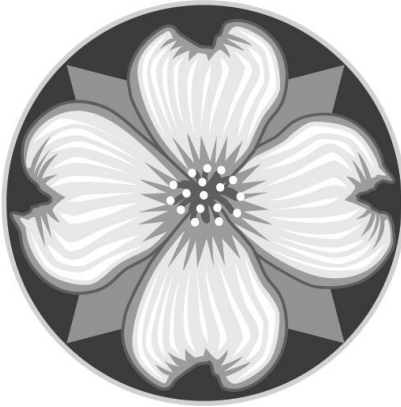




Work Session

WS

Milwaukie City Council

COUNCIL WORK SESSION

City Hall Council Chambers
10722 SE Main Street
www.milwaukieoregon.gov

AGENDA

APRIL 2, 2019

Note: times are estimates and are provided to help those attending meetings know when an agenda item will be discussed. Times are subject to change based on Council discussion. **Page #**

- 1. Citizens Utility Advisory Board (CUAB) – Annual Update (4:00 p.m.)** **6**
Staff: Peter Passarelli, Public Works Director
- 2. Water and Wastewater Cost of Service and Rate Study – Discussion (4:30 p.m.)** **7**
Staff: Peter Passarelli, Public Works Director
- 3. Cereghino Farms Annexation Agreement – Discussion (5:00 p.m.)** **11**
Staff: Denny Egner, Planning Director
- 4. Adjourn (5:30 p.m.)**

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Executive Sessions

The City Council may meet in Executive Session pursuant to ORS 192.660(2); all discussions are confidential and may not be disclosed; news media representatives may attend but may not disclose any information discussed. Executive Sessions may not be held for the purpose of taking final actions or making final decisions and are closed to the public.

Meeting Information

Times listed for each Agenda Item are approximate; actual times for each item may vary. Council may not take formal action in Study or Work Sessions. Please silence mobile devices during the meeting.



COUNCIL WORK SESSION

City Hall Council Chambers
10722 SE Main Street
www.milwaukieoregon.gov

MINUTES

APRIL 2, 2019

Mayor Mark Gamba called the Council meeting to order at 4:02 p.m.

Present: Council President Angel Falconer; Councilors Lisa Batey Wilda Parks, Kathy Hyzy

Staff: Building Official Samantha Vandagriff	Community Development Director Alma Flores
City Attorney Justin Gericke	Finance Director Bonnie Dennis
City Manager Ann Ober	Planning Director Denny Egner
City Recorder Scott Stauffer	Public Works Director Peter Passarelli

1. Citizens Utility Advisory Board (CUAB) – Annual Update

Mr. Passarelli introduced Jacob Stetson, CUAB member. He reported that the CUAB would be reviewing utility funds and water and wastewater rates. **Councilor Batey** and **Mr. Passarelli** noted that the CUAB would revisit the rates after the system master plan had been developed.

Mr. Passarelli reported that both rates were in good financial shape and reported that the rate increase recommendation was zero for water and 2.5% for wastewater over the next two years. He discussed future wastewater treatment costs and noted that those costs had been incorporated into the rate studies. He explained that the City had signed a contract with Tetra Tech to develop a Water Master Plan. He noted that the City had also selected a consultant for the Wastewater Master Plan and was working on fee negotiation. **Councilor Batey** and **Mr. Passarelli** noted the master plan process typically takes a year to finish. **Mr. Passarelli** remarked that future projects could be identified during the master plan process. He noted that in the fall of 2019 the CUAB and engineering staff would review adjustments to the Capital Improvement Plan (CIP) and the CUAB would soon review the stormwater utility rate.

Mr. Stetson agreed with **Mr. Passarelli's** overview of CUAB's work. He believed the rate adjustments were fair and in line with planned projects.

Councilor Batey asked how the 2.5% increase worked with the 5% increase suggested by Clackamas County Water Environment Services (WES). **Mr. Passarelli** noted that Daniel Kasbohm, Rates Manager with Utility Financial Solutions (UFS), would be able to explain the adjustments when he presents the next agenda item.

Councilor Batey, Mayor Gamba, Mr. Passarelli, and Ms. Ober discussed how system development charges (SDCs) are adjusted and the CUAB's role in that process. **Mayor Gamba** explained how SDCs were currently charged, noted the impact of different size developments, and discussed how the SDCs could be assessed differently. He believed that the more impact a development has on a system, the more it should pay. He believed the SDCs that the City controlled should be on a sliding scale to account for the impact on the system. **Mr. Stetson** believed it made sense to consider the size of development. **Ms. Ober** noted upcoming regional SDC discussions that staff and Council would attend. She also noted that if SDCs were decreased in one area, they would need to be increased in others.

Council President Falconer expressed dislike of the word “citizen” and noted that the Milwaukie Municipal Code (MMC) did not require community members to be citizens of Milwaukie to participate in discussions or serve on the CUAB. She asked the CUAB to consider changing the title to something like “Community Utility Advisory Board”.

2. Water and Wastewater Cost of Service and Rate Study – Discussion

Mr. Passarelli introduced reported that UFS and the City had completed a five-year projection for water and wastewater utilities. He and **Mr. Kasbohm** examined revenue requirements and the current rate structure for different types of customers. They explained the analysis model and process that was used to develop recommendations. They suggested that the next steps were to discuss the recommendations, have Council provide feedback, and then develop a rate design for both the utilities.

Mr. Passarelli explained that the recommended rate increase for water was 0% for the next two years, and 2.5% for wastewater over next two years. He noted the water assets were identified as 50% depreciated and the wastewater was about 45% depreciated, which meant the assets were younger and did not need to be replaced for a while. **Councilor Batey** thought the City’s wells were older. **Mr. Passarelli** noted that Well #2 was currently being improved.

Mr. Kasbohm reported that the City’s water and wastewater utilities were in good financial shape. He explained water utility assumptions based on annual inflation, growth, and investment income. He presented a five-year projection without rate changes. He noted that fiscal year 2020 (FY20) funding would meet the recommended minimum but falls slightly in the following two years. He explained the operating income for FY20 through FY24 and presented a five-year projection with the proposed rate adjustments beginning in 2022. He discussed Financial Target #1, related to operating income. **Mayor Gamba** asked about the cost of construction. **Mr. Kasbohm** noted the projected costs were from a nation-wide average. **Mr. Passarelli** asked if a regional cost index was ever used. The group discussed construction costs and **Mr. Kasbohm** noted the presented numbers were based on assets, not regional construction costs.

Mr. Kasbohm discussed Financial Target #2, related to the minimum cash reserve. The group discussed operation and maintenance expenses and cash reserves.

Mr. Passarelli noted discussions about Council goals and how utilities are related to affordable housing. He noted that City rated were in good shape structurally.

Mr. Kasbohm discussed the costs of water service, noting different types of customers and how they use the system. The group discussed the relationship between the cost of service and projected revenue. **Mr. Kasbohm** clarified that the presented numbers were a snapshot in time, not a recommendation. **Mayor Gamba** asked what the calculation was the last time the process was done. **Mr. Kasbohm** explained how utilities determine adjustments and noted the utilities calculated the depreciation based on asset records. **Mr. Passarelli** discussed the life expectancies of underground pipes and how their depreciation is calculated. The group discussed the replacement of clay pipes and how the City had calculated their depreciation versus more durable pipe material.

Mr. Kasbohm provided a breakdown of the cost of service comparison. He suggested that commodity costs should go down and monthly customer meter costs should go up. He asked if Council wanted to move towards this model, and if so, how aggressively. **Councilor Hyzy** and **Mayor Gamba** noted that multi-family housing units were considered commercial, not residential.

Mayor Gamba noted previous Council conversations about rate increases. He explained his past calculations that a person who uses the least amount of water per month is being charged almost ten times more per gallon than what the largest user was being charged, due to the base charge. He asked why individual residential users are subsidizing industrial users and noted this structure exists in other utilities and that the City could not control Portland General Electric's rates. He discussed how the city could charge on a per-gallon use. **Council President Falconer** agreed that she had heard the discussion before. **Ms. Ober** noted the presentation was the start of the process to review how the rates were calculated. **Mr. Passarelli** noted the impacts on charges from different rate designs.

Councilor Parks noted the complexity of the current utility bill and how residents have expressed concern about increased charges. She personally empathized with residents and noted that businesses seemed to get a better benefit. **Mayor Gamba** agreed and noted that businesses were making a profit. He pointed out that the recommendation in the staff report was to adjust the commodity down and adjust the monthly charge up and commented that he did not understand why this was even considered given Council's previous concern about that model. **Ms. Ober** remarked that staff would make a correction to the proposed model in the next report. It was Council consensus that they wanted to see a different rate option. **Councilor Batey** suggested that the current proposal was not equitable and would not encourage conservation. **Mayor Gamba** noted increases in housing costs, which he believed should be taken into consideration in the utility rates. **Councilor Batey** wondered if state or regional groups would have information on cities that have tried to shift the balance between types of water users.

Mr. Kasbohm remarked that if the City's rate structure was dependent on commercial customers it could become unstable when businesses leave. **Mayor Gamba** suggested that new businesses would come in after others left. **Mr. Kasbohm** noted the cost of service recommendation was there, but Council controlled the rates. He recommended small steps to work towards a goal.

Councilor Batey asked for examples of different rates and what those rates for different users would be. **Mr. Passarelli** said that could be done and was part of the rate design process to see the impacts to different customer types.

Mr. Passarelli explained how the City currently charged low-income residents.

Mr. Kasbohm summarized Council's interest in keeping the commodity rate at the same or higher and adjusting down the customer charges. **Mayor Gamba** commented that wealthy people and big business often benefit from City programs while poor people lose. **Councilor Batey** was interested in hearing from cities that have tried the approach that Mayor Gamba was suggesting.

Mr. Kasbohm moved on to the wastewater discussion. The group noted that the City did not have much control over that part of the utility bill.

Mr. Kasbohm provided a five-year projection without rate adjustments and a projection with the proposed 2.5% rate adjustment. He discussed the Financial Targets #1 and #2, the debt coverage ratio and the target operating income, with current rates. He noted Financial Target #3, the minimum cash reserve, with current rates. He provided an overview of the wastewater cost of service comparison results. He explained the potential of adjusting the cost of service based on meter size and use. The group discussed how water and wastewater rates are calculated.

