

Presented by:



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2022

Water and Wastewater Rate Study

Final
Report

Prepared for:



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Utilities Rates and Cost of Service Study

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Executive Summary

The City of Veneta is the sole provider of water and wastewater services to customers within the urban services boundary of the City. Revenues required to fund the delivery of these services are obtained from monthly user fees which are set by the City Council via its City charter authority. This study addresses the revenue required from rates needed to support future operations and maintenance costs for the utilities along with a funding plan for capital needs identified by City Staff and from the 2012 Water System Master Plan and 2016 Wastewater Facilities Plan.

With the active involvement of City staff, and input from the City Council, twenty-year planning models were developed for this project; however, the focus for the rate study is the five-year near-term forecast of fiscal 2024 through fiscal 2028. These financial models have been reviewed with the City as they were developed and will be provided as a project deliverable enabling the City to make future updates.

The purpose of this study is to develop a cost of service-based methodology that will accurately determine the cost the city incurs to deliver water and wastewater services. The models developed for this project have been populated with budget data for fiscal 2023 along with actual results for fiscal 2022. Historical data for fiscal 2019 through 2021 has also been included. These models simulated the current service levels (CSL) of the utilities, and sensitivity cases for a number of funding issues facing the City's utilities. The results of each model run were expressed in terms of the rate impacts on the average single family residential customer's monthly bill for utility services.

On November 10, 2022, the project team presented the base case and staff alternative rate forecasts to the City Council at a work session. Each of these cases contained a number of unique forecast variables that included capital funding strategies, cash positions at the end of the five-year forecasts, and multiple other dependent variables. After considerable discussion and deliberation, the City Council coalesced on their preferred rate strategy which calls for 3.00% per year rate increases for water, and 2.00% per year rate increases for wastewater. The forecasted annual rate increases for all three cases under review are shown below in Table 1.

Table 1 - Projected Annual Rate Increases for Water and Wastewater under three (3) Forecast Scenarios

Utility	Base Case	Staff Alternative #1 Case	City Council Preferred Case
Water	4.08%	2.50%	3.00%
Wastewater	2.69%	1.00%	2.00%

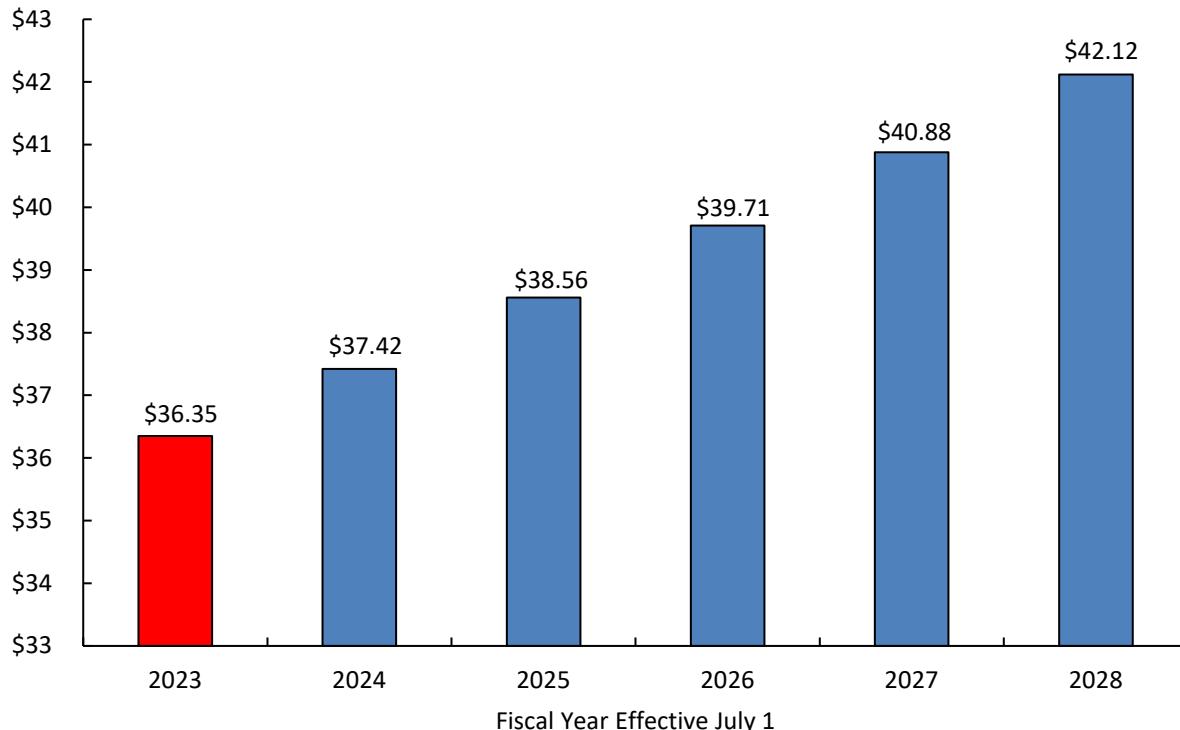
On December 12, 2022, the City Council will hold a public hearing on the Council-preferred utilities rates at their business meeting. At the conclusion of that public hearing the Council will direct City Staff to prepare rates resolutions for Council consideration at a future date and time.

Water

We recommend the City increase water rates on or near January 1, 2023 by 3.0%. After this immediate rate increase, we are projecting annual water system rate increases of about 3% per year, every year over the balance of the five-year water system financial forecast. Our modeling indicates these rate increases will generate sufficient revenues to fund the projected operations, maintenance, and capital improvement requirements of the water system. The City Council-Preferred plan anticipates the City will have to borrow approximately \$2.45 million in fiscal 2026 to fund the construction of a new 1.6-million-gallon distribution reservoir at the edge of the current urban growth boundary southeast of Bolton Hill. Over the five-year forecast horizon, the City will also spend approximately \$600k on other water system capital improvements. These projects will be funded from cash on hand. Our modeling indicates by the end of fiscal 2028, the water fund will have \$2.9 million in cash if all future recommended rate increases are implemented.

The immediate impact on the average single family residential customer is an increase in the water bill of approximately \$1.07 per month. The average single family residential monthly water bill will go from the current amount of \$36.35 to \$37.42. This funding scenario was presented to the City Council at the November 10, 2022 work session. At that meeting, the Councilors in attendance moved to a consensus that the proposed funding plan was rational and necessary for the City. The five-year forecast of average single-family residential water bill is shown in Figure 1.

Figure 1 - Forecast of Monthly Average Single-Family Residential Water Bills



Staff was given direction to proceed with this strategy, and the complete schedule of projected water rates that results from this funding strategy are shown below in Table 2.

Table 2 - Five Year Forecast of Recommended Water Rates

Water Rate Component	Actual 2023	Effective on July 1					
		2024	2025	2026	2027	2028	
Annual percent increase in water revenue requirements		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
User Fees:							
Residential:							
Monthly base charge	\$ 17.40	\$ 17.92	\$ 18.46	\$ 19.01	\$ 19.58	\$ 20.17	
Use charge per kgal:							
1kgal to 5kgal	\$ 3.79	\$ 3.90	\$ 4.02	\$ 4.14	\$ 4.26	\$ 4.39	
5kgal to 15kgal	\$ 4.52	\$ 4.66	\$ 4.80	\$ 4.94	\$ 5.09	\$ 5.24	
over 15kgal	\$ 5.42	\$ 5.58	\$ 5.75	\$ 5.92	\$ 6.10	\$ 6.28	
Commercial:							
Monthly base charge	\$ 32.90	\$ 33.89	\$ 34.91	\$ 35.96	\$ 37.04	\$ 38.15	
Use charge per kgal:							
1kgal to 10kgal	\$ 3.87	\$ 3.99	\$ 4.11	\$ 4.23	\$ 4.36	\$ 4.49	
10kgal to 20kgal	\$ 4.86	\$ 5.01	\$ 5.16	\$ 5.31	\$ 5.47	\$ 5.63	
over 20kgal	\$ 5.81	\$ 5.98	\$ 6.16	\$ 6.34	\$ 6.53	\$ 6.73	
Average monthly residential bill:							
monthly consumption - kgal	5.00	5.00	5.00	5.00	5.00	5.00	5.00
monthly bill	\$ 36.35	\$ 37.42	\$ 38.56	\$ 39.71	\$ 40.88	\$ 42.12	
CDBG affordability guideline (1.25% x MHI)							
Veneta median household income	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240
Percent of MHI for annual water fees	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Affordable water fees:							
annual	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616
monthly	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29

CDBG - Community Development Block Grant program administered by U.S. Department of Housing and Urban Development

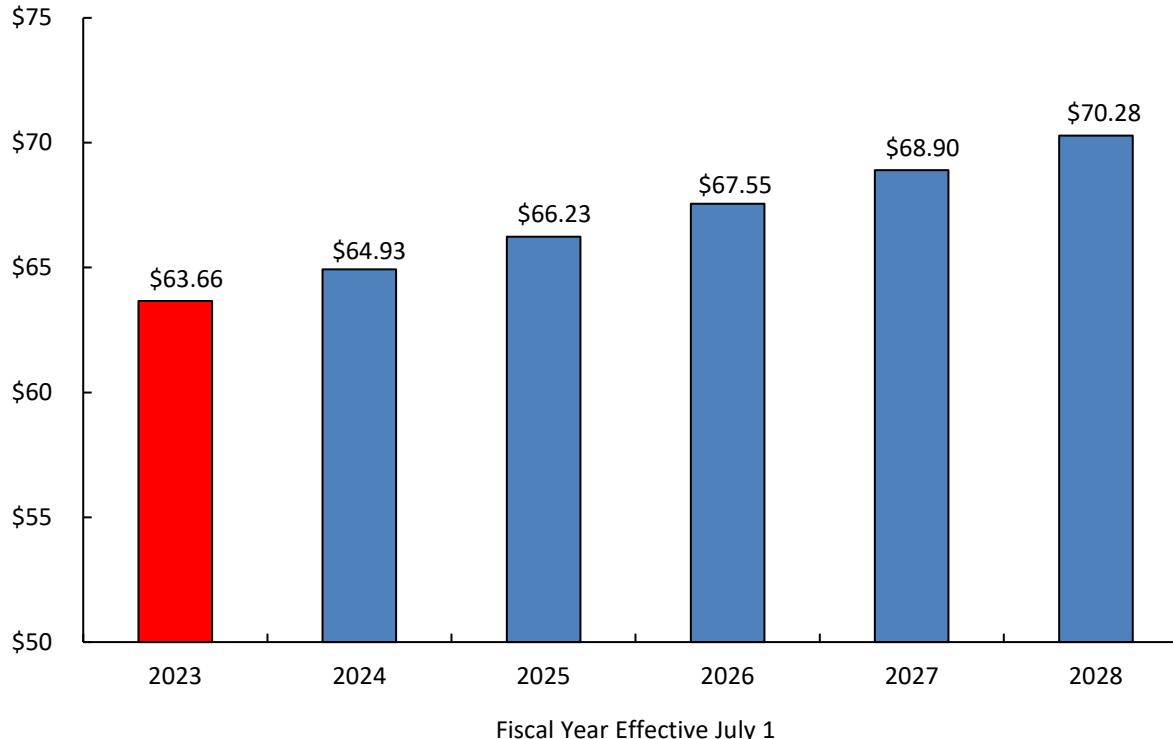
MHI - Median Household Income as determined by U.S. Bureau of Labor Statistics

Wastewater

We recommend the City chart a financial course for the wastewater system that is in essence “steady as she goes.” This means the City should increase wastewater rates on or near January 1, 2023 by 2.0%. After this immediate rate increase, we are projecting annual wastewater system rate increases of about 2% per year, every year over the balance of the five-year wastewater system financial forecast. As in the case of water, our modeling indicates these modest future rate increases will generate sufficient wastewater system revenues to fully fund operations, maintenance, and the expansion of the BIOLAC wastewater treatment systems currently under design and construction. As part of this plan, we anticipate the City will have to borrow approximately \$1.8 million in fiscal 2026 to fund the construction of the expanded BIOLAC aeration basins located at the City’s wastewater treatment plant. We expect the City will spend approximately \$1.0 million in cash on other wastewater treatment projects principally in fiscal 2024 and 2025. The upgrade of the wastewater treatment plant headworks in fiscal 2024 is expected to cost about \$100k. The demolition and relocation of the facultative sludge lagoons in fiscal 2025 is expected to cost around \$900k.

