service payments)

Significant Budget Changes for FY 2010



- Delayed software deployment /licensing @ \$30,000
- Eliminated \$20,000 of hardware replacement
- CIP Cut \$23,000 Lineward machine
- Bandwidth usage will increase expense



Information Technology Department City Of Ashland

Proposed Budget for 2009-2010

April 27, 2009