Mr. Kasbohm summarized the wastewater recommendations, including the proposed 2.5% adjustment in FY2020 and FY2021.

Ms. Ober expressed concern about rate based fully on consumption. She remarked that if the community used less water and/or a large business left the city, consumption rates would decrease drastically and there would not be enough money to pay employees. She suggested the potential rate volatility was why cities have a base income to ensure money is coming in to cover costs. She agreed that the current system could be changed and noted staff will come back with options.

Mayor Gamba asked about the probability of the City losing their cash reserves if the community used less water and/or large businesses left. **Mr. Passarelli** noted that Capital Improvement Plan (CIP) project funding also depended on utility rate funding. **Mayor Gamba** noted the reserve funds were there to cover emergencies. **Ms. Ober** agreed and noted if the rate structure was routinely bumping into the reserves, the City would be financially instable which could affect things like its bond rating. She agreed that the policy direction Council was going in was smart and kind. She asked Council to also consider the City's ability to function through the ups and downs as the City sought to find a better way to address the issue.

Councilor Hyzy asked if it was possible to explore an approach to rates that allows for a larger reserve fund while increasing the volatility. **Ms. Ober** believed that in the past the CUAB had been cautious about the City carrying too much reserves because it looks bad to residents who are being charged.

Mayor Gamba noted his belief that utility rates were a gamed system where chief executive officers and people with the money benefit over regular consumers. **Ms. Ober** remarked that the City would need a base rate to assure some stability in the system. She reiterated that there would be a conversation about residential versus commercial rates and noted staff would come back to Council with new. She did not want to place larger burdens on the backs of people who have less, and at the same time wanted to ensure a guaranteed level of service. She noted the meeting was over time and the Cereghino Farms discussion had been moved to the Regular Session.

Mr. Kasbohm explained other cost of service calculations he could provide. He noted that a fully consumption-based model could work both ways, such as when a community experienced draught and more people used the system. **Ms. Ober** noted the conversation would be continued. **Mr. Passarelli** noted the good news that the City did not need to increase water rates, and wastewater rates could see a minimal increase.

3. Cereghino Farms Annexation Agreement (moved to the April 2 Regular Session)

4. Adjourn

Mayor Gamba adjourned the Work Session at 5:50 p.m.

Respectfully submitted,


 Amy Aschenbrenner, Administrative Specialist II



CITY OF MILWAUKIE

Memorandum

To: City Council
From: Alma Flores, Community Development Director
CC: Ann Ober, City Manager
Date: March 29, 2019
Re: Community Development Department Projects - City Council Update for April 2, 2019 Council meeting

Community Development/Housing/Economic Development ▪ Housing Authority of Clackamas County: Hillside Manor rehabilitation and Hillside Master Plan ▪ Cottage Cluster Feasibility Study ▪ The Clackamas County Homeless Coalition Work ▪ Milwaukie Station Food Cart Pod ▪ South Downtown • Business Support During Construction ▪ Coho Point at Kellogg Creek	Building ▪ February 2019 review to come
Planning ▪ Comprehensive Plan ▪ Land Use/Development Review: • City Council • Planning Commission ▪ Design and Landmarks Committee	Engineering ▪ Traffic Control ▪ Engineering Projects

COMMUNITY DEVELOPMENT/ECONOMIC DEVELOPMENT/HOUSING

Housing Authority of Clackamas County (HACC): Hillside Manor Rehabilitation and Hillside Master Plan

- City Council will be provided with a quarterly update on the Hillside Master Plan on April 16th.
- Staff is scheduled to meet on April 9th with the Hillside Master Plan Planning Committee to review the first draft of the final three site design concepts to be presented by the consultants.
- An Open House for the feedback on the site design options is yet to be scheduled for May.

Cottage Cluster Feasibility Study

- A "Middle Housing Options in Milwaukie: ADU's and Cottage Clusters" Open House has been scheduled for Wednesday, April 3rd from 5:30-7:30pm at the Public Safety Building. The public will have the opportunity to provide feedback on preliminary code modifications before a work session with Planning Commission and City Council on April 16th.

The Clackamas County Homeless Coalition Work

- A working group was set up to work on looking into barriers and opportunities of this model across different local jurisdictions. A short debrief was also made on the community meeting hosted last month. The next meeting will take place on April 10th.

Milwaukie Station Food Cart Pod

- Staff is working with City Attorney on the lease renewal for the Milwaukie Station Food Cart Pod.

South Downtown

- Night work on Main Street and Washington Street continues as crews continue installing storm and water and utilities along Main Street from the post office to Washington Street, and on Washington Street from Main Street to 21st Avenue.
- It is expected that the next project phase will commence Mid-April and will include a partial closure of Washington allowing only east bound traffic flow from 99E/McLoughlin to 21st Avenue. Updates to the SODO website, new pedestrian wayfinding will be implemented as part of this effort.
- Staff continue to attend the Historic Milwaukie NDA and DMBA meetings.
- Weekly updates to the South Downtown subscriber continue to be sent every Thursday to ensure that community members have the most up to date information.
- Staff have also developed a parking map for the downtown that illustrates where parking is currently closed and have provided additional permit parking to make up for permit parking lost due to construction.
- Visit the South Downtown website for up-to-date information:
<https://www.milwaukieoregon.gov/southdowntown>
- Business Support During Construction
 - A new business spotlight is now featured on the SODO website— www.milwaukieoregon.gov/southdowntown.

Coho Point at Kellogg Creek

- A community open house was held on March 6, 2019. About 40 people attended and an online survey will remain open until March 18th. The design team also received advisory input from the Design Landmarks Committee on March 4th. A presentation to Milwaukie City Council reviewing community input, and a preview of the schematic design will be presented on April 2nd.

PLANNING

Comprehensive Plan Update

- The Housing Committee met on Monday, March 18 and discussed draft policy direction and questions for the April 18 Housing Town Hall. Meeting materials can be [found here](#). The next meeting of the Housing Committee is scheduled for [April 1](#).
- Staff held a work session with the Planning Commission on March 26. A work session with the City Council is scheduled for April 2.
- The [Housing Town Hall](#) is scheduled for Thursday, April 18 at 6 pm at the Portland Waldorf School.

Land Use/Development Review¹

- City Council

- ZA-2018-004 (part 2) – On March 19, the City Council adopted a final package of code amendments addressing green building height bonuses and height variances.
- Planning Commission
 - WG-2019-001- On April 9, the Planning Commission is scheduled to hold a hearing on a proposal to build a new single-family house within the Willamette Greenway zone.
 - NR-2018-005 (master file) - A public hearing with the Planning Commission is tentatively scheduled for April 23 to review an application for a 12-unit natural resources cluster development at 12205/12225 SE 19th Ave.
 - AP-2019-002 – On March 26, the Planning Commission held a public hearing on an appeal of a condition of approval for the Planning Director's Type I approval of a development review for a change of use at 11380 SE 21st Ave. The Commission denied the appeal, upheld the Planning Director's decision, and modified the conditions of approval.
 - DR-2019-001 – A Type II downtown design review for a change to the Washington St ground floor transparency at the Axeltree project is out for referral and public comment. Comments are due on April 4.
 - VR-2019-003 – A Type III building height variance application to allow a 5-story building as part of a multi-family development on the McFarland site at 37th Ave and Monroe St has been deemed complete. The application is out for referral.
 - CU-2019-001 – A Type III conditional use request has been submitted to allow a yoga studio in the Business Industrial zone (Radiant Yoga at 4000 SE International Way). The application has been deemed complete and a public hearing with the Planning Commission is scheduled for May 14, 2019.
 - CSU-2019-002 – A Type III Community Service Use (CSU) modification request has been submitted to convert the existing tennis courts at Milwaukie High School (2301 SE Willard St) into a parking lot. The proposed improvement is part of the larger campus renovation currently underway. The application is being reviewed for completeness.

Design and Landmarks Committee (DLC)

- The DLC's next meeting is April 1, 2019. The group will continue its work to update the Downtown Design Review process as time allows.

BUILDING

February 2019 review to come

ENGINEERING

Traffic Control: NO NEW UPDATES

Engineering Projects:

South downtown Improvements/Plaza:

- Night crews have finished installing all the underground utilities in the project, except for the storm pipe at the intersection of Washington and 21st due to a conflict that is currently being resolved. Day crews working in the closure area at the undercrossing have finished excavating the roadbed. They are now forming and pouring cast-in-place concrete barriers, followed by curbs, sidewalks, driveways and roadway barriers over the

next three weeks. After the undercrossing opens on approximately April 15, crews will shift construction to the north side of Washington Street, from McLoughlin Boulevard to 21st Avenue. During construction, traffic flow will shift to one-way eastbound traffic on Washington Street. Motorists will be unable to access Main Street from Washington Street and detoured onto 21st Avenue to the new undercrossing to access the post office, Broken Arrow and Bloom. Access to Washington Street from southbound Main Street will be closed, and motorists will be directed by early warning signs to use Jefferson Street to access southbound 21st Avenue. Updated traffic/pedestrian detour and parking maps for the next phase of construction will be sent to email subscribers and posted to the city website prior to construction phase changes. Businesses will remain open during construction, and crews will maintain access for pedestrians to the businesses on Washington Street throughout construction.

- The City selected Granite Construction Company for CM/GC services to assist in the design and cost control for the South Downtown Plaza. The partnering kick-off meeting is scheduled for April 10th.

Ardenwald SAFE Project:

- The final sections of sidewalk are waiting until the PGE utility pole is removed and the two trees are removed by PGE. The special oil mix necessary for the porous asphalt specified for the pedestrian path is not available from suppliers until the weather is warmer, so the path portion will not occur during the week of Ardenwald Spring Break. No specific construction date has been set, but notices will be placed at entrances to the path when oil production has started, and the construction crew is scheduled for the work. The path will be closed during construction, which is anticipated to take three days.

Sellwood / 30th / Madison SAFE Project:

- The final portions of sidewalk and curb ramps are being formed in preparation to be poured. Landscape restoration has begun and will continue after sidewalk and curb ramp installation is complete.

Kronberg Park Multi-Use Walkway:

- Tree removal was complete by March 1, 2019. The project has been posted for bid and closes March 26th, 2019. Land Use is approved with conditions. ODOT permits have been submitted.