The immediate impact on the average single family residential customer is an increase in the wastewater bill of approximately \$1.27 per month. The average single family residential monthly wastewater bill will go from the current amount of \$63.66 to \$64.93. This funding scenario was also presented to the City Council at the November 10, 2022 work session and a consensus was agreed upon for this funding strategy. The five-year forecast of average single-family residential wastewater bill is shown in Figure 1.

Figure 2 -Forecast of Monthly Average Single Family Residential Wastewater Bills



The complete schedule of projected wastewater rates that results from this funding strategy is show below in Table 3.

Table 3 - Five Year Forecast of Wastewater Rates

Wastewater Rate Component	Actual 2023	Effective on July 1					
		2024	2025	2026	2027	2028	
Annual percent increase in WW revenue requirements		2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
User Fees:							
Residential - base (monthly, per ERU)	\$ 63.66	\$ 64.93	\$ 66.23	\$ 67.55	\$ 68.90	\$ 70.28	
Commercial:							
base (monthly, per account)	\$ 65.18	\$ 66.48	\$ 67.81	\$ 69.17	\$ 70.56	\$ 71.97	
water usage:							
0 to 15kgal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
cost per 10kgal over the first 15kgal	\$ 21.62	\$ 22.05	\$ 22.49	\$ 22.94	\$ 23.40	\$ 23.87	
CDBG affordability guideline (1.25% x MHI)							
Veneta median household income	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	
Percent of MHI for annual sewer fees	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	
Affordable sewer fees:							
annual	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616	
monthly	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	

CDBG - Community Development Block Grant program administered by U.S. Department of Housing and Urban Development

MHI - Median Household Income as determined by U.S. Bureau of Labor Statistics

The schedules of utility rates shown above were developed through consultation with City staff and the members of the rate study project team. The study process included an evaluation of revenue requirements, cost of service, and rate design for the five-year forecast (fiscal 2024 through fiscal 2028). The revenue requirements analysis determined the amount of annual revenue needed to be generated by water and wastewater rates. This analysis addressed the level, rather than the structure of rates. The cost-of-service analysis provided an analytical basis for assigning costs to customers, addressing equity among customer classes. Finally, the rate design element established the structure of rates for cost recovery through fixed and variable rate components. This step addressed equity within customer classes.

A number of specific conclusions and policy recommendations were developed through this collaboration and are briefly discussed in this executive summary. Itemized below is a listing of these conclusions and recommendations.

Conclusions

- We estimate the water fund will end this fiscal year (i.e., June 30, 2023) with a cash balance of \$3.7 million. With 3% per year general water rate increases we project this fund will have a cash balance of \$2.9 million on June 30, 2028. With these modest future rate increases and the prudent use of cash reserves, there should be adequate funds available to pay for planned water system expenditures over the balance of the five-year forecast horizon. This also accounts for the planned borrowing of approximately \$2.45 million for the new 1.6 mg distribution reservoir in fiscal 2026.
- The City's current residential water rate structure conforms to industry practice. This structure consists of a monthly base charge and a volume charge for every 1,000 gallons of metered water consumed. The City employs conservation pricing mechanisms which also conforms to industry standard. For this fiscal year, conservation pricing structure is as follows:

Residential customers:

From 1,000 gallons to 5,000 gallons	\$3.79 per kgal
From 5,000 gallons to 15,000 gallons	\$4.52 per kgal
Consumption over 15,000 gallons	\$5.42 per kgal

Commercial customers:

From 1,000 gallons to 10,000 gallons	\$3.79 per kgal
From 10,000 gallons to 20,000 gallons	\$4.86 per kgal
Consumption over 20,000 gallons	\$5.81 per kgal

- We estimate the wastewater fund will end this fiscal year (i.e., June 30, 2023) with a cash balance of \$5.0 million. With 2% per year general wastewater rate increases we project this fund will have a cash balance of \$4.5 million on June 30, 2028. With these modest future rate increases and the prudent use of cash reserves, there should be adequate funds available to pay for planned wastewater system expenditures over the balance of the five-year forecast horizon. This also accounts for the planned borrowing of approximately \$1.8 million for the construction of the new BIOLAC aeration basins at the wastewater treatment plant.
- The City's current wastewater rate structure also conforms to industry practice and consists of a flat monthly charge for residential customers. Commercial customers are charged a monthly base fee and a volume charge for every 10,000 gallons of metered water consumption over a monthly allowance of 15,000 gallons.
- In August of 2021, the City proactively refunded the Series 2000 US Department of Agriculture's Rural Utility Service sewer improvements loan. Refunding of this loan at lower interest rates will save the City approximately \$41k per year versus the terms of the old loans. Congratulations and well done.

Recommendations

Water:

- *Water rates* - We recommend the City increase water rates on or near January 1, 2023 by 3.0%, and by 3.0% on January 1st every year thereafter until 2028. The immediate impact on the average single family residential customer is an increase in the water bill of approximately \$1.07 per month. The average single family residential monthly water bill will go from the current amount of \$36.35 to \$37.42.
- *Funding of water capital repairs and replacements* – Over the last five fiscal years, the City has been spending on average approximately \$82k per year on water system capital repairs and replacements. In our five-year forecast, we have budgeted \$150k per year for these types of expenditures; all funded from rates. We recommend the City adopt this strategy in annual water system budget preparations.
- *Funding of Master Plan priority capital improvements* – Our water system financial modeling assumes the Master Plan priority capital improvements will cost approximately \$2.9 million (adjusted for inflation) over the five-year forecast horizon. We have developed a funding plan that calls for the issuance of new debt in fiscal 2026 for the water reservoir project, and cash expenditures for all other master plan projects. We recommend the City implement this five-year funding strategy. We also recommend the City consult with its engineering team to verify our planning assumptions and estimated project costs. In these inflationary times, estimating future costs can be difficult.

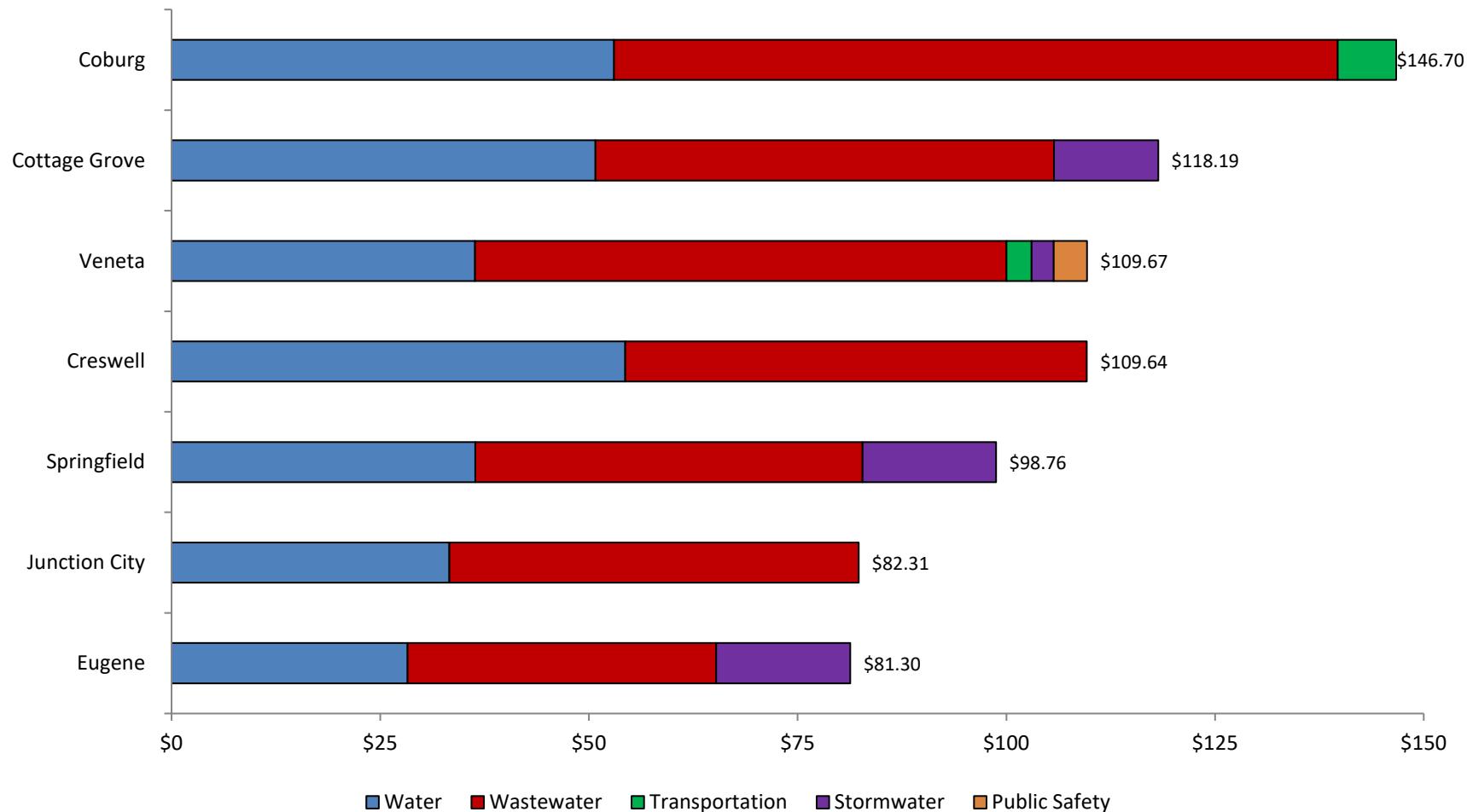
Wastewater:

- *Wastewater rates* - We recommend the City increase wastewater rates on or near January 1, 2023 by 2.0%, and by 2.0% on January 1st every year thereafter until 2028. The immediate impact on the average single family residential customer is an increase in the water bill of approximately \$1.27 per month. The average single family residential monthly water bill will go from the current amount of \$63.66 to \$64.93.
- *Funding of the wastewater inflow and infiltration (I&I) abatement program* – We recommend the City continue to focus on its I&I abatement through regular annual expenditures. In our five-year forecast, we have budgeted \$60k per year for this program; all funded from wastewater rates. We recommend the City adopt this strategy in annual wastewater system budget preparations.
- *Funding of wastewater capital repairs and replacements* – Over the last five fiscal years, the City has been spending on average approximately \$100k per year on wastewater system capital repairs and replacements. In our five-year forecast, we have budgeted \$350k per year for these types of expenditures; all funded from rates. We recommend the City adopt this strategy in annual water system budget preparations. As the wastewater collection and treatment systems age, these types of system repairs and replacements will become more common.
- *Funding of Master Plan priority capital improvements* – Our wastewater system financial modeling assumes the Master Plan priority capital improvements will cost approximately \$3.8 million (adjusted for inflation) over the five-year forecast horizon. We have developed a funding plan that calls for the issuance of new debt in fiscal 2026 for the construction of the new BIOLAC aeration basins, and cash expenditures for all other master plan projects. We recommend the City implement this five-year funding strategy. We also recommend the City consult with its engineering team to verify our planning assumptions and estimated project costs. In these inflationary times, estimating future costs can be difficult.

Neighboring Communities' Utility Rates

Shown below in Figure 3 is a chart that compares the current and proposed utility rates for a single-family customer in Veneta to the same charges in similar communities in the region.

Figure 3 - Neighboring Communities' Single Family Utility Bills- December, 2022



Analysis Section

Water Rates

Analysis of Water System Revenue Requirements

This analytical task determines the amount of revenue needed from water rates. This is driven by utility cash flow or income requirements, constraints of bond covenants, and specific fiscal policies related to the water utility. Based on four years of actual financial records (i.e., fiscal 2019 through 2022), and the adopted budget for fiscal 2023, the City Council-Preferred analysis was developed. This case is predicated on a number of planning assumptions. These planning assumptions are discussed in detail below.

For the current budget year (fiscal 2023), it is forecasted the water utility will generate sufficient revenues from rates, charges, and fees to meet its obligations and produce an unappropriated ending balance in the water operating fund of \$3,741,566. The beginning balance for the water operating fund in this same fiscal year was \$3,883,644. In order to establish and maintain cash balances in the water operating fund while continuing to support the funding of future capital requirements, general water rate increases will be required over the five-year forecast horizon. We recommend the City increase water rates on or near January 1, 2023 by 3.0%. After this immediate rate increase, we are projecting annual water system rate increases of about 3% per year, every year over the balance of the five-year water system financial forecast. Our modeling indicates these rate increases will generate sufficient revenues to fund the projected operations, maintenance, and capital improvement requirements of the water system. For the forecast of revenue requirements, the following assumptions were made based on discussions with City staff:

Inflation in costs and growth in the customer base – In order to accurately reflect likely future conditions, the revenue requirements model was programmed to allow for inflation and cost escalation factors by budget line item. Per guidance from City staff, the following factors were applied for estimating future cost escalation:

- All direct labor line items – The model uses an annual average increase of 3.0% per year.
- Retirement (City cost) – 8.0% per year. This line item includes employer contributions to the defined benefit pension plan (i.e., PERS) that covers City employees.
- Health, vision, and dental insurance (City cost) – 3.0% per year for employer contributions to health insurance premiums.
- Materials and services – 3.0% per year.
- Construction cost inflation – 3.0% per year based on the most recent five-year average growth rate in the Engineering New Record's percent change in the Construction Cost Index.
- The growth forecast expressed in the annual increase in 3/4" meter equivalents is estimated to be 1.2% per year over the five (5) year forecast horizon. This growth rate is consistent with the latest certified population growth rates as published by the Population Research Center at Portland State University.

Capital Improvement Plan Funding – In March of 2012, the City completed a new water master plan. One of the outputs of that plan is a 20-year capital improvement plan (CIP). That 20-year CIP is broken out into four priority groups. The master plan defines these priorities as follows:

Planning Time Frame	MP Priority Rank	Calendar Year
Immediate	1	2010 – 2014
Short term	2	2015 – 2019
Medium term	3	2020 – 2030
Long term	4	2030+

For this financial analysis we are funding a mix of short- and medium-term projects based on guidance from City Staff. The funding sources for these projects is new long-term loan from the Safe Drinking Water Revolving Loan Program administered by the Oregon Health Authority and cash on hand. The five-year prioritized water capital improvement plan cash flow is shown below in Table 4.

Table 4 – Water Master Plan Priority Capital Improvement Plan

Project	Cost	Year	SDC Eligibility
Water-Taken from Table 7-3 of the 2012 updated water master plan			
Expand capacity of Public Works Yard Booster Pumping Station	\$ 50,000	2028	100%
New 1.6 MG Reservoir at UGB southeast of Bolton Hill	1,900,000	2026	100%
Build 12-inch extension on E. Broadway Ave from Public Works Yard to Westwood Ct.	330,000	2025	50%
Build 12-inch extension on Luther Ln from dead-end northeast to 12-inch in Hope Ln	93,000	2023	50%
Build 12-inch line east from proposed reservoirs to meet new 8th St. 12-inch main at southern UGB	203,000	2026	100%
Funds replacement of asbestos cement (AC) pipe at \$25,000 per year	125,000	2023-2028	0%
Water System Master Plan Update	<u>60,000</u>	2028	100%
Total	\$ 2,761,000		

Please also note the future water capital improvement plan shown in Table 4 does not account for service installations, small works construction, minor equipment and tools, and the funding for an ongoing meter replacement program. Funding for these types of projects and emergency repairs to the water distribution system is funded from a separate budget of \$150k per year, every year over the five-year forecast. This \$150k per year is completely funded from rates.

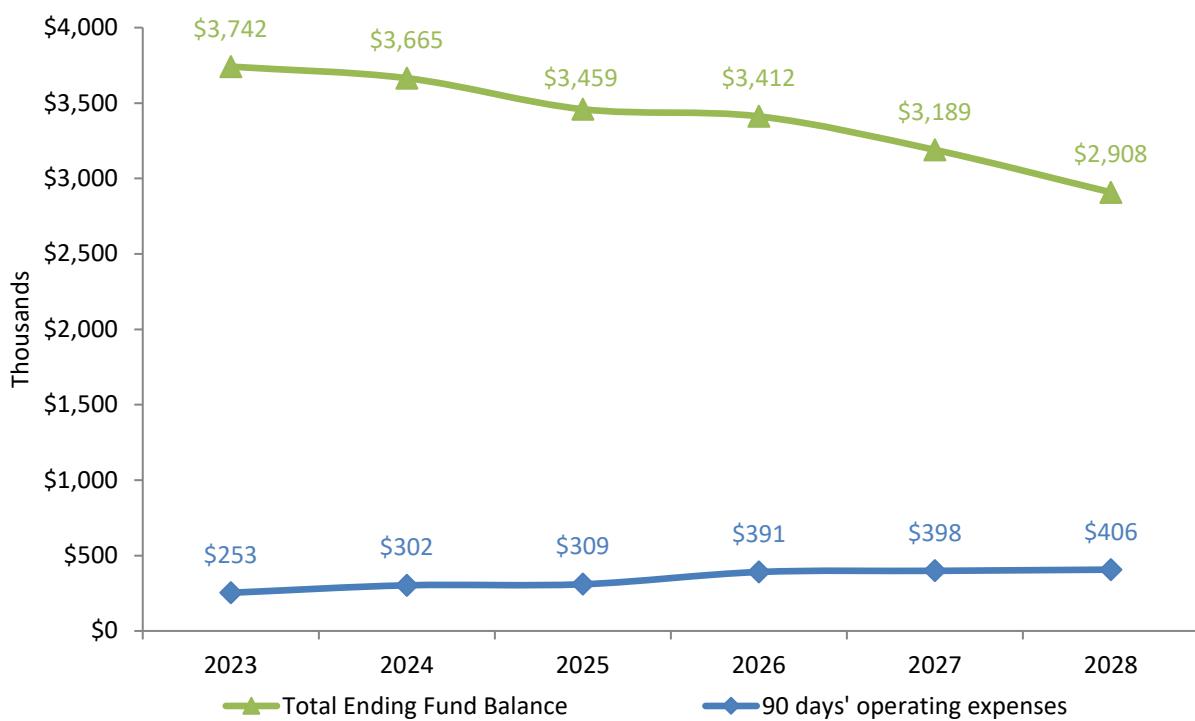
Operating Costs in Excess of Inflation – In most rate studies, there are certain operating cost categories that tend to grow in excess of the general price index. We have identified two such categories in this analysis: a) the City's pension costs, and b) health care premiums. These cost categories have been accounted for in the revenue requirements model. We have not identified any other areas of concern for

this forecast, but the City should monitor the cost structure of the water utility on an ongoing basis. Two key areas of future concern are:

- **Administrative charges** – We have not estimated or accounted for any unusual increases in City/General Fund administrative charges. The City provides administrative services such as accounting, legal, and billing to the water system. It is assumed the General Fund support services will continue over the forecast horizon, and likely increase with inflation. While modest, we do not know exactly how much these costs will be, but estimates have been included within the operations and maintenance expense forecast. The City should monitor this situation.
- **Staffing Costs** – We have not planned or budgeted for any additional labor. If the water utility does add staff, these costs will impact the current revenue requirements forecast.

Modeling for Contingencies, Reserves, and Ending Fund Balances - The financial engine of the water utility is the water operating fund. Because the utility cash finances all of its operations, the ending fund balance in the water operating fund is in effect the contingency fund for the utility. For planning purposes, we are expecting the Water Operating Fund will end all forecast years with a target ending fund balance in excess of ninety days of operating expenses. This target balance gives the water utility enough contingency to fund unforeseen operating cost spikes. The five-year forecast of targeted water operating fund balances and operating reserve requirements is shown below in Figure 4.

Figure 4 - Forecast of Water Operating Fund Balances and Operating Reserve Requirements



Revenue Requirements Forecast & Results

All of the above cost elements are contained in the revenue requirements model which is the platform for the “City Council-Preferred case” forecast. This case assumes the utility will fund the master plan priority projects in fiscal 2024-2028. Also, the utility would fund the operating costs as adjusted for inflation. This case resulted in the following forecast of water system revenue requirements (Table 5).