Linwood Avenue Improvements:

- Three proposals for engineering design services are in review and we anticipate the contract to be executed early May. Project consists of sidewalk, bike lanes, stormwater improvements and intersection safety devices, from Harmony Road to Monroe Street. Construction is to be completed by August 2021.

22nd Avenue and River Road Improvements:

- RFQ for engineering design services went out and three submittals were received by the March 14th deadline. The selection committee reviewed the submittals and AKS was selected as the top choice. Negotiations are under way to define project scope and proposed cost.

Street Surface Maintenance Program (SSMP) Pavement Condition Index (PCI) Pavement Assessment:

- Request for qualifications to provide professional engineering services for the 2019 Street Network Pavement Assessment. The PCI is a measure of the street surface, ranging from 0 to 100. The SSMP goal is that all major streets have a PCI rating of approximately 75 or

better. This RFQ is to visually inspect approximately 75 miles of streets, provide a rehabilitation plan based on City resources, and enter the enter the information into the City's on-line pavement management software.

COUNCIL STAFF REPORT

To: Mayor and City Council
Ann Ober, City Manager

Date Written: Mar. 20, 2019

Reviewed: Blanca Marston (as to form), Administrative Specialist

From: Peter Passarelli, Public Works Director, and
Vince Alvarez, CUAB Chair

Subject: Citizens Utility Advisory Board (CUAB) Annual Update and Bylaws Review

ACTION REQUESTED

Informational only.

HISTORY OF PRIOR ACTIONS AND DISCUSSIONS

[April 10, 2018:](#) – The CUAB provided recommendations on utility rates for FY 2019 and asked for council direction on rates to be included in the proposed budget and master fee schedule.

[February 11, 2019:](#) – The CUAB had a joint session with the budget committee to discuss CUAB roles and responsibilities, provided an update on water and wastewater rate studies, and discussed coordinating timelines for future capital improvement plan (CIP) planning.

ANALYSIS

This is an opportunity for CUAB members to discuss the upcoming year's workplan and present any bylaws changes the CUAB has proposed for City Council's consideration. The CUAB chair will present and discuss the CUAB 2019 workplan and highlight 2018 accomplishments. To date, CUAB does not have any suggested changes to its bylaws.

BUDGET IMPACTS

N/A

WORKLOAD IMPACTS

N/A

COORDINATION, CONCURRENCE, OR DISSENT

N/A

STAFF RECOMMENDATION

N/A

ALTERNATIVES

N/A

ATTACHMENTS

None

ACTION ITEMS

Item	Definition	Status	Complete Date
Review utility funds for fiscal soundness and provide rate recommendations	Examine the funds and comment on the stability of each fund and capital project implementation. Report to council at annual check-in.	Funds reviewed beginning with the January meeting. Follow on CUAB Meeting – March 6 2019 April 2nd Council Meeting	May 2019
Capital Improvement Plan	Review the implementation of the adopted biennial plan. Make recommendations on adjustments.	Review with Engineering/PW beginning in Fall 2019	Final draft will be presented February 2020
Utility Master Plans	Review the master plans, focusing on recommendations and project implementation.	Review progress in late 2019	Water – Contract Signed WW- Consultant Selected, Negotiating Fee

COUNCIL STAFF REPORT

To: Mayor and City Council
Ann Ober, City Manager

Date Written: Mar. 19, 2019

Reviewed: Blanca Marston (as to form), Administrative Specialist; and Bonnie Dennis, Finance Director

From: Peter Passarelli, Public Works Director, and
Vince Alvarez, CUAB Chair

Subject: **Water and Wastewater Cost of Service and Rate Study**

ACTION REQUESTED

Review and comment on the citizens utility advisory board (CUAB) recommendations on the water and wastewater utility rates and provide direction to staff on future rate designs for FY 2020 and FY 2021.

HISTORY OF PRIOR ACTIONS AND DISCUSSIONS

[April 10, 2018](#): The CUAB provided recommendations on utility rates for FY 2019 and asked for Council direction on rates to be included in the proposed budget and master fee schedule. The recommended and approved increases for water and wastewater were 11.85% and 0% respectively.

ANALYSIS

The city performs rate reviews of its various utilities periodically and adopts recommended rate increases to fund utility operations and finance projects from the adopted Capital Improvement Plan (CIP). The wastewater utility's last formal rate study was completed in 2013. The water utility's rate study was done as part of its master plan update and completed in 2012.

The city contracted with Utility Financial Solutions, Inc. (UFS) in 2018 to conduct a comprehensive cost of service study, which included long range financial projections, an assessment and evaluation of existing water and wastewater rates, and recommendations on the amount and structure of future rates. The objectives of the study were to determine the appropriate rate structure to ensure adequate funding for water and wastewater utility operations, including capital costs and any bonded debt.

UFS provided a draft presentation in early January for review by the CUAB. The CUAB reviewed the presentation, discussed alternative rate structures, and recommended bringing forth the UFS' recommendation to Council for discussion. UFS' rate recommendations and financial projections for each utility are below. These, as well as the cost of service analysis, will be discussed in the attached presentation by UFS.

Water Recommendation:

- Propose 0% adjustment in FY 2020 & FY 2021.
- Neutral increase with rate adjustments to increase monthly charge and decrease commodity charge to bring rates closer to cost of service.
- 2.5% increase in FY 2022 through FY 2024 based on current projections.

Wastewater Recommendation:

- Propose 2.5% adjustment in FY 2020 and FY 2021 with a bandwidth potential adjustment of +/-3.0% to allow moving rates towards cost of service.
- Revise billing and administration charge to a fixed charge that is similar to the water rate structure to account for capacity requirements of various customer requirements.
- Revise the current 50% low-income discount to a fixed dollar discount of (\$5.00) on monthly charge and (\$17.00) on treatment equivalent dwelling unit (EDU) charge.
- 2.5% increase in FY 2022 through FY 2024

Financial Projection:

The financial projection for both utilities incorporated assumptions such as inflation, anticipated changes in expenses, debt issuances, capital improvements, and additional costs related to sales growth. The financial projection incorporates three targets to help ensure the long term financial stability of the city is maintained or improved and develops a plan for rate adjustments.

Target #1 Debt Coverage Ratio: Maintaining a higher debt coverage ratio is good business practice and helps to ensure adequate funds are available to meet debt service payments in years when sales are low due to cold or wet summers or loss of a major customer(s). The debt coverage ratio is also a key component in ensuring a higher bond rating.

Target # 2 Minimum Cash Reserve: This target enables the utility to meet requirements for large unexpected expenditures and ensure timely completion of capital improvements. Development of the targeted minimum cash reserves was considered with a number of factors specific to each utility. Those factors include operations and maintenance, working capital, historical cost basis of assets, exposure to catastrophic events, and working capital available for CIP projects.

Target #3 Target Operating Income: The optimal target for setting rates is the establishment of a target operating income. This helps to ensure funding of interest expense on the outstanding principal on debt, funding of the inflationary increase on the assets invested in the system, and the adequate rate of return on investment to help ensure current customers are paying their fair share for the use of the infrastructure and not deferring the charge to future generations.

Water Financial Projection

Projection with Proposed Rate Changes

Fiscal Year	Projected Rate Adjustment	Capital Improvements Plan	Debt Coverage Ratio	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Recommended Minimum Cash
2020	0.0%	\$ 1,862,000	N/A	\$3,524,562	\$4,677,391	\$ 1,152,829	\$ 806,599	\$ 3,081,626	\$ 2,304,087
2021	0.0%	2,767,000	N/A	3,682,171	4,700,580	1,018,409	892,376	2,014,066	2,341,676
2022	2.5%	1,638,000	N/A	3,865,310	4,840,989	975,679	943,154	2,100,855	2,371,584
2023	2.5%	1,015,050	N/A	4,003,420	4,985,628	982,207	974,621	2,861,774	2,393,310
2024	2.5%	1,127,500	N/A	4,135,956	5,134,624	998,668	1,009,573	3,566,218	2,416,523

Wastewater Financial Projection

Projection with Proposed Rate Change

Fiscal Year	Projected Rate Adjustments	Capital Improvements	Debt Coverage Ratio ^[1]	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Recommended Minimum Reserve	Percent of Plant Depreciated
2020	2.50%	\$ 1,110,000	11.19	\$ 7,567,233	\$ 8,216,450	\$ 649,217	\$ 559,681	\$4,172,914	\$ 2,563,344	44%
2021	2.50%	1,893,000	11.42	7,841,093	8,462,404	621,311	626,725	3,339,412	2,609,927	42%
2022	2.50%	1,138,000	11.82	8,101,498	8,715,767	614,270	667,622	3,296,126	2,647,250	43%
2023	2.50%	1,848,250	12.27	8,367,627	8,976,763	609,137	732,238	2,582,987	2,692,465	42%
2024	2.50%	978,000	12.71	8,637,929	9,245,622	607,693	767,620	2,778,410	2,730,290	43%

After discussion and feedback from Council on the rate recommendations, low-income rates, and rate structure, UFS will develop a two-year rate design for both utilities that will be brought back to Council for approval.

BUDGET IMPACTS

The rate structure proposed by UFS maintains the current utility service levels and capital projects funded within the CIP.

WORKLOAD IMPACTS

During the first year of implementing the wastewater billing changes to include a fixed charge, it is anticipated that there would be work impacts within the finance department utility billing division, in terms of time commitment, customer communication, and changes to the utility bill statement. The changes to the utility bill statement would include additional programming

costs to match the changes with the financial system. After implementation, it is not anticipated that there would be additional workload related to this change.

STAFF RECOMMENDATION

Review and comment on the citizens utility advisory board (CUAB) recommendations on the water and wastewater utility rates and provide direction to staff on future rate designs for FY 2020 and FY 2021.

ALTERNATIVES

N/A

ATTACHMENTS

None

City of Milwaukie

Water and Wastewater

Preliminary Study Results

Daniel Kasbohm
Rates Manager
Utility Financial Solutions
616-402-7045

Discussion

- Review Water/Wastewater Departments
 - Financial Projections & Targets
 - Debt Coverage Ratio
 - Minimum Cash
 - Target Operating Income
- Review Cost of service results
 - Monthly Customer Charges
 - Usage Charges

Water Assumptions

- Annual Inflation
 - 2.5% Annually
 - Personal Services $\approx$ 6% annually
- Annual Growth
 - 0.5% Annually
- Investment Income
 - 0.5% Annually
- Study based on FY2017
 - Includes FY18 rate increase $\approx$ 5%
 - Includes FY19 increase $\approx$ 12%
 - Each adjustment was on both commodity and customer charge

Capital Improvements:

Fiscal Year	Capital Improvements Plan
2020	\$ 1,862,000
2021	2,767,000
2022	1,638,000
2023	1,015,050
2024	1,127,500

Projection without Rate Change

Fiscal Year	Projected Rate Adjustment	Capital Improvements Plan	Debt Coverage Ratio	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Recommended Minimum Cash
2020	0.0%	\$ 1,862,000	N/A	\$3,524,562	\$4,677,391	\$ 1,152,829	\$ 806,599	\$ 3,081,626	\$ 2,304,087
2021	0.0%	2,767,000	N/A	3,682,171	4,700,580	1,018,409	892,376	2,014,066	2,341,676
2022	0.0%	1,638,000	N/A	3,855,941	4,723,884	867,943	943,154	1,993,119	2,370,429
2023	0.0%	1,015,050	N/A	3,984,354	4,747,305	762,951	974,621	2,534,243	2,390,960
2024	0.0%	1,127,500	N/A	4,106,853	4,770,843	663,990	1,009,573	2,902,370	2,412,935

Notes:

- Debt Coverage does not apply do to being debt free
- FY2020 cash meets recommended minimum but falls slightly in following two years due to projected capital plan
- Operating income is greater than target in FY20 and FY21 but falls below target in FY22 through FY24

Projection with Proposed Rate Changes

Fiscal Year	Projected Rate Adjustment	Capital Improvements Plan	Debt Coverage Ratio	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Recommended Minimum Cash
2020	0.0%	\$ 1,862,000	N/A	\$3,524,562	\$4,677,391	\$ 1,152,829	\$ 806,599	\$ 3,081,626	\$ 2,304,087
2021	0.0%	2,767,000	N/A	3,682,171	4,700,580	1,018,409	892,376	2,014,066	2,341,676
2022	2.5%	1,638,000	N/A	3,865,310	4,840,989	975,679	943,154	2,100,855	2,371,584
2023	2.5%	1,015,050	N/A	4,003,420	4,985,628	982,207	974,621	2,861,774	2,393,310
2024	2.5%	1,127,500	N/A	4,135,956	5,134,624	998,668	1,009,573	3,566,218	2,416,523

Financial Target #1 *(with current rates)*

Target Operating Income

Description	Projected 2020
Target Operating Income Determinants	
Net Book Value/Working Capital	\$ 13,215,790
Outstanding Principal on Debt	-
System Equity	\$ 13,215,790
Debt:Equity Ratio	0%
Target Operating Income Allocation	
Interest on Debt	0.00%
System Equity	6.10%
Target Operating Income	
Interest on Debt	\$ -
System Equity	\$ 806,599
Target Operating Income	\$ 806,599
Projected Operating Income	\$ 1,152,829
Rate of Return in %	6.1%

The optimal target for setting rates is the establishment of a target operating income to help ensure the following:

- Funding of interest expense on the outstanding principal on debt. Interest expense is below the operating income line and needs to be recouped through the operating income balance.
- Funding of the inflationary increase on the assets invested in the system. The inflation on the replacement of assets invested in the utility should be recouped through the Operating Income.
- Adequate rate of return on investment to help ensure current customers are paying their fair share of the use of the infrastructure and not deferring the charge to future generations.
- The rate of return identifies the target operating income and is used to identify the appropriate funding for replacement of existing infrastructure to recover in rates charged to customers.

Financial Target #2 *(with current rates)*

Minimum Cash Reserve

Description	Projected 2020
Minimum Cash Reserve Levels Determinants	
Operation & Maintenance Less Depreciation Expense	\$ 2,936,089
Historical Rate Base	26,019,323
Current Portion of Debt Service Payment	-
Five Year Capital Improvements - Net of bond proceeds	8,409,550
Minimum Cash Reserve Allocation	
Operation & Maintenance Less Depreciation Expense	12.3%
Historical Rate Base	1%
Current Portion of Debt Service Payment	100%
Five Year Capital Improvements - Net of bond proceeds	20%
% Plant Depreciated	49%
Operation & Maintenance Less Depreciation Expense	\$ 361,984
Historical Rate Base	260,193
Current Portion of Debt Service Reserve	-
Five Year Capital Improvements - Net of bond proceeds	1,681,910
Minimum Cash Reserve Levels	\$ 2,304,087
Projected Cash Reserves	\$ 3,081,626

- O&M 12.3% is working capital of 45 days
- Historical – 1% represents age of assets and risk of a catastrophic event
- Debt – 100% doesn't apply since utility is debt free
- Capital – 20% is working capital available for CIP

UFS Minimum Reserve level calculated with current Milwaukie Policy formula requires a change from 50% to 75% of annual O&M

Description	Projected 2020
Days Working Capital based on Minimum Cash Recommendation	239
Days Working Capital based on Cash Projection	319
Milwaukie Policy Requirement (50%)	\$ 1,468,044
Days Working Capital based on current policy	183
UFS Minimum Reserve as a Percent of Expense less Depreciation	78%

Water Cost of Service Results

Customer Class	Cost of Service	Projected Revenues	% Change	Avg. CCF per Month
5/8" & 3/4" - Residential	\$ 2,651,223	\$ 2,707,841	-2.1%	7
5/8" & 3/4" - Low Income	\$ 65,086	51,589	26.2%	7
1" - Commercial	\$ 250,388	276,520	-9.5%	15
1.50" - Commercial	\$ 308,271	376,128	-18.0%	58
2" - Commercial	\$ 725,232	923,621	-21.5%	118
3" - Commercial	\$ 156,161	169,666	-8.0%	192
4" - Commercial	\$ 112,148	123,236	-9.0%	340
6" - Commercial	\$ 11,752	9,090	29.3%	144
Hydrants	\$ 11,200	-	0.0%	-
Total	\$ 4,291,461	\$ 4,637,691	-7.5%	

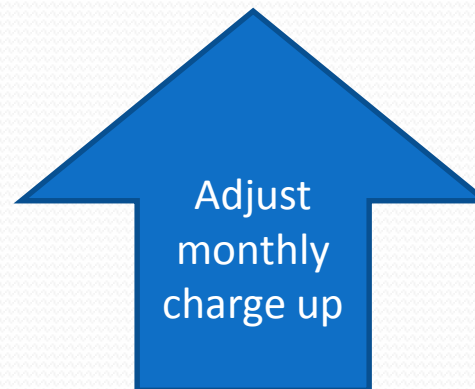
Study results:

- 1) Reduce commodity charges
- 2) Increase monthly customer charges

Current pricing results in over recovery from customers using higher volumes of water vs. those who use less

Cost of Service Comparison

Meter / Customer type	<u>Commodity</u>			<u>Customer</u>			<u>Total</u>		
	COS	Current	Variance	COS	Current	Variance	COS	Current	Variance
5/8" & 3/4" - Residential	\$ 3.07	\$ 3.94	-22%	\$ 14.37	\$ 8.69	65%	\$2,651,223	\$2,707,841	-2%
5/8" & 3/4" - Low Income	\$ 2.82	\$ 3.94	-28%	\$ 14.37	\$ -	0%	\$ 65,086	\$ 51,589	26%
1" - Commercial	\$ 3.18	\$ 3.94	-19%	\$ 16.85	\$ 12.14	39%	\$ 250,388	\$ 276,520	-9%
1.50" - Commercial	\$ 2.93	\$ 3.94	-26%	\$ 33.44	\$ 19.56	71%	\$ 308,271	\$ 376,128	-18%
2" - Commercial	\$ 2.89	\$ 3.94	-27%	\$ 47.95	\$ 30.39	58%	\$ 725,232	\$ 923,621	-21%
3" - Commercial	\$ 3.11	\$ 3.94	-21%	\$168.86	\$ 74.93	125%	\$ 156,161	\$ 169,666	-8%
4" - Commercial	\$ 3.02	\$ 3.94	-23%	\$307.89	\$128.80	139%	\$ 112,148	\$ 123,236	-9%
6" - Commercial	\$ 2.29	\$ 3.94	-42%	\$649.12	\$190.02	242%	\$ 11,752	\$ 9,090	29%
Hydrants	\$ -	\$ -	0%	\$ 13.49	\$ -	0%	\$ 11,200	\$ -	0%
Average Unit	\$ 3.02			\$ 16.55					



Summary of Recommendations

- Water
 - Propose 0% adjustment in FY2020 & FY2021
 - Neutral increase with rate adjustments to increase monthly charge and decrease commodity charge
 - Long-term projection
 - 2.5% increase in FY2022 through FY2024

Example FY20 & 21 Rate Change

Overall 0% increase with a +/- 3.0% bandwidth

Projected Revenue with Current Rates				
Customer - by Meter Size	Current Monthly	All	Current Revenue	
5/8" & 3/4" - Residential	\$ 8.69	\$ 3.94	\$ 2,707,841	
5/8" & 3/4" - Low Income	\$ -	\$ 3.94	\$ 51,589	
1" - Commercial	\$ 12.14	\$ 3.94	\$ 276,520	
1.50" - Commercial	\$ 19.56	\$ 3.94	\$ 376,128	
2" - Commercial	\$ 30.39	\$ 3.94	\$ 923,621	
3" - Commercial	\$ 74.93	\$ 3.94	\$ 169,666	
4" - Commercial	\$ 128.80	\$ 3.94	\$ 123,236	
6" - Commercial	\$ 190.02	\$ 3.94	\$ 9,090	
			\$ 4,637,691	

Projected FY2020 Revenue with Proposed Rates				
Customer - by Meter Size	Proposed Monthly	All	Current Revenue	Change by Meter
5/8" & 3/4" - Residential	\$ 9.79	\$ 3.84	\$ 2,730,880	0.9%
5/8" & 3/4" - Low Income	\$ 0.70	\$ 3.84	\$ 51,584	0.0%
1" - Commercial	\$ 13.04	\$ 3.84	\$ 273,864	-1.0%
1.50" - Commercial	\$ 22.36	\$ 3.84	\$ 371,126	-1.3%
2" - Commercial	\$ 33.89	\$ 3.84	\$ 907,075	-1.8%
3" - Commercial	\$ 93.73	\$ 3.84	\$ 169,387	-0.2%
4" - Commercial	\$ 164.60	\$ 3.84	\$ 123,247	0.0%
6" - Commercial	\$ 228.02	\$ 3.84	\$ 9,365	3.0%
			\$ 4,636,528	0.0%