Table 5 – City Council-Preferred Case Forecast of Water System Revenue Requirements

	Budget 2023	Forecast				
		2024	2025	2026	2027	2028
Projection of Cash Flow:						
Revenues:						
Total grants and donations	-	-	-	-	-	-
Total licenses and permits	-	-	-	-	-	-
Total Service Charges	1,142,200	1,142,200	1,176,497	1,211,840	1,248,199	1,285,661
Total interest earned	12,900	71,090	69,631	65,721	64,820	60,598
Bond/loan proceeds	-	-	-	2,301,409	-	-
Total other financing sources	-	-	-	-	-	-
Total miscellaneous income	34,400	35,432	36,495	37,590	38,718	39,879
Subtotal gross operating revenues	1,189,500	1,248,722	1,282,623	3,616,560	1,351,736	1,386,138
Operations & Maintenance Expense:						
Total personal services	361,800	375,852	390,594	406,067	422,318	439,394
Total materials and services	449,200	462,676	476,556	490,853	505,579	520,746
Total capital outlay	305,000	175,750	312,377	2,460,544	192,047	255,772
Debt service	215,578	388,040	388,040	537,955	537,955	537,955
Transfers to other funds	-	-	-	-	-	-
Total operations and maintenance expense	1,331,578	1,402,318	1,567,567	3,895,419	1,657,898	1,753,867
(Use)/replacement of fund balance	(142,078)	(119,300)	(249,600)	(242,500)	(268,700)	(329,200)
Net Cash	-	(34,297)	(35,344)	(36,359)	(37,462)	(38,530)
Net Deficiency/(Surplus)	-	34,297	35,344	36,359	37,462	38,530
Test of Coverage Requirement:						
Gross Revenues:						
Total licenses and permits	-	-	-	-	-	-
Total Service Charges	1,142,200	1,142,200	1,176,497	1,211,840	1,248,199	1,285,661
Total interest earned	12,900	71,090	69,631	65,721	64,820	60,598
Total other financing sources	-	-	-	-	-	-
Total miscellaneous income	34,400	35,432	36,495	37,590	38,718	39,879
System Development Charges	197,300	65,000	65,780	66,569	67,368	68,177
Total Gross Revenues	1,386,800	1,313,722	1,348,403	1,381,721	1,419,104	1,454,314
Operating Expenses:						
Total personal services	361,800	375,852	390,594	406,067	422,318	439,394
Total materials and services	449,200	462,676	476,556	490,853	505,579	520,746
Transfers to other funds	-	-	-	-	-	-
Transfers to/(from) the rate stabilization account	-	-	-	(50,000)	(45,000)	(40,000)
Total Operating Expenses	811,000	838,528	867,150	846,920	882,896	920,140
Net Revenues	575,800	475,194	481,253	534,801	536,208	534,174
Debt Service	215,578	388,040	388,040	537,955	537,955	537,955
Coverage Recognized	2.67	1.22	1.24	0.99	1.00	0.99
Coverage Required	1.00	1.00	1.00	1.00	1.00	1.00
Net Deficiency/(Surplus)	(360,222)	(87,153)	(93,213)	3,154	1,747	3,781
Projection of Revenue Sufficiency and Forecasted Rates:						
Maximum Deficiency	-	34,297	35,344	36,359	37,462	38,530
Unadjusted percent Increase required over current rate revenues	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Five Year Average Increase in Revenue Requirements		3.00%	3.00%	3.00%	3.00%	3.00%
Revenues Recovered From Existing Rates and Charges:	1,142,200	1,142,200	1,176,497	1,211,840	1,248,199	1,285,661
add: Revenues Recovered From Rate Increase	-	34,297	35,344	36,359	37,462	38,530
Total Revenues Recovered From Rates & Charges after Increase	1,142,200	1,176,497	1,211,840	1,248,199	1,285,661	1,324,191

Funding of Future Debt Service

As discussed above, the base case water system financial plan calls for the City to fund the priority I capital improvements with the proceeds of a 20-year loan from the Safe Drinking Water Revolving Loan program. The financing assumptions associated with the anticipated loan are as follows:

- Term – 20 years
- Interest rate – 2.0% APR
- Debt service reserve – 1 year's annual debt service (funded from loan proceeds)
- Coverage requirement – net revenues must at all times be 1.0 times annual debt service; assuming the issuance for full faith and credit instruments

For modeling purposes, we have accounted for the cash flows associated with this future borrowing. The projected cash flow for the fiscal 2026 safe drinking water loan is shown below in Table 6.

Table 6 - Projected 2026 Safe Drinking Water Loan Cash Flow

Capital Improvements Financing	2024	2025	2026	2027	2028
Capital Costs to be Funded	\$ 25,750	\$ 376,620	\$ 2,325,323	\$ 28,138	\$ 156,502
less: Contributions from SDCs	-	218,743	23,914	-	69,556
less: Contributions From Construction Fund ball	-	-	-	-	-
less: Contributions From Utility Rates	25,750	157,877	-	28,138	86,946
less: Developer Contributions	-	-	-	-	-
Amount to be Financed	-	-	2,301,409	-	-
Long-term Borrowing:					
Revenue Bonds:					
Amount Borrowed	-	-	2,451,324	-	-
less: Financing Cost	-	-	-	-	-
less: Reserve Funding	-	-	149,915	-	-
less: Refunding of BANs	-	-	-	-	-
Net Funds from Revenue Bonds	-	-	2,301,409	-	-
New Annual Debt Service:					
Debt Service	\$ -	\$ -	\$ 149,915	\$ 149,915	\$ 149,915
Coverage	-	-	-	-	-
Reserve Funding	-	-	-	-	-

Existing Water Rates and Recommended Changes

The City's current water rate structure consists of a fixed fee per meter per month, and a commodity charge expressed in dollars per 1,000 gallons. Any metered consumption is charged out at the current commodity rate. Water rates as of December 1, 2022 are shown below in Table 7, the rates for the standard 5/8" x 3/4" meter were:

Table 7 - City of Veneta Schedule of Water Rates as of December 1, 2022

Water Rate Component	Actual 2023	
User Fees:		
Residential:		
Monthly base charge	\$	17.40
Use charge per kgal:		
1kgal to 5kgal	\$	3.79
5kgal to 15kgal	\$	4.52
over 15kgal	\$	5.42
Commercial:		
Monthly base charge	\$	32.90
Use charge per kgal:		
1kgal to 10kgal	\$	3.87
10kgal to 20kgal	\$	4.86
over 20kgal	\$	5.81

After a thorough discussion of the pros and cons of the current water rate structure, the project team has made the following observations:

- Commodity charge – The current commodity charges increases or decreases based on the amount of water consumed. This promotes conservation and is consistent with trends in the industry. Technically, this type of rate structure is called increasing block pricing. With increasing block rates, the rate per unit of water increases as the volume of consumption increases. Consumers face a low rate up to the first block of consumption and pay a higher price up to the limit of the second block, and so on until the highest block of consumption. At the highest block, consumers can use as much water as they desire, but for each additional water unit consumed they pay the highest price in the rate structures. Increasing block tariffs are by far the most common charges for water services. This methodology has worked for the City and there is no compelling reason to change immediately to a more severe increasing block water rate structure.
- Continue to have a monthly base fee that varies by meter size – A common method of charging monthly base charges is by meter size. In other words, the larger the meter, the higher the monthly base charge. In Veneta, the monthly base charge follows this industry standard approach. Any meter larger than the residential 5/8" x 3/4" meter commands a surcharge. An analysis of 2022 meters in service indicate that 1,787 out of 1,830 total meters are 5/8" x 3/4" residential meters. In other words, 98% of all meters in service are delivering water to homes or very low usage commercial customers.
- Different commodity rates for residential and commercial customers – A common method in water rate making is to study the ratio of peak demand to average demand. This ratio, called the

peaking factor is different between customer classes and can justify differential commodity rates for residential, commercial, and industrial customer classes. Analysis of metered water sales for fiscal 2022 was completed as part of the study. The observed peaking factors for the residential class was 2.02. The corresponding peaking factors for the commercial and multifamily classes was 1.75 and 1.50, respectively. Because of the similarity of peaking factors between the classes, the team felt staying with the slightly different commodity charge schedule for commercial and residential classes was deemed appropriate. Keep in mind, 98% of all meters, and 89% of all water sold was to the residential class.

The assumptions shown above became the City Council-Preferred case for the water rate analysis. The ratemaking methodology that was used is called the “base-extra capacity method” and is consistent with industry standards in water rate making. Under this methodology, costs of service are separated into three primary cost components: (1) base costs, (2) extra capacity costs, and, (3) customer costs.

Base costs are those that tend to vary with the total quantity of water used plus those operations and maintenance (O&M) expenses and capital costs associated with service to customers under average load conditions, without the elements of cost incurred to meet water use variations and resulting peaks in demand. Base costs include O&M expenses of supply, treatment, pumping, and distribution facilities. Base costs also include capital costs related to water plant investment associated with serving customers to the extent required for a constant, or average, annual rate of demand/usage.

Extra capacity costs are those associated with meeting rate of use requirements in excess of average and include O&M expenses and capital costs for system capacity beyond that required for average rate of use. These costs have been subdivided into costs necessary to meet maximum-day extra demand, and maximum-hour demand in excess of maximum day demand.

Customer costs comprise those costs associated with serving customers, irrespective of the amount or rate of water use. They include meter reading, billing, and customer accounting and collection expense, as well as maintenance and capital costs related to meters and services.

The resulting cost of service-based forecast of recommended water rates is shown below in Table 9.