Projected FY2021 Revenue with Proposed Rates				
Customer - by Meter Size	Proposed Monthly	All	Current Revenue	Change by Meter
5/8" & 3/4" - Residential	\$ 10.89	\$ 3.73	\$ 2,753,920	0.8%
5/8" & 3/4" - Low Income	\$ 1.40	\$ 3.73	\$ 51,578	0.0%
1" - Commercial	\$ 13.94	\$ 3.73	\$ 271,208	-1.0%
1.50" - Commercial	\$ 25.16	\$ 3.73	\$ 366,124	-1.3%
2" - Commercial	\$ 37.39	\$ 3.73	\$ 890,529	-1.8%
3" - Commercial	\$ 112.53	\$ 3.73	\$ 169,108	-0.2%
4" - Commercial	\$ 200.40	\$ 3.73	\$ 123,259	0.0%
6" - Commercial	\$ 266.02	\$ 3.73	\$ 9,639	2.9%
			\$ 4,635,365	0.0%

Water Questions



Wastewater Assumptions

- Annual Inflation (FY20 to FY24)
 - 2.5% on O&M
 - 5.0% on WES Treatment
- Annual Growth
 - 0.5% Annually
- Investment Income
 - 0.5% Annually
- Study based on FY2017
 - Includes FY18 rate increase $\approx 4\%$
 - Adjustment was on both commodity and customer charge

Capital Improvements:

Year	Projected Capital Improvement	
2019	\$	1,350,000
2020		1,983,000
2021		1,138,000
2022		1,928,250
2023		1,029,000

Projection without Rate Change

Fiscal Year	Projected Rate Adjustments	Capital Improvements	Debt Coverage Ratio ^[1]	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Recommended Minimum Reserve	Percent of Plant Depreciated
2020	0.00%	\$ 1,110,000	9.24	\$ 7,567,233	\$ 8,017,317	\$ 450,084	\$ 559,681	\$3,973,781	\$ 2,563,344	44%
2021	0.00%	1,893,000	7.74	7,808,672	8,057,144	248,471	626,725	2,766,444	2,605,930	42%
2022	0.00%	1,138,000	6.16	8,052,010	8,097,169	45,159	667,622	2,151,183	2,641,149	43%
2023	0.00%	1,848,250	4.55	8,300,477	8,137,395	(163,082)	732,238	660,100	2,684,186	42%
2024	0.00%	978,000	2.81	8,552,505	8,177,822	(374,683)	767,620	(136,467)	2,719,759	43%

Notes:

- 1) Debt Coverage meets 1.4 target throughout projection
- 2) Cash meets recommended minimum through FY2021
- 3) Operating income becomes an operating loss in FY2023

Projection with Proposed Rate Change

Fiscal Year	Projected Rate Adjustments	Capital Improvements	Debt Coverage Ratio ^[1]	Projected Expenses	Projected Revenues	Adjusted Operating Income	Target Operating Income	Projected Cash Balances	Recommended Minimum Reserve	Percent of Plant Depreciated
2020	2.50%	\$ 1,110,000	11.19	\$ 7,567,233	\$ 8,216,450	\$ 649,217	\$ 559,681	\$4,172,914	\$ 2,563,344	44%
2021	2.50%	1,893,000	11.42	7,841,093	8,462,404	621,311	626,725	3,339,412	2,609,927	42%
2022	2.50%	1,138,000	11.82	8,101,498	8,715,767	614,270	667,622	3,296,126	2,647,250	43%
2023	2.50%	1,848,250	12.27	8,367,627	8,976,763	609,137	732,238	2,582,987	2,692,465	42%
2024	2.50%	978,000	12.71	8,637,929	9,245,622	607,693	767,620	2,778,410	2,730,290	43%

Financial Targets #1 & #2

(with current rates)

Debt Coverage Ratio

Description	Projected 2020
Net Income(Expense)	\$ 465,539
Add Depreciation Expense/Amortization Expense	473,531
Add Interest Expense	5,750
Cash Generated from Operations	\$ 944,820
Debt Principal and Interest	\$ 102,208
Projected Debt Coverage Ratio (Covenants)	9.24
Minimum Debt Coverage Ratio	1.40
Debt:Equity Ratio	11%

Target Operating Income

Description	Projected 2020
Target Operating Income Determinants	
Net Book Value/Working Capital	\$ 10,923,826
Outstanding Principal on Debt	1,157,494
System Equity	\$ 9,766,332
Debt:Equity Ratio	11%
Target Operating Income Allocation	
Interest on Debt	0.5%
System Equity	5.7%
Target Operating Income	
Interest on Debt	\$ 5,750
System Equity	553,931
Target Operating Income	\$ 559,681
Projected Operating Income	\$ 450,084
Rate of Return in %	5.1%

Financial Target #3 *(with current rates)*

• Minimum Cash Reserve

Description	Projected 2020
Minimum Cash Reserve Level Determinants	
Operation & Maintenance Less Depreciation	\$ 7,093,702
Adjusted Historical Rate Base	19,361,946
Current Portion of Debt Service Reserve	101,708
Five Year Capital Improvements - Net of borrowing	6,967,250
Minimum Cash Reserve Allocation	
Operation & Maintenance Less Depreciation	12.3%
Historical Rate Base	1%
Current Portion of Debt Service Reserve	100%
Five Year Capital Improvements - Net of borrowing	20%
% Plant Depreciated	44%
Minimum Cash Reserve Level	
O&M Less Depreciation	\$ 874,566
Historical Rate Base	193,619
Current Portion of Debt Service Reserve	101,708
Five Year Capital Improvements - Net of borrowing	1,393,450
Minimum Cash Reserve Level	\$ 2,563,344
Projected Cash Reserves	\$ 3,973,781

- O&M 12.3% is working capital of 45 days
- Historical – 1% represents age of assets and risk of damage in a catastrophic event
- Debt – 100% of P&I due in one year
- Capital – 20% is working capital available for CIP

UFS Minimum Reserve level calculated with current Milwaukie Policy formula requires a change from 25% to 35% of annual O&M

Description	Projected 2020
Days Working Capital based on Minimum Cash Recommendation	124
Days Working Capital based on Actual Projected Cash	192
Milwaukie Policy Requirement (25%)	
	\$ 1,372,091
Days Working Capital based on current policy	66
UFS Minimum Reserve as a Percent of Expense less Depr.	36%

Wastewater Cost of Service Results

Meter Size	Total		
	COS	Current	Variance
Residential	\$ 6,530,010	\$ 5,782,619	13%
Low Income	169,137	94,854	78%
1" - Commercial	211,101	292,806	-28%
1.50" - Commercial	276,937	419,476	-34%
2" - Commercial	671,981	1,040,444	-35%
3" - Commercial	119,279	185,498	-36%
4" - Commercial	86,422	135,898	-36%
6" - Commercial	9,324	13,521	-31%
Total	\$ 8,074,190	\$ 7,965,116	1.4%

Current revenues over collect
from large metered
“commercial” customers

Cost of Service Comparison

Meter Size	Customer			Commodity			Treatment (EDU)		
	COS	Current	Variance	COS	Current	Variance	COS	Current	Variance
Residential	\$ 15.29	\$ 9.12	68%	\$ 2.23	\$ 2.94	-24%	\$ 37.00	\$ 31.13	19%
Low Income	15.29	4.57	235%	2.23	2.94	-24%	37.00	15.57	138%
1" - Commercial	18.74	9.12	105%	2.23	2.94	-24%	37.00	67.66	-45%
1.50" - Commercial	25.64	9.12	181%	2.23	2.94	-24%	37.00	67.66	-45%
2" - Commercial	32.54	9.12	257%	2.23	2.94	-24%	37.00	67.66	-45%
3" - Commercial	46.34	9.12	408%	2.23	2.94	-24%	37.00	67.66	-45%
4" - Commercial	60.14	9.12	559%	2.23	2.94	-24%	37.00	67.66	-45%
6" - Commercial	87.75	9.12	862%	2.23	2.94	-24%	37.00	67.66	-45%

Adjust
based on
meter size

Adjust
down as
meter
charge
increases

Collection system is comprised of primarily fixed infrastructure and maintenance costs. Assets are sized based on the capacity each customer requirements are based on their water meter size.

Example FY2020 Rate Change

Overall 2.5% increase with +/-3.0% bandwidth

Example Sewer Utility Adjustment

Goal to move each towards Cost of Service

5.5% High

2.5% +/-3.0%

-0.5% Low

Customer - by Meter Size	Current Monthly	Current EDU	Current Commodity	Current Revenue
Residential	\$ 9.12	\$ 31.13	\$ 2.94	\$ 5,782,619
Low Income	\$ 4.57	\$ 15.57	\$ 1.47	\$ 74,667
1" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 292,806
1.50" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 419,476
2" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 1,040,444
3" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 185,498
4" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 135,898
6" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 13,521
TOTAL	\$ 736,388	\$ 4,938,022	\$ 2,270,519	\$ 7,944,929
Discount to Low Income	\$ 5.00	\$ 17.00	50%	-

Customer - by Meter Size	Proposed Monthly	Proposed EDU	Proposed Commodity	Proposed Revenue	Average Bill Impact (%)	Average Bill Impact (\$)
Residential	\$ 11.20	\$ 31.53	\$ 2.93	\$ 5,978,922	3.4%	\$ 2.59
Low Income less fixed \$	\$ 6.20	\$ 14.53	\$ 1.47	\$ 74,930	0.4%	\$ 0.17
Low Income less 50%	\$ 5.60	\$ 15.77	\$ 1.47	\$ 77,277	3.5%	\$ 0.17
1" - Commercial	\$ 12.30	\$ 66.66	\$ 2.93	\$ 297,220	1.5%	\$ 1.93
1.50" - Commercial	\$ 14.60	\$ 66.66	\$ 2.93	\$ 419,949	0.1%	\$ 0.66
2" - Commercial	\$ 16.90	\$ 66.66	\$ 2.93	\$ 1,037,882	-0.2%	\$ (1.97)
3" - Commercial	\$ 21.50	\$ 66.66	\$ 2.93	\$ 184,954	-0.3%	\$ (3.65)
4" - Commercial	\$ 26.20	\$ 66.66	\$ 2.93	\$ 135,227	-0.5%	\$ (11.18)
6" - Commercial	\$ 35.40	\$ 66.66	\$ 2.93	\$ 13,689	1.2%	\$ 14.30
TOTAL (with 50% discount)	\$ 918,648	\$ 4,963,674	\$ 2,262,797	\$ 8,145,119	2.5%	

Example FY2021 Rate Change

Overall 2.5% increase with +/-3.0% bandwidth

Example Sewer Utility Adjustment

Goal to move each towards Cost of Service

5.5% High

2.5% +/-3.0%

-0.5% Low

Customer - by Meter Size	Current Monthly	Current EDU	Current Commodity	Current Revenue
Residential	\$ 9.12	\$ 31.13	\$ 2.94	\$ 5,782,619
Low Income	\$ 4.57	\$ 15.57	\$ 1.47	\$ 74,667
1" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 292,806
1.50" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 419,476
2" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 1,040,444
3" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 185,498
4" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 135,898
6" - Commercial	\$ 9.12	\$ 67.66	\$ 2.94	\$ 13,521
TOTAL	\$ 736,388	\$ 4,938,022	\$ 2,270,519	\$ 7,944,929
Discount to Low Income	\$ 5.00	\$ 17.00	50%	-

Customer - by Meter Size	Proposed Monthly	Proposed EDU	Proposed Commodity	Proposed Revenue	Average Bill Impact (%)	Average Bill Impact (\$)
Residential	\$ 13.30	\$ 31.86	\$ 2.93	\$ 6,174,146	3.3%	\$ 2.58
Low Income less fixed \$	\$ 8.30	\$ 14.86	\$ 1.47	\$ 80,196	7.0%	\$ 2.55
Low Income less 50%	\$ 6.65	\$ 15.93	\$ 1.47	\$ 79,909	3.4%	\$ 2.36
1" - Commercial	\$ 15.50	\$ 65.66	\$ 2.93	\$ 301,987	1.6%	\$ 2.08
1.50" - Commercial	\$ 20.10	\$ 65.66	\$ 2.93	\$ 420,904	0.2%	\$ 1.19
2" - Commercial	\$ 24.70	\$ 65.66	\$ 2.93	\$ 1,036,505	-0.1%	\$ (0.93)
3" - Commercial	\$ 33.90	\$ 65.66	\$ 2.93	\$ 184,620	-0.2%	\$ (1.94)
4" - Commercial	\$ 43.20	\$ 65.66	\$ 2.93	\$ 134,705	-0.4%	\$ (8.29)
6" - Commercial	\$ 61.60	\$ 65.66	\$ 2.93	\$ 13,871	1.3%	\$ 15.48
TOTAL (with 50% discount)	\$ 1,102,538	\$ 4,981,312	\$ 2,262,797	\$ 8,346,646	2.5%	

Summary of Recommendations

- Wastewater
 - Propose 2.5% adjustment in FY2020 and FY2021 with a bandwidth of +/-3.0% to allow moving rates towards COS.
 - Revise Billing and Administration charge to a Fixed Charge that is similar to the Water rate structure to account for capacity requirements of various customer requirements
 - Revise current 50% low Income discount to a fixed dollar discount of (\$5.00) on monthly charge (\$17.00) on Treatment EDU charge and maintain 50% discount on commodity charge
 - Long-term projection
 - 2.5% increase in FY2022 through FY2024

Wastewater Questions



COUNCIL STAFF REPORT

To: Mayor and City Council
Ann Ober, City Manager

Date Written: Mar. 22, 2019

Reviewed: Alma Flores, Community Development Director; Samantha Vandagriff, Building Official; and Peter Passarelli, Public Works Director

From: Denny Egner, Planning Director

Subject: Cereghino Farms Annexation Agreement

ACTION REQUESTED

No formal action is requested. Staff intends to continue with final negotiations on the agreement and, if successful, will return to Council in two weeks to seek authorization for the city manager to sign the agreement. Staff will then return to Council for the actual annexation of the property.

HISTORY OF PRIOR ACTIONS AND DISCUSSIONS

[September 5, 2017](#): During this meeting, staff reported that city manager Ann Ober had signed a Memorandum of Understanding (MOU) with the developer of the Cereghino Farms site. The MOU outlined various provisions that would be included in a subsequent annexation agreement.

ANALYSIS

The Cereghino Farms subdivision is a 55-lot development that was approved by Clackamas County on January 24, 2018. The subdivision improvements are currently under construction. Staff has met periodically with the developer and the developer's consultant since the MOU was signed (the MOU is included as Attachment 1). For various reasons, the developer had been reluctant to follow through with the annexation; however on March 12, 2019, the developer's consultant sent a revised version of the annexation agreement and indicated that the developer was willing to sign the agreement and apply for annexation. This prompted a new round of negotiations and staff discussions.

The current draft of the agreement is attached to this staff report as Attachment 2. The following key changes have been made to the agreement since this was first discussed with Council in September of 2017:

- Cereghino Farms, LLC has purchased the property and is the developer. Previously, the developer was listed as PDX Development, Inc. Although the name has changed, the principal of the firm is the same individual.
- The earlier version of the agreement assumed that annexation would occur prior to final plat approval by Clackamas County. It now appears that final plat approval is likely to happen in advance of annexation. There are a number of sections related to building permit approvals that have been deleted or revised due to this timing change. The building official reviewed these and concurs.

- In 2017, it was assumed that the city would follow a zone change process at the time of annexation in order to implement a planned development overlay on the property. This was considered essential to make it clear that county zoning standards (setbacks and design) would apply. Staff recently learned of a state law provision that makes the zone change unnecessary, which will greatly simplify the annexation process. Oregon Revised Statute (ORS) 92.040 (2) states that the code under which a subdivision was approved can be used to regulate the subdivision after annexation unless the developer chooses otherwise.
- Any building permits approved by the county for houses in the subdivision will be administered by the county.
- City building permits will be issued within 15 business days and, when house plans have been pre-approved, permits will be issued within seven business days.
- The property tax incentive has been revised to front-load the benefit. No city tax will be assessed for the first three years. The full city tax rate will be phased in over the next seven years. Previously, a reduced rate matching the Clackamas County rate would have applied for the first five years with the phase-in occurring over the next five years.

The attached draft annexation agreement is the March 22 version. It is anticipated that there may be additional adjustments before the agreement is finalized.

BUDGET IMPACTS

The annexation agreement includes a provision that would significantly reduce city property taxes on property in the subdivision for a period of ten years. For three years, no city taxes would be collected. The full 100% city rate would then be phased in over the next seven years.

Alternatively, no city taxes would ever be collected from this property if it remained in the county.

WORKLOAD IMPACTS

Annexation of the property may have a workload impact on the building department. The building official has agreed to provide a slightly accelerated review process for homes in the development given that the city's plans examiner will be able to help with permit review. No major workload impacts are anticipated for other departments.

COORDINATION, CONCURRENCE, OR DISSENT

The city attorney and the building official concur with this report.

ATTACHMENTS

1. September 5, 2017 Memorandum of Understanding
2. March 22, 2019 Version of the Draft Annexation Agreement

MEMO OF UNDERSTANDING

This Memorandum of Understanding (MOU) represents a statement of intent to enter a formal annexation agreement between the City of Milwaukie (City) and PDX Development, Inc. (Developer) for property located at 4900 SE Lake Rd and including the following properties: Map 22E06BA - Tax Lots 00100, 00200, 00400, 00600, 00700, and 01300 (the Subject Property).

Background

AKS Engineering and Forestry (AKS) represents PDX Development, Inc., who is in the process of purchasing the property for development. In June 2017, AKS had a preapplication conference with the Clackamas County Planning Department regarding development of the property. County staff indicated that, as proposed, it was their belief that the project could meet all County code requirements.

Upon learning of the proposal, the City set up a meeting with AKS and the engineer from Clackamas River Water. The purpose of the meeting was to explore options for annexation and connection to the City water system. It was noted by City staff that the area is located within Dual Interest Area B identified in the City's Urban Growth Management Agreement (UGMA) with Clackamas County. The UGMA states that within Dual Interest Area B, there is a need for particularly close coordination, notification and review of appropriate provision of services. City staff noted, that based on the City Water Master Plan the area along Kuehn Rd City was to be served by City Water. CRW staff noted that CRW already serves the area and they believe they have capacity to serve the development. All parties agreed that duplication of services was not desired but a determination as to who was the appropriate service provider was not finalized.

Following the meeting, the Milwaukie Planning Director suggested that there may be some incentives that the City could offer to encourage annexation. In late July, AKS contacted the City and proposed that the Developer would be willing to annex following approval of the subdivision by the County along with several additional conditions. It was proposed that the City and the Developer enter an annexation agreement. City staff noted that an agreement would need City Council approval. It was suggested that a Memorandum of Understanding could be a first step toward the annexation agreement and that it could be signed by the City Manager. The City staff reviewed this concept with the City Manager who agreed in principal with the concept of an annexation agreement.

Recitals

Whereas, it is the desire of the City to have properties that are developing within the City's Urban Growth Management Boundary annex to the City;

Whereas, new area residents will identify with the City, will use City facilities, and should be able to fully participate as citizens of the City and therefore should reside within the City limits;

Whereas, the Developer of the Subject Property desires to see the property developed as quickly as possible and for costs to be carefully managed;

Whereas, the Developer intends to file an application to subdivide the Subject Property through Clackamas County once the Milwaukie City Manager and the Developer have signed this MOU;

Now, therefore:

It is the intent of the City and the Developer to enter a formal annexation agreement and the City staff will forward the draft agreement to the City Council at a meeting in the month of September 2017. The agreement is expected to include the following provisions:

A. The Developer commits to the following:

1. The Developer of the Subject Property will sign and submit an application to annex the Subject Property concurrent with the signing of the annexation agreement. It is understood by both parties that the annexation will be processed by the City but will not become effective until the County approves, signs, and records the final plat for the Developer's proposed subdivision of the Subject Property.
2. The Developer will provide a legal description of the Subject Property for the annexation.
3. Prior to finalization of the annexation, the Developer will ensure that no lots are sold or that new houses are occupied without the City first obtaining a signed consent to annex form from the new owner or resident.
4. The Developer's builders will conform with modified development standards implemented by a Planned Development overlay that will be applied to the Subject Property by the City as described in Item B-5 below.
5. The annexation agreement shall include a provision that makes annexation binding in the event, the Developer sells the property to another party prior to final development approval through the County.