Table 8 - Five Year Forecast of Recommended Water Rates

Water Rate Component	Actual 2023	Effective on July 1				
		2024	2025	2026	2027	2028
Annual percent increase in water revenue requirements		3.00%	3.00%	3.00%	3.00%	3.00%
User Fees:						
Residential:						
Monthly base charge	\$ 17.40	\$ 17.92	\$ 18.46	\$ 19.01	\$ 19.58	\$ 20.17
Use charge per kgal:						
1kgal to 5kgal	\$ 3.79	\$ 3.90	\$ 4.02	\$ 4.14	\$ 4.26	\$ 4.39
5kgal to 15kgal	\$ 4.52	\$ 4.66	\$ 4.80	\$ 4.94	\$ 5.09	\$ 5.24
over 15kgal	\$ 5.42	\$ 5.58	\$ 5.75	\$ 5.92	\$ 6.10	\$ 6.28
Commercial:						
Monthly base charge	\$ 32.90	\$ 33.89	\$ 34.91	\$ 35.96	\$ 37.04	\$ 38.15
Use charge per kgal:						
1kgal to 10kgal	\$ 3.87	\$ 3.99	\$ 4.11	\$ 4.23	\$ 4.36	\$ 4.49
10kgal to 20kgal	\$ 4.86	\$ 5.01	\$ 5.16	\$ 5.31	\$ 5.47	\$ 5.63
over 20kgal	\$ 5.81	\$ 5.98	\$ 6.16	\$ 6.34	\$ 6.53	\$ 6.73
Average monthly residential bill:						
monthly consumption - kgal	5.00	5.00	5.00	5.00	5.00	5.00
monthly bill	\$ 36.35	\$ 37.42	\$ 38.56	\$ 39.71	\$ 40.88	\$ 42.12
CDBG affordability guideline (1.25% x MHI)						
Veneta median household income	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240
Percent of MHI for annual water fees	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Affordable water fees:						
annual	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616
monthly	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29

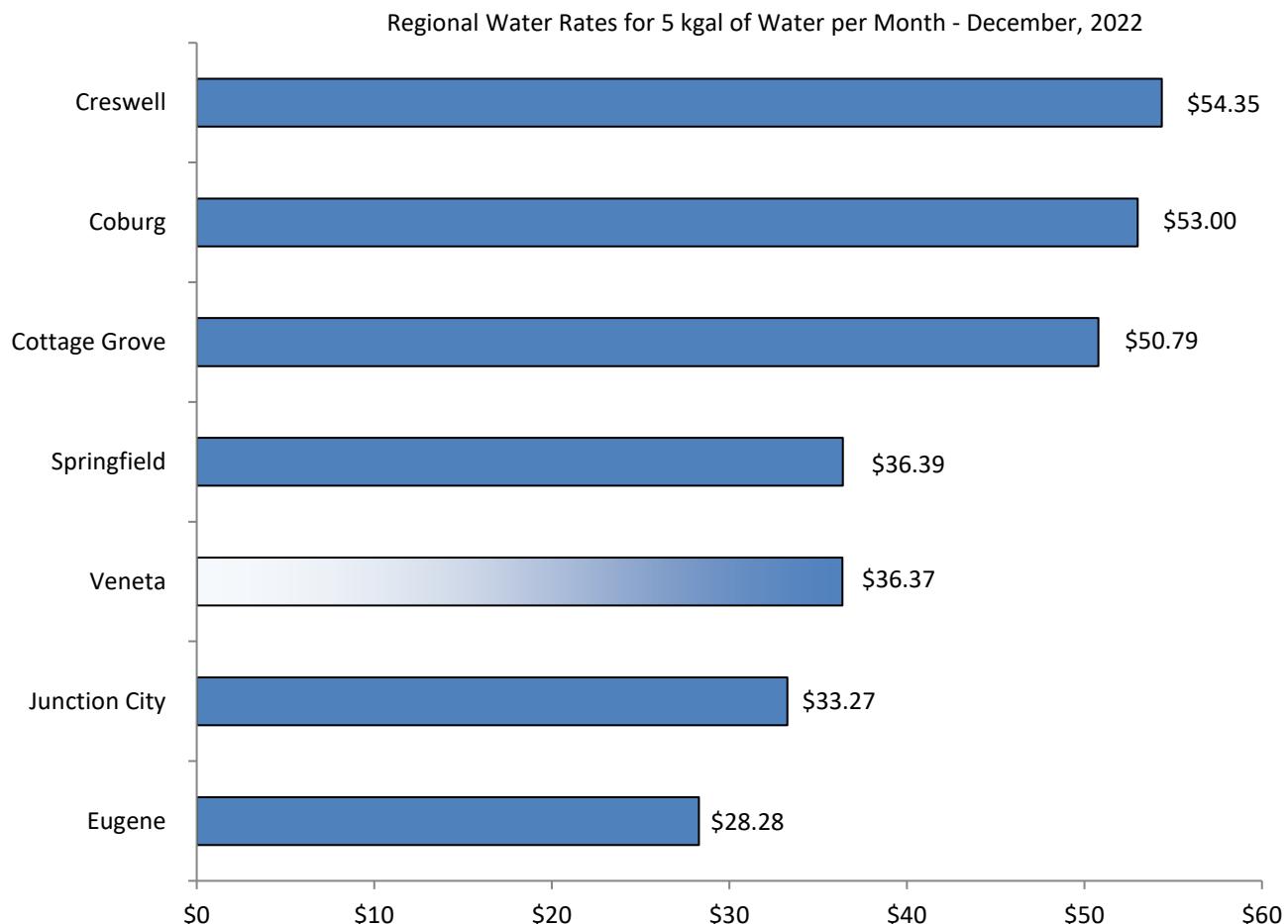
CDBG - *Community Development Block Grant* program administered by U.S. Department of Housing and Urban Development

MHI - Median Household Income as determined by U.S. Bureau of Labor Statistics

Neighboring Communities' Water Rates

Shown below in Figure 5 is a chart that compares the current and proposed water rates for a single-family customer in Veneta to the same charges in similar communities in the region.

Figure 5 - Neighboring Communities' Single-Family Water Bills - December, 2022



Wastewater Rates

Analysis of Wastewater System Revenue Requirements

For the current budget year (fiscal 2023), it is forecasted the wastewater utility will generate sufficient revenues from rates, charges, and fees to meet its obligations and produce an unappropriated ending balance in the Wastewater Operating Fund of \$5,001,680. The beginning balance for this same fiscal year was \$4,452,705. In order to establish and maintain cash balances in the Wastewater Operating Fund while continuing to pay for future capital requirements, general wastewater rate increases will be required. We recommend the City increase wastewater rates on or near January 1, 2023 by 2.0%. After this immediate rate increase, we are projecting annual wastewater system rate increases of about 2% per year, every year over the balance of the five-year water system financial forecast. Our modeling indicates these rate increases will generate sufficient revenues to fund the projected operations, maintenance, and capital improvement requirements of the wastewater system. For the forecast of revenue requirements, the following assumptions were made based on discussions with City staff:

Inflation in costs and growth in the customer base – Per guidance from City staff, the following factors were applied for estimating future cost escalation; the same factors that were used in the wastewater system revenue requirements analysis:

- All direct labor line items – The model uses an annual average increase of 3.0% per year.
- Retirement (City cost) – 8.0% per year. This line item includes employer contributions to the defined benefit pension plan (i.e., PERS) that covers City employees.
- Health, vision, and dental insurance (City cost) – 3.0% per year for employer contributions to health insurance premiums.
- Materials and services – 3.0% per year.
- Construction cost inflation – 3.0% per year based on the most recent five-year average growth rate in the Engineering New Record's percent change in the Construction Cost Index.
- The growth forecast expressed in the annual increase in 3/4" meter equivalents is estimated to be 1.2% per year over the five (5) year forecast horizon. This growth rate is consistent with the latest certified population growth rates as published by the Population Research Center at Portland State University.

Capital Improvement Plan Funding – In November of 2016, the City completed a new wastewater master plan. One of the outputs of that plan is a 10-year capital improvement plan (CIP). That 10-year CIP is broken out by year starting in 2017. For this financial analysis we are funding a mix of short- and medium-term projects based on guidance from City Staff. The funding sources for these projects is new long-term loan from the Clean Water State Revolving Fund Program administered by the Oregon Department of Environmental Quality and cash on hand. The five-year prioritized wastewater capital improvement plan cash flow is shown below in Table 9.

Table 9 – Master Plan Priority Capital Improvement Plan

Project	Cost	Year	SDC Eligibility
Sewer-Taken from Chapter 7 of the 2016 Wastewater Master Plan			
T-3 Upgrade Headworks	\$ 90,000	2024	50%
T-4 Demo/relocate FSLs	\$ 890,000	2025	100%
T-5 Construct Biolac basins	<u>\$ 2,500,000</u>	2026	100%
	Total \$ 3,480,000		

Please also note the future wastewater capital improvement plan shown in Table 4 does not account for service installations, small works construction, minor equipment and tools, and the funding for an ongoing inflow and infiltration abatement program. Funding for these types of projects and emergency repairs to the wastewater collection system is funded from a separate budget of \$350k per year, every year over the five-year forecast. This \$350k per year is completely funded from rates.

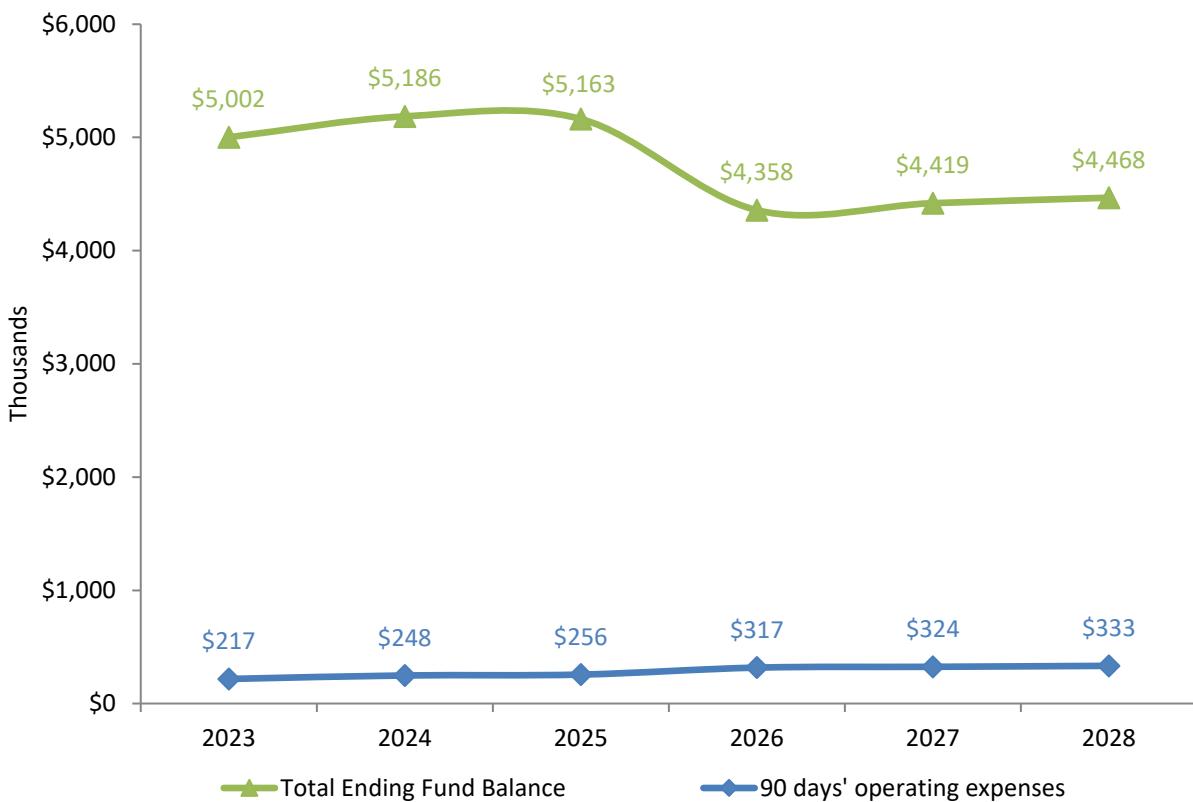
Operating Costs in Excess of Inflation – As in the case of the water forecast, we have identified two categories affecting revenue requirements. They are pension costs and health care premiums. These cost categories have been accounted for in the revenue requirements model. We have not identified any other areas of concern for this forecast, but the City should monitor the cost structure of the wastewater utility on an ongoing basis. Two key areas of future concern are:

Administrative charges – We have not estimated or accounted for any unusual increases in City/general fund administrative charges. The City provides administrative services such as accounting, legal, and billing to the wastewater system. The City should monitor this situation for developments.