B. The City commits to the following:

1. The City will prepare and process all items related to the annexation (except that the Developer will provide the legal description of the Subject Property). The City intends to waive application and processing fees for the annexation and associated Planned Development overlay noted in Item B-5, below. The ordinance approving the annexation will include a provision that sets the effective date for the annexation to be at the time the final plat for the subdivision is recorded with Clackamas County.
2. The City will not formally or informally oppose (orally or in writing) a land use application for subdivision of the Subject Property being processed by Clackamas County.
3. The City will not oppose obtaining services (water, sanitary sewer, stormwater management, etc.) through Clackamas County service providers. Given that the City's Water Master Plan, indicates that this area will be served with City water, the City will cooperate with the Developer to provide City water should the Developer choose to utilize City water service rather than Clackamas River Water.
4. Provided City standards are satisfied, the City will issue any construction permits (for infrastructure) necessary for any portions of the project in City jurisdiction and will not unnecessarily delay or obstruct issuance of construction permits for necessary improvements for the subdivision.
5. With annexation, the City intends to apply R-7 Low Density Residential zoning to the Subject Property along with a Planned Development overlay that implements the dimensional

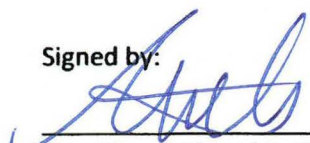
standards of the County's R-10 zone as set forth in Table 315-2 from the Clackamas County Zoning and Development Ordinance. The Planned Development overlay will also include provisions modifying City code requirements as follows:

- i. MMC 19.505.2.B.2 - Allow a garage to occupy 60% of the street-facing façade width of a home when a three-car garage is provided.
 - ii. MMC 19.504.8 – Allow dimensional and design standards for flag lots and flag lot development to be the same as what would apply elsewhere in the subdivision.
6. The City intends to allow construction of 4 model homes prior to plat recordation, to be permitted through Clackamas County provided the homes meet the applicable City design standards as established by the Planned Development overlay noted in Item B-5, above.
 7. The City intends to annex the Subject Property so that the effective date of the annexation is concurrent with recordation of the final subdivision plat. If the plat is recorded and annexation is delayed, the City intends to proceed with review of building permits and the issuance of building permits for home construction as if annexation has occurred, provided that any new property owner has signed a form consenting to annex to the City. In the event that annexation is delayed, the City will not object to plan review and building permit issuance occurring through the County during the interim while any annexation delay is worked out, provided that any such permits are subject to the applicable City design standards as established by the Planned Development overlay noted in Item B-5, above and provided that any new property owner has signed a form consenting to annex to the City.
 8. The City intends to review building permit applications (structural, electrical, mechanical, fire life safety etc.) prior to annexation such that building permits can be issued upon plat recordation and annexation.
 9. The City will apply standard building permit review/inspection fees.
 10. The City will apply its standard SDCs for homes in the subdivision.
 11. To the extent allowed by law, the City intends to grant a property tax reduction such that future property taxes for lots and development in the subdivision are no higher than the comparable property taxes of those in unincorporated Clackamas County. The tax reduction shall apply for 5 years and shall be phased in to reach the 100% City tax rate over the next 5 years (assume a 20% increase every year).

C. Caveats:

1. Several of the commitments offered by the City in this document are dependent on decisions by the City Council. The City Manager cannot guarantee the City Council will ultimately agree with all of these provisions. The City Manager commits to advocate for the provisions outlined above.

Signed by:



Ann Ober, Milwaukie City Manager

Date: 8/23/17



Bruce Ament, for PDX Development, Inc., Developer

Date: 8/22/17

ATTACHMENT 2

After recording, return to:
City of Milwaukie
10722 SE Main Street
Milwaukie, Or 97222

UNTIL A CHANGE IS REQUESTED
SEND TAX STATEMENTS TO:
(NO CHANGE)

This space is reserved for recorder's use.

ANNEXATION AGREEMENT

This Annexation Agreement ("Agreement") is made between the City of Milwaukie, an Oregon municipal corporation ("CITY") and Cereghino Farms LLC, an Oregon limited liability company ("CEREGHINO").

I. Recitals:

A. CEREGHINO is the owner of the parcels of land described in Exhibit 'A' and shown on the maps attached as Exhibit 'B' incorporated herein by this reference ("Property"). The Property is contiguous to the jurisdictional limits of the City.

B. On August 23, 2017, the parties entered into a Memorandum of Understanding ("MOU") in which the parties expressed their desire to have the Property annex to the City in accordance with the terms and conditions outlined in the MOU and subject to a final decision of the City Council in accordance with applicable statutes and ordinances.

C. The Parties intend that this Agreement constitutes a legally binding annexation contract as provided for in ORS 222.115 and subject to the terms and conditions set forth herein.

Now, therefore, in consideration of the mutual covenants herein, the parties AGREE as follows:

II. Developer Obligations:

1. Within ten (10) days of the date that each party has signed this Annexation Agreement, City will record this Agreement and the Consent to Annexation, Exhibit 'C', hereto against the Property and submit a recorded copy to CEREGHINO, and CEREGHINO will provide to the City an application for annexation of the Property (this is limited to a completed and signed City application form and a legal description and map of the Property). CEREGHINO will cooperate with the City to provide supporting information that may be reasonably needed by City for purposes of reviewing and making a decision on the annexation and related zoning of the property.

2. CEREGHINO has submitted an application for a single-family subdivision development and related land use approvals to Clackamas County. CEREGHINO has obtained land use approval for development of the Property in accordance with County standards and in particular the County's R-10 zone as set forth in Table 315-2 of the Clackamas County Zoning and Development Ordinance as referenced in Item III. 2.a. below.

3. Upon final plat approval, CEREGHINO may apply for or obtain building permits from Clackamas County, provided the property has not annexed.

4. Upon annexation, CEREGHINO will submit all building permit applications and plans to City for review and approval. CEREGHINO shall pay all normal and customary City fees.

5. CEREGHINO shall provide a copy of this Agreement to a purchaser of any portion of the Property prior to annexation, including any lot pursuant to tentative plat approval, and shall require that the purchaser(s) execute and record Consent to Annexation as a condition of such sale.

6. City and CEREGHINO acknowledge that any building permits obtained from Clackamas County shall not be affected by subsequent annexation of those lots to the City.

7. Upon approval of annexation, CEREGHINO and its builders will submit all permit applications to City and shall pay to City all normal and customary building fees and charges, including permit and inspection fees and systems development charges.

III. City Obligations.

1. City will waive any application fees applicable to the annexation. City staff will diligently process the application, including preparation of staff reports, orders and other items. Staff shall obtain final City Council action on the annexation within two months of receiving the signed application; however, the annexation, if approved, shall not be effective until after the final plat for the Property is recorded.

2. City staff will recommend to the City Council that with annexation, the Property be zoned as City R-7 Low Density Residential. The City acknowledges that ORS 92.040 (2) provides that, unless CEREGHINO chooses otherwise, the County standards that were in place at the time of County subdivision approval shall be the standards that the City applies for development review on the newly annexed lots. In recognition of this provision, the City shall conduct development permit review consistent with the following:

a. The dimensional standards of the County's R-10 zone as set forth in Table 315-2 from the Clackamas County Zoning and Development Ordinance that were in place at the time of submittal of the land use application.

b. Notwithstanding MMC 19.505 2.B.2., garages on the Property may occupy 60% of the street-facing façade width of a home when a three-car garage is provided.

c. Notwithstanding MMC 19.504.8., dimensional and design standards for flag lots and flag lot development on the Property will be the same as what is applicable to other lots in the subdivision.

3. City will not oppose obtaining water, sanitary sewer, storm water management or similar public services from public service providers other than City. City will cooperate with CEREGRINO to provide City water service if requested by CEREGRINO.

4. Pursuant to ORS 222.111 during the first ten (10) full fiscal years beginning with the first full fiscal year after the annexation takes effect, the rate of ad valorem property taxation will be at a specified ratio of the highest rate of taxation applicable that year for other property in the City. For the first three full fiscal years, no City tax will be assessed. For each of the next seven fiscal years, the discounted rate shall increase approximately 14.3%. The intent of this rate increase is to phase-out the tax differential between the Property and other property in the City so that beginning with the 11th full fiscal year, the Property will be subject to taxation in the same manner as other property in the City. The parties acknowledge that the calculation of phase-in city tax rates is performed by the Clackamas County Assessor pursuant to OAR 150-222-111(3). Exhibit 'D' provides a yearly estimate for the specified ratio of the City of Milwaukie's general government tax rate that will be applied to the annexed properties. The ratio is expressed as a percentage of the City tax rate compared to the full rate for other similar property in the City. The estimated rates used to develop the tax ratio were calculated by the Clackamas County Assessor and based on the 2018 tax code district rates applicable to the properties in unincorporated Clackamas County and the rates that would be applied for similar City property. The parties acknowledge that the ratios set forth in "Exhibit D" are intended to reflect the tax differential between City and County rates for 2018 and that this differential serves as the basis for the tax discount to be applied over the ten-year period referenced above. In addition, the parties acknowledge that over time, the actual tax rates for the City and County may change for various reasons which may change the tax differential but for the purposes of this agreement, the ratios specified in "Exhibit D" shall continue to be applied for each given year.

5. City acknowledges that SDC credits for City services (transportation and stormwater) will be provided for the two homes that existed on the property prior to the development.

6. City shall cooperate with Clackamas County and CEREGRINO with regard to any building permits obtained through Clackamas County and shall not interfere with or obstruct any of those permits, inspections, final approvals, or certificates of occupancy even if those lots are annexed into the City after the building permits are obtained through Clackamas County.

7. City will not obstruct or interfere with the recording of the final subdivision plat through Clackamas County even if the Lake Road improvements covered by the City's permit are not complete.

8. City will accept ownership of Tract A either at the time of plat recording or shortly thereafter (at the discretion of CEREGRINO). City will be responsible for all maintenance and irrigation of Tract A (including the areas inside and outside of the stormwater

facility). The City shall indemnify CEREGHINO and the Cereghino Farms Homeowners Association for any of its obligations related to Tract A to the maximum extent possible.