Staffing Costs – We have not planned or budgeted for any additional labor. If the wastewater utility does add staff, these costs will impact the current revenue requirements forecast.

Modeling for Contingencies, Reserves, and Ending Fund Balances – As discussed above, the Wastewater Operating Fund is expected to end this fiscal year with an unappropriated ending fund balance of \$5,001,680. For planning purposes, we are expecting the Wastewater Operating Fund will end all forecast years with an ending fund balance in excess of ninety days of operating expenses. This target balance gives the wastewater utility enough contingency to fund unforeseen operating cost spikes. The five-year forecast of targeted wastewater operating fund balances and operating reserve requirements is shown below in Figure 6.

Figure 6 - Forecast of Wastewater Operating Fund Balances and Operating Reserve Requirements



Revenue Requirements Forecast & Results

All of the above cost elements are contained in the revenue requirements model and from this, the “City Council-Preferred case” forecast was developed. The City Council-Preferred case assumes the utility would fund the projected capital costs discussed above over the entire five-year forecast horizon. Also, the utility would fund the operating costs as adjusted for inflation. This case resulted in the following forecast of wastewater system revenue requirements (Table 10).

Table 10 – City Council-Preferred Case Forecast of Wastewater System Revenue Requirements

	Budget 2023	Forecast				
		2024	2025	2026	2027	2028
Projection of Cash Flow:						
Revenues:						
Total grants and donations	-	-	-	-	-	-
Total licenses and permits	-	-	-	-	-	-
Total Service Charges	1,431,200	1,431,200	1,459,845	1,488,979	1,518,735	1,549,149
Total interest earned	13,300	95,032	98,537	98,097	82,795	83,969
Bond/loan proceeds	-	-	-	1,664,788	-	-
Total other financing sources	-	-	-	-	-	-
Total miscellaneous income	17,000	17,510	18,035	18,576	19,134	19,708
Subtotal gross operating revenues	1,461,500	1,543,742	1,576,418	3,270,440	1,620,664	1,652,825
Operations & Maintenance Expense:						
Total personal services	398,600	415,978	434,276	453,553	473,869	495,289
Total materials and services	381,300	392,739	404,521	416,657	429,157	442,031
Total capital outlay	32,500	382,445	591,900	3,036,103	382,454	393,928
Debt service	95,125	191,575	192,750	302,220	298,170	298,345
Transfers to other funds	5,000	5,150	5,305	5,464	5,628	5,796
Total operations and maintenance expense	912,525	1,387,887	1,628,752	4,213,996	1,589,277	1,635,390
(Use)/replacement of fund balance	548,975	184,500	(23,200)	(913,800)	61,800	48,400
Net Cash	-	(28,645)	(29,134)	(29,756)	(30,413)	(30,965)
Net Deficiency/(Surplus)	-	28,645	29,134	29,756	30,413	30,965
Test of Coverage Requirement:						
Gross Revenues:						
Total licenses and permits	-	-	-	-	-	-
Total Service Charges	1,431,200	1,431,200	1,459,845	1,488,979	1,518,735	1,549,149
Total interest earned	13,300	95,032	98,537	98,097	82,795	83,969
Total other financing sources	-	-	-	-	-	-
Total miscellaneous income	17,000	17,510	18,035	18,576	19,134	19,708
System Development Charges	172,500	65,000	65,780	66,569	67,368	68,177
Total Gross Revenues	1,634,000	1,608,742	1,642,198	1,672,222	1,688,032	1,721,002
Operating Expenses:						
Total personal services	398,600	415,978	434,276	453,553	473,869	495,289
Total materials and services	381,300	392,739	404,521	416,657	429,157	442,031
Transfers to other funds	5,000	5,150	5,305	5,464	5,628	5,796
Transfers to/(from) the rate stabilization account	-	-	-	-	-	-
Total Operating Expenses	784,900	813,867	844,102	875,673	908,653	943,117
Net Revenues	849,100	794,875	798,096	796,548	779,380	777,885
Debt Service	95,125	191,575	192,750	302,220	298,170	298,345
Coverage Recognized	8.93	4.15	4.14	2.64	2.61	2.61
Coverage Required	1.00	1.00	1.00	1.00	1.00	1.00
Net Deficiency/(Surplus)	(753,975)	(603,300)	(605,346)	(494,328)	(481,209)	(479,540)
Projection of Revenue Sufficiency and Forecasted Rates:						
Maximum Deficiency	-	28,645	29,134	29,756	30,413	30,965
Percent Increase Required Over Current Rate Revenues	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Five Year Average Increase in Revenue Requirements		2.00%	2.00%	2.00%	2.00%	2.00%
Revenues Recovered From Existing Rates and Charges:	1,431,200	1,431,200	1,459,845	1,488,979	1,518,735	1,549,149
add: Revenues Recovered From Rate Increase	-	28,645	29,134	29,756	30,413	30,965
Total Revenues Recovered From Rates & Charges after Increase	1,431,200	1,459,845	1,488,979	1,518,735	1,549,149	1,580,113

Table 10 shows forecasted annual changes in wastewater system revenue requirements average approximately 2% per year from fiscal 2024 through fiscal 2028.

Existing and Recommended Wastewater Rates

The City's current wastewater rate structure conforms to industry practice. The single-family residential rate is fixed per month, and the commercial rate consists of a monthly base charge that includes 15,000 gallons of monthly usage and a volume charge for every 10,000 gallons over the allowance. Single family residential wastewater customers' assumed wastewater flows throughout the year are based on the system average winter monthly average water consumption (i.e., November through April). Once the winter monthly average for residential customers is calculated, this total is used to set each customer's wastewater fees for the next year. Most of the water used during the averaging period is for indoor use and most of it enters the wastewater collection system. Since much of the water used in warmer months waters lawns and gardens and does not enter the wastewater collection system, the city would use the winter average as the most equitable way of determining wastewater volumes that get treated.

For wastewater cost of service analysis, the project team used a functional cost allocation methodology. Under this approach, system costs by budget line item are allocated to cost components using purpose-based, cost-causative factors. We relied on interviews with knowledgeable public works staff to provide estimates of percentages of O&M expenses that are allocated to the wastewater cost centers of flow, biochemical oxygen demand (BOD), total suspended solids (TSS), and customer accounts. The recommended schedule of wastewater rates is shown below in Table 10.

Table 11 - Proposed Schedule of Wastewater Rates

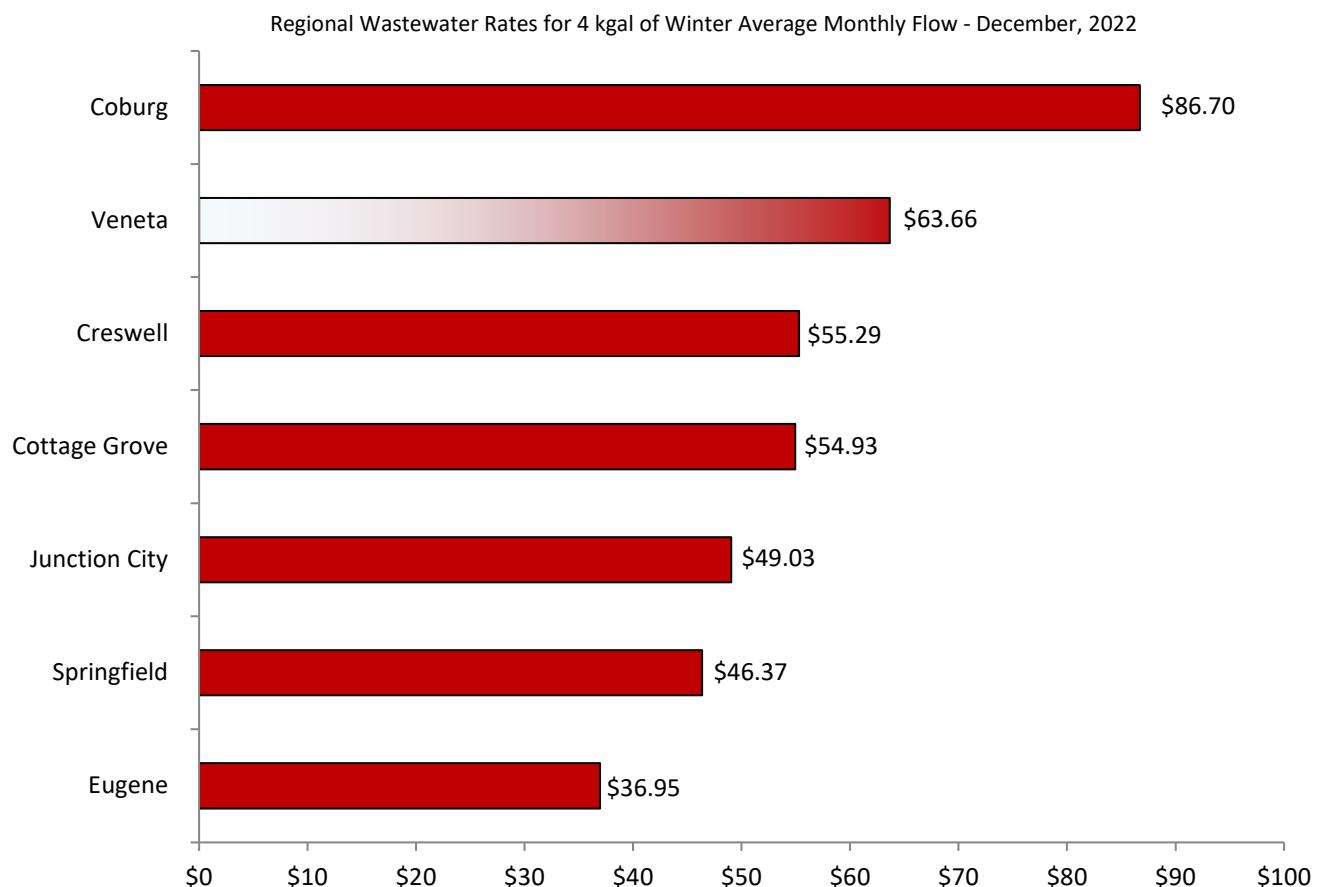
Wastewater Rate Component	Actual 2023	Effective on July 1				
		2024	2025	2026	2027	2028
Annual percent increase in WW revenue requirements		2.00%	2.00%	2.00%	2.00%	2.00%
User Fees:						
Residential - base (monthly, per ERU)	\$ 63.66	\$ 64.93	\$ 66.23	\$ 67.55	\$ 68.90	\$ 70.28
Commercial:						
base (monthly, per account)	\$ 65.18	\$ 66.48	\$ 67.81	\$ 69.17	\$ 70.56	\$ 71.97
water usage:						
cost per 10kgal over the first 15kgal	\$ 21.62	\$ 22.05	\$ 22.49	\$ 22.94	\$ 23.40	\$ 23.87
CDBG affordability guideline (1.25% x MHI)						
Veneta median household income	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240	\$ 49,240
Percent of MHI for annual sewer fees	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
Affordable sewer fees:						
annual	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616	\$ 616
monthly	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29	\$ 51.29

CDBG - Community Development Block Grant program administered by U.S. Department of Housing and Urban Development
MHI - Median Household Income as determined by U.S. Bureau of Labor Statistics

Neighboring Communities' Wastewater Rates

Shown below in Figure 7 is a chart that compares the current and proposed wastewater rates for a single-family customer in Veneta to the same charges in similar communities in the region.

Figure 7 - Neighboring Communities' Single-Family Wastewater Bills - December, 2022



Rate Study Conclusions and Recommendations

The schedules of utility rates shown above were developed through consultation with City staff and the members of the rate study project team. The study process included an evaluation of revenue requirements, cost of service, and rate design for the five-year forecast (fiscal 2024 through fiscal 2028). The revenue requirements analysis determined the amount of annual revenue needed to be generated by water and wastewater rates. This analysis addressed the level, rather than the structure of rates. The cost-of-service analysis provided an analytical basis for assigning costs to customers, addressing equity among customer classes. Finally, the rate design element established the structure of rates for cost recovery through fixed and variable rate components. This step addressed equity within customer classes.

A number of specific conclusions and policy recommendations were developed through this collaboration and are briefly discussed in this executive summary. Itemized below is a listing of these conclusions and recommendations.

Conclusions

- We estimate the water fund will end this fiscal year (i.e., June 30, 2023) with a cash balance of \$3.7 million. With 3% per year general water rate increases we project this fund will have a cash balance of \$2.9 million on June 30, 2028. With these modest future rate increases and the prudent use of cash reserves, there should be adequate funds available to pay for planned water system expenditures over the balance of the five-year forecast horizon. This also accounts for the planned borrowing of approximately \$2.45 million for the new 1.6 mg distribution reservoir in fiscal 2026.
- The City's current residential water rate structure conforms to industry practice. This structure consists of a monthly base charge and a volume charge for every 1,000 gallons. The City employs conservation pricing mechanisms which also conforms to industry standard. For this fiscal year, conservation pricing structure is as follows:

Residential customers:

From 1,000 gallons to 5,000 gallons	\$3.79 per kgal
From 5,000 gallons to 15,000 gallons	\$4.52 per kgal
Consumption over 15,000 gallons	\$5.42 per kgal

Commercial customers:

From 1,000 gallons to 10,000 gallons	\$3.79 per kgal
From 10,000 gallons to 20,000 gallons	\$4.86 per kgal
Consumption over 20,000 gallons	\$5.81 per kgal

- We estimate the wastewater fund will end this fiscal year (i.e., June 30, 2023) with a cash balance of \$5.0 million. With 2% per year general wastewater rate increases we project this fund will have a cash balance of \$4.5 million on June 30, 2028. With these modest future rate increases and the prudent use of cash reserves, there should be adequate funds available to pay for planned wastewater system expenditures over the balance of the five-year forecast horizon. This also accounts for the planned borrowing of approximately \$1.8 million for the construction of the new BIOLAC aeration basins at the wastewater treatment plant.

- The City's current wastewater rate structure also conforms to industry practice and consists of a flat monthly charge for residential customers. Commercial customers are charged a monthly base fee and a volume charge for every 1,000 gallons of metered water consumption.
- In August of 2021, the City proactively refunded the Series 2000 US Department of Agriculture's Rural Utility Service sewer improvements loan. Refunding of this loan at lower interest rates will save the City approximately \$743k per year versus the terms of the old loans. Congratulations and well done.

Recommendations

Water:

- *Water rates* - We recommend the City increase water rates on or near January 1, 2023 by 3.0%, and by 3.0% on January 1st every year thereafter until 2028. The immediate impact on the average single family residential customer is an increase in the water bill of approximately \$1.07 per month. The average single family residential monthly water bill will go from the current amount of \$36.35 to \$37.42.
- *Funding of water capital repairs and replacements* – Over the last five fiscal years, the City has been spending on average approximately \$82k per year on water system capital repairs and replacements. In our five-year forecast, we have budgeted \$150k per year for these types of expenditures; all funded from rates. We recommend the City adopt this strategy in annual water system budget preparations.
- *Funding of Master Plan priority capital improvements* – Our water system financial modeling assumes the Master Plan priority capital improvements will cost approximately \$2.9 million (adjusted for inflation) over the five-year forecast horizon. We have developed a funding plan that calls for the issuance of new debt in fiscal 2026 for the water reservoir project, and cash expenditures for all other master plan projects. We recommend the City implement this five-year funding strategy. We also recommend the City consult with its engineering team to verify our planning assumptions and estimated project costs. In these inflationary times, estimating future costs can be difficult.

Wastewater:

- Wastewater rates - We recommend the City increase wastewater rates on or near January 1, 2023 by 2.0%, and by 2.0% on January 1st every year thereafter until 2028. The immediate impact on the average single family residential customer is an increase in the water bill of approximately \$1.27 per month. The average single family residential monthly water bill will go from the current amount of \$63.66 to \$64.93.
- *Funding of the wastewater inflow and infiltration (I&I) abatement program* – We recommend the City continue to focus on its I&I abatement through regular annual expenditures. In our five-year forecast, we have budgeted \$60k per year for this program; all funded from wastewater rates. We recommend the City adopt this strategy in annual wastewater system budget preparations.
- *Funding of wastewater capital repairs and replacements* – Over the last five fiscal years, the City has been spending on average approximately \$100k per year on wastewater system capital repairs and replacements. In our five-year forecast, we have budgeted \$350k per year for these types of expenditures; all funded from rates. We recommend the City adopt this strategy in annual water system budget preparations. As the wastewater collection and treatment systems age, these types of system repairs and replacements will become more common.
- *Funding of Master Plan priority capital improvements* – Our wastewater system financial modeling assumes the Master Plan priority capital improvements will cost approximately \$3.8 million (adjusted

for inflation) over the five-year forecast horizon. We have developed a funding plan that calls for the issuance of new debt in fiscal 2026 for the construction of the new BIOLAC aeration basins, and cash expenditures for all other master plan projects. We recommend the City implement this five-year funding strategy. We also recommend the City consult with its engineering team to verify our planning assumptions and estimated project costs. In these inflationary times, estimating future costs can be difficult.

November 10, 2022 City Council Work Session Power Point Slides



Today's Agenda



- Water Revenue Requirements
- Sewer Revenue Requirements
- “What-If” Analysis
- Neighboring Communities’ Rates
- Next Steps/Schedule

2

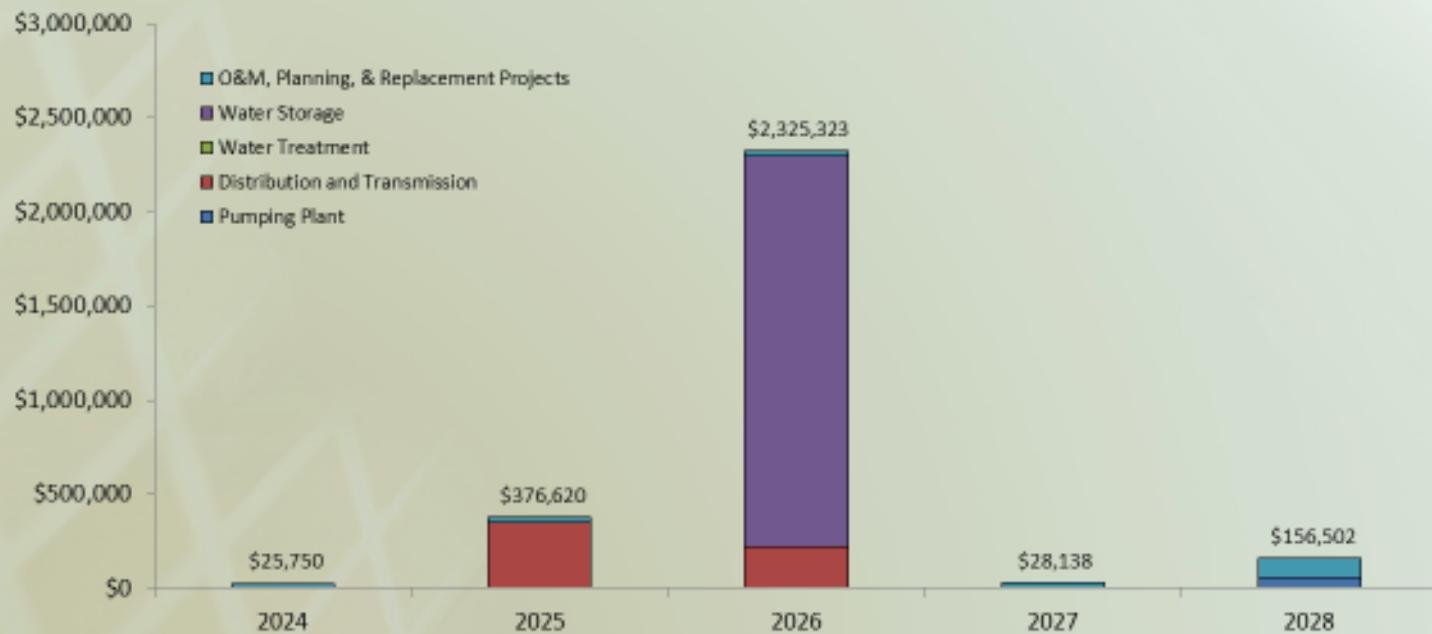


- Water is strong
 - We estimate the water fund will end this FY with a cash balance of \$3.7 million.
 - Modeling indicates we will have to borrow about \$2.3 million for the 1.6 mg reservoir in fiscal 2026. Balance of projects funded with cash. Water fund has ~\$3 million in balance by the end of FY 2028.
 - Due to high starting point budgeted costs in FY 2023, modeling indicates a need for 4% per year rate increases; seems like a false echo.
 - Recommend we shoot for 3% per year rate increase.³

Water - Continued



- Water Master Plan – five-year capital costs analysis



- Note – we have budgeted \$150k per year in the water fund for routine line replacements and small works.