9. City will guarantee a maximum of 3 weeks (15 business days) for the initial plan review of building permits submittals to the City. City will also guarantee a 5 to 7 business day plan review time line for complete submittals of identical house plans previously approved by the City.

10. If an entry monument / sign or fence is constructed prior to annexation to the City, it shall be allowed to remain.

11. City shall not obstruct or interfere with any punch list, final closeout, or final completion items with Clackamas County or other jurisdictions. Additionally, the City shall not obstruct or interfere with any final completion items at the end of any one or two-year warranty or maintenance bond periods with Clackamas County or other jurisdictions.

IV. Mutual Obligations and Understandings

1. The City Council of Milwaukie is the final city review authority for annexations. Nothing in this Agreement shall in any way limit the discretion of the City Council in deciding whether to approve, modify or deny any such application or request. Nor does anything in this Agreement waive or release CEREGHINO from compliance with any applicable standard for obtaining permits or approvals from City.

2. If the City Council, in the exercise of its discretion, elects to deny or not approve, elects to condition, or to modify the annexation other than as described in this Agreement, CEREGHINO shall be limited to the following remedies. Failure of City Council to issue a final decision on annexation within 90 days of the Effective Date of this Agreement may be treated by CEREGHINO as a denial provided such failure does not result from the action or inaction of CEREGHINO.

a. By written notice to City prior to the effective date of annexation, terminate this Agreement and withdraw its consent and application to annex. The date of the termination shall be the date that CEREGHINO provides written notice to the City; and

b. Obtain a refund of fees paid for tentative building permit review, inspections and approval.

In no event, shall City be liable for any claim for damages of any sort arising from the exercise by City Council of its discretion to deny or modify the annexation and land use actions.

3. Unless terminated by CEREGHINO pursuant to Section IV. 2, the Consent to Annex and the application for annexation are irrevocable. City may take all steps provided by law to effectuate the annexation and enforce the consent to annex.

4. City shall make diligent good faith efforts to implement the tax discount provided for in Section III.6. It is understood, however, that the ad valorem property tax laws are

administered by Clackamas County and the Oregon Department of Revenue. Further, it is understood that third parties may initiate a legal challenge to ORS 222.111 or its implementation. City shall in no way be responsible or liable for the failure or refusal of Clackamas County or the Department of Revenue to implement, in whole or in part, the tax discount provided for in this Agreement or in the event that the discount is determined to be unlawful. Further, any such disallowance shall not impact the validity of annexation once the annexation is effective.

5. The parties will cooperate reasonably, diligently and in good faith in fulfilling the terms of this Agreement.

6. Pursuant to ORS 222.115, this Agreement will be recorded in the records of Clackamas County against the Property and will bind the successors in interest to the Property and the executors, assigns, heirs, administrators and successors of the parties.

7. This Agreement constitutes the entire agreement of the parties and supersedes all previous agreements, negotiations or communications regarding the subject matter of this Agreement.

8. If any provision of this Agreement is deemed unenforceable or invalid, such enforceability or invalidity shall not affect the enforceability or validity of any other provision of this Agreement. The validity, meaning, enforceability, and effect of the Agreement and the rights and liabilities of the parties hereto will be determined in accordance with the laws of the State of Oregon.

9. Where relevant, references to CERECHINO also apply to the assignees of CERGHINO including any and all homebuilders.

This Agreement is effective on the date last executed below.

CITY	CERECHINO
By: _____ Ann Ober, City Manager	By: _____ Name: _____ Title: _____
Date: _____	Date: _____

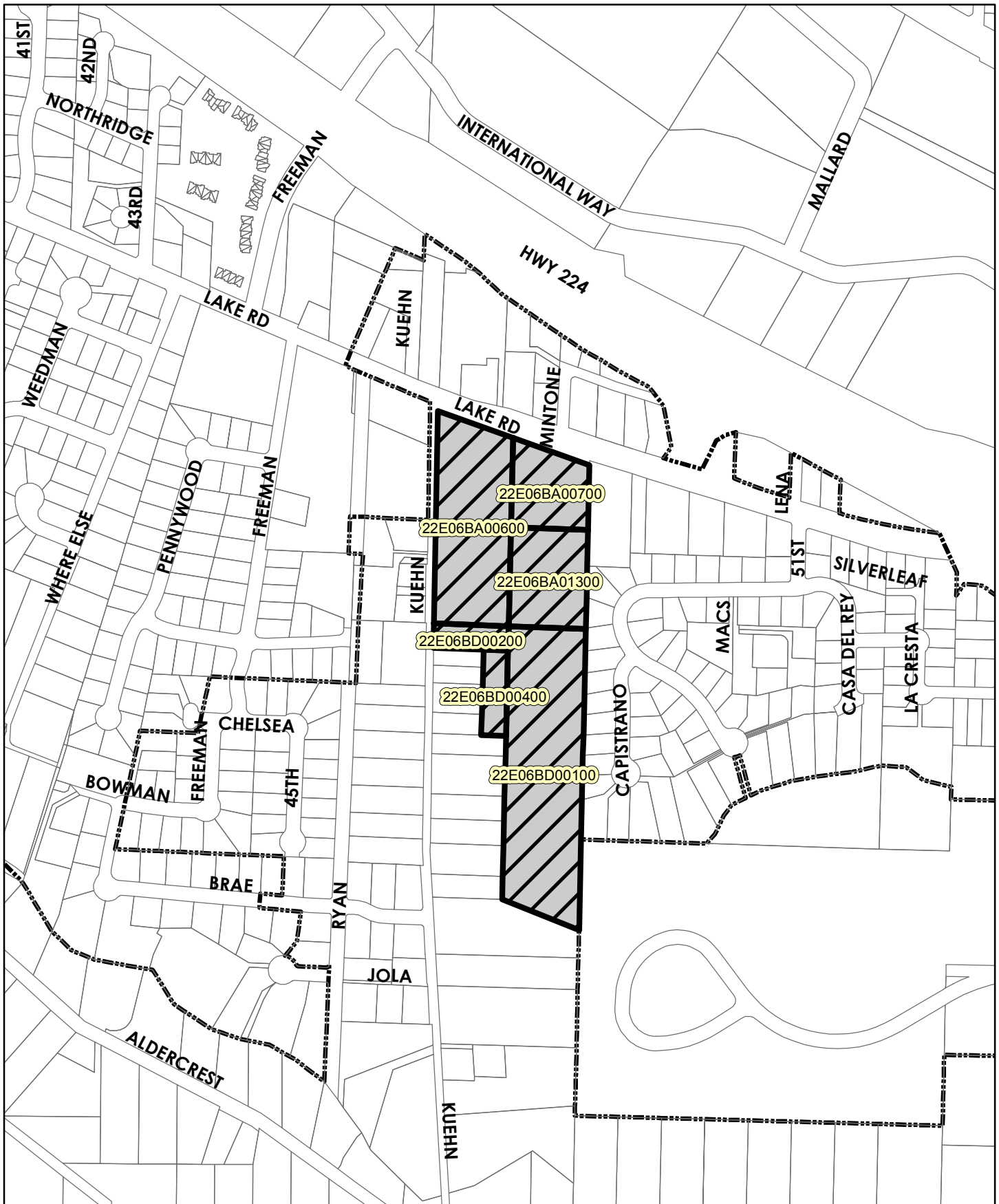
STATE OF OREGON)
) ss.
County of _____)

This instrument was acknowledged before me on _____, 2019, by
_____ as _____ of Cereghino Farms LLC

NOTARY PUBLIC FOR OREGON
My Commission Expires:_____

EXHIBIT B

Annexation Agreement - Property Map



0 140 280 560 840 1,120 Feet

WS22

EXHIBIT C

CONSENT TO ANNEXATION

The undersigned owners of the property located at 4900 SE Lake Road, in Clackamas County, Map 22E06BD – Tax Lots 00100, 00200, and 00400, and 22E06BA – Tax Lots 00600, 000700, and 01300, as more particularly described in the application for annexation submitted herewith (“Property”), do hereby: consent to annexation of the Property by the City of Milwaukie, Oregon.

This Consent to Annexation is subject to the terms and conditions set forth in the Annexation Agreement executed by and between PDX Development, Inc., and the City of Milwaukie dated _____, 20____. Except as provided in the Annexation Agreement, this Consent to Annex is irrevocable and may be relied on and enforced by the City of Milwaukie.

Cereghino Farms, LLC

By: _____

Name: _____

Title: _____

Date: _____

STATE OF OREGON)
) ss.
County of _____)

This instrument was acknowledged before me on _____, 2017, by
_____ as _____ of PDX Development, Inc.

NOTARY PUBLIC FOR OREGON
My Commission Expires: _____

EXHIBIT D

Estimate of the tax rates applicable for fiscal year 2020/21 through 2029/30

This exhibit provides an estimate of the percentage of the City of Milwaukie general government tax rate that will be applied over the ten-year period outlined in the annexation agreement. The City rate adjustment described below outlines a waiver of the City tax rate over the first three years. It also illustrates how the tax rate will be adjusted in each subsequent year by roughly equal increases so that at the end of ten years, the full City tax rate will be assessed.

The tax on the subject properties is expressed below as a “specified ratio” of the rate that will be applied to other nearby properties in the City. It must be noted that it may not be possible to exactly match the unincorporated consolidated County rate for any given year given the many variables that impact tax rates. Tax rates can be impacted by bonded indebtedness and the bond rates that are charged to the City or the County. Tax rates can also be impacted by any City or County action to adjust the amount it levies against its full permanent rate.

The tax rates for the annexation properties are expressed below as percentage of the rate paid by other City properties. Over the first three years, no City tax will be assessed. Over the next seven years, the rates will increase by approximately an equal amount each year so that at the end of the full ten-year period, the properties will pay 100% of the City tax rate.

The table below describe the City’s and the County Assessor’s best estimate of the specified ratio for each year.

Estimate of Tax Rate for the Annexation Property Expressed as a Percentage of the Full Rate for Milwaukie General Government Paid by Other Properties in the City										
Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Rate %	0.0%	0.0%	0.0%	14.3%	28.6%	42.9%	57.2%	71.5%	85.8%	100%