4

Water – Continued



- Water fund cash position and reserve sufficiency

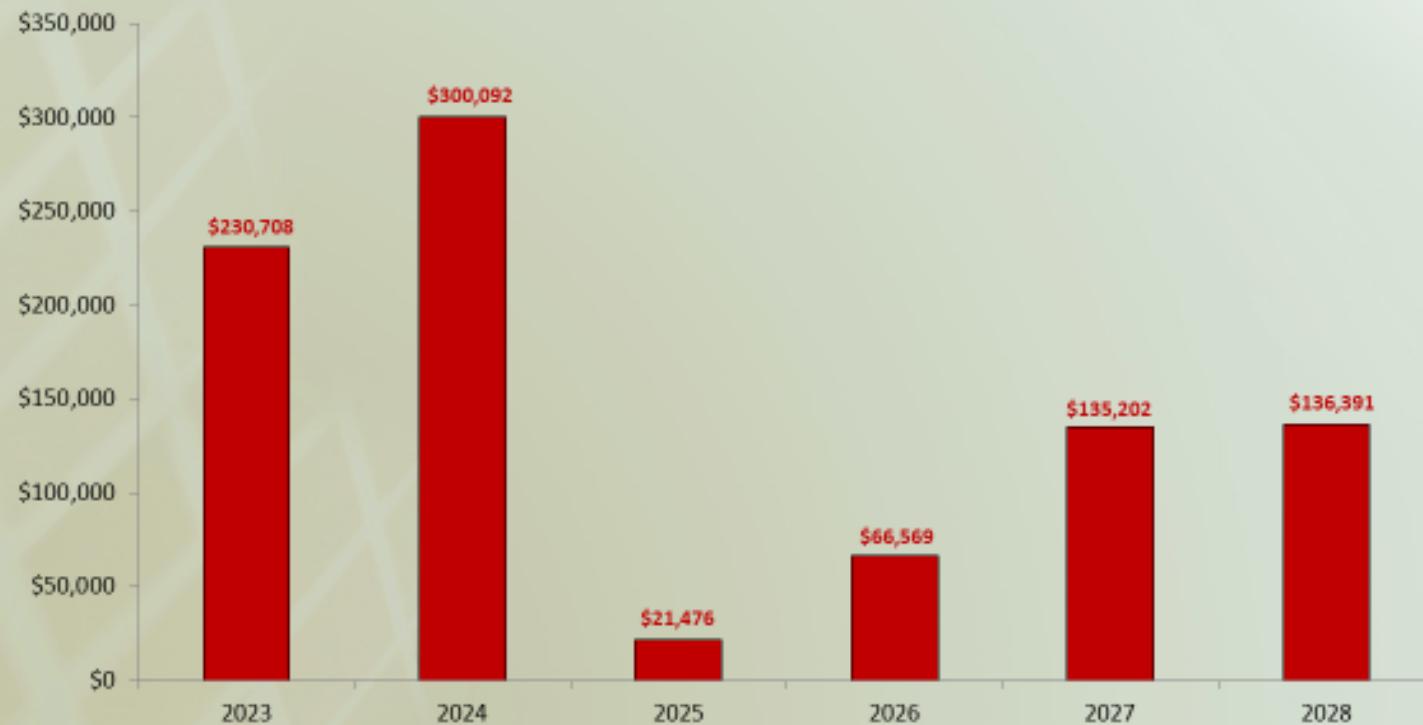


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Water – Continued



- Water Construction/SDC fund cash position

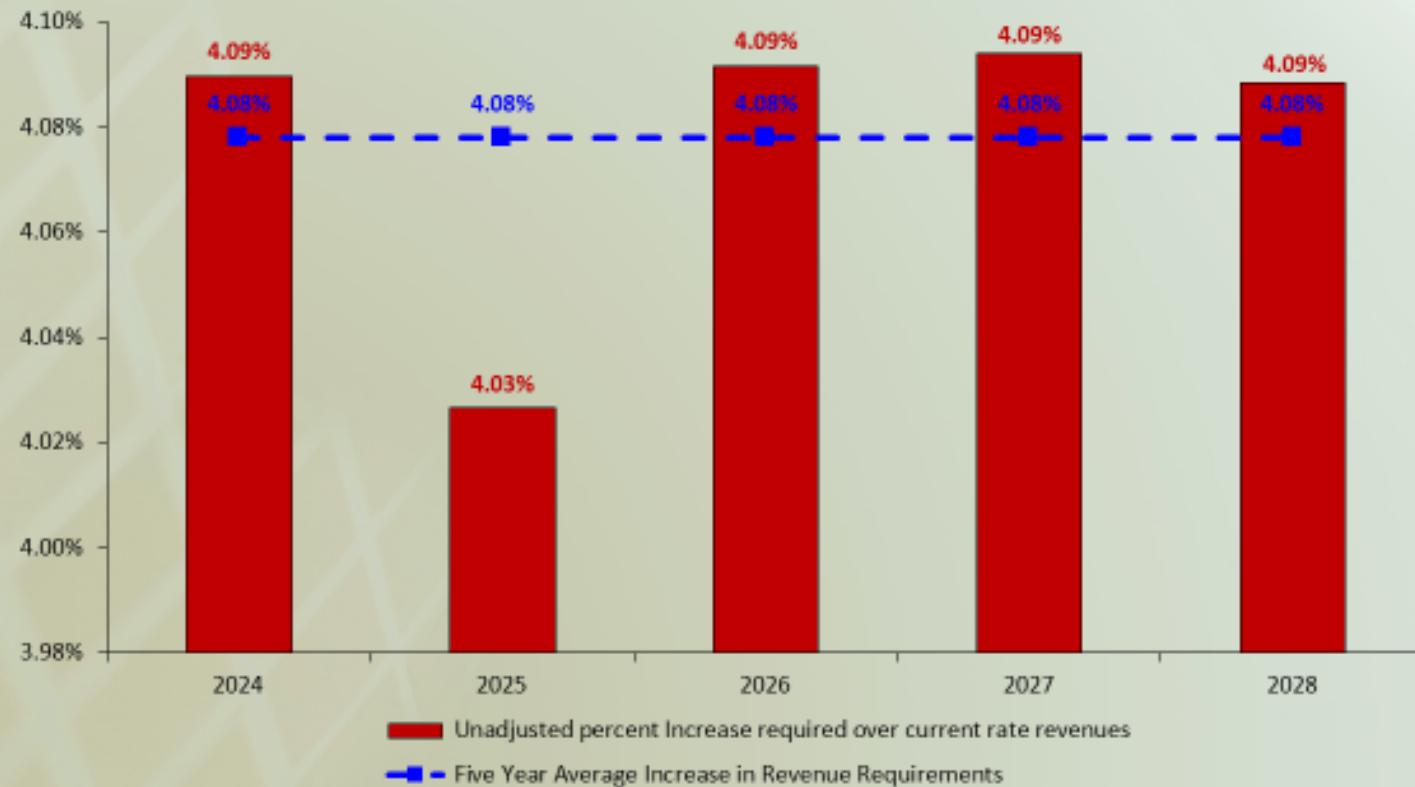


6

Water – Continued



- Water revenue requirements forecast



7

Sewer



- Wastewater is also strong (even stronger than water)
 - We estimate the water fund will end this FY with a cash balance of ~\$5.0 million.
 - Modeling indicates we will have to borrow about \$1.7 million for the Biolac basins in fiscal 2026. Balance of projects funded with cash. Wastewater fund has ~\$4.6 million in balance by the end of FY 2028.
 - Even with high starting point budgeted costs in FY 2023, modeling indicate we can comfortably get by with 3% per year general rate increases.

Sewer – Continued



- Wastewater Master Plan – five-year capital costs analysis



- Note – we have budgeted \$350k per year in the sewer fund for collection system improvements.

9

Sewer – Continued



- Wastewater fund cash position and reserve sufficiency

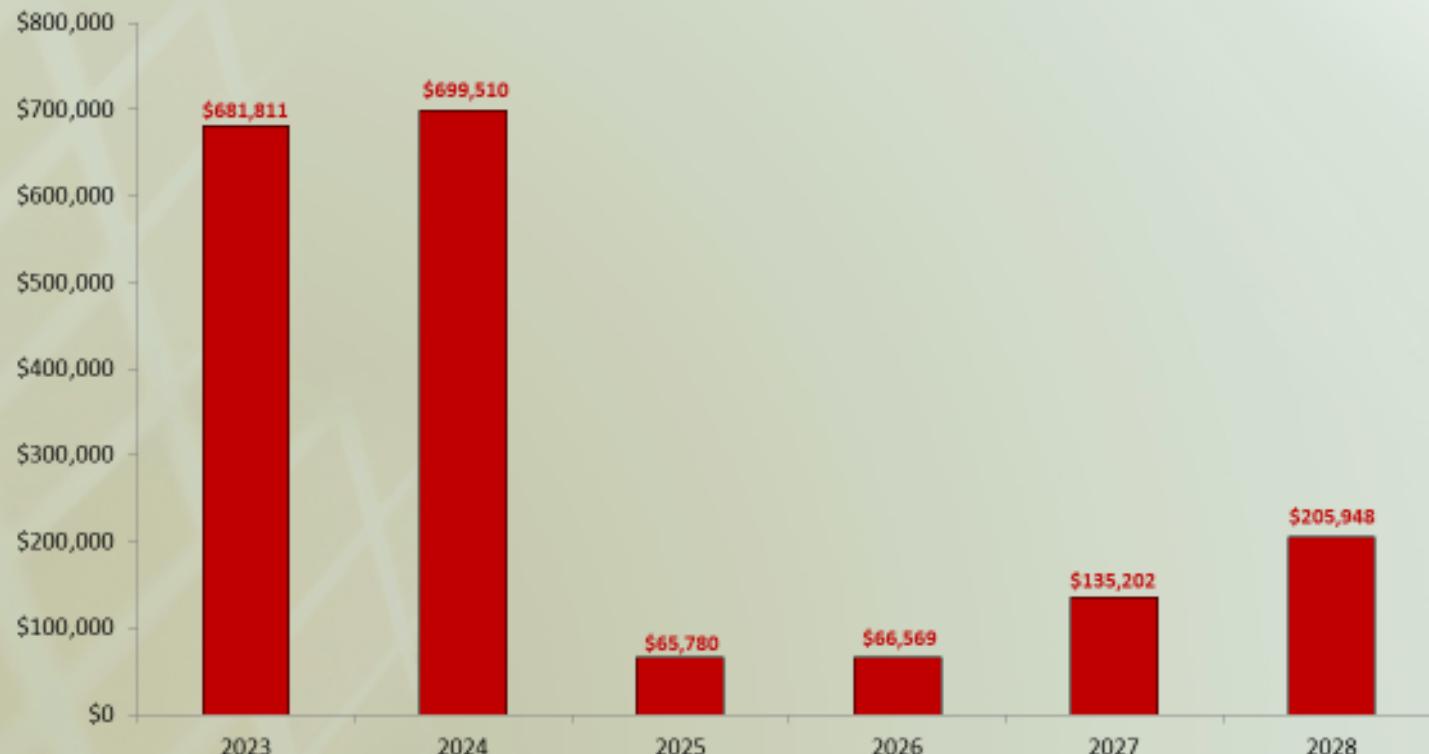


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Sewer – Continued



- Wastewater Construction/SDC fund cash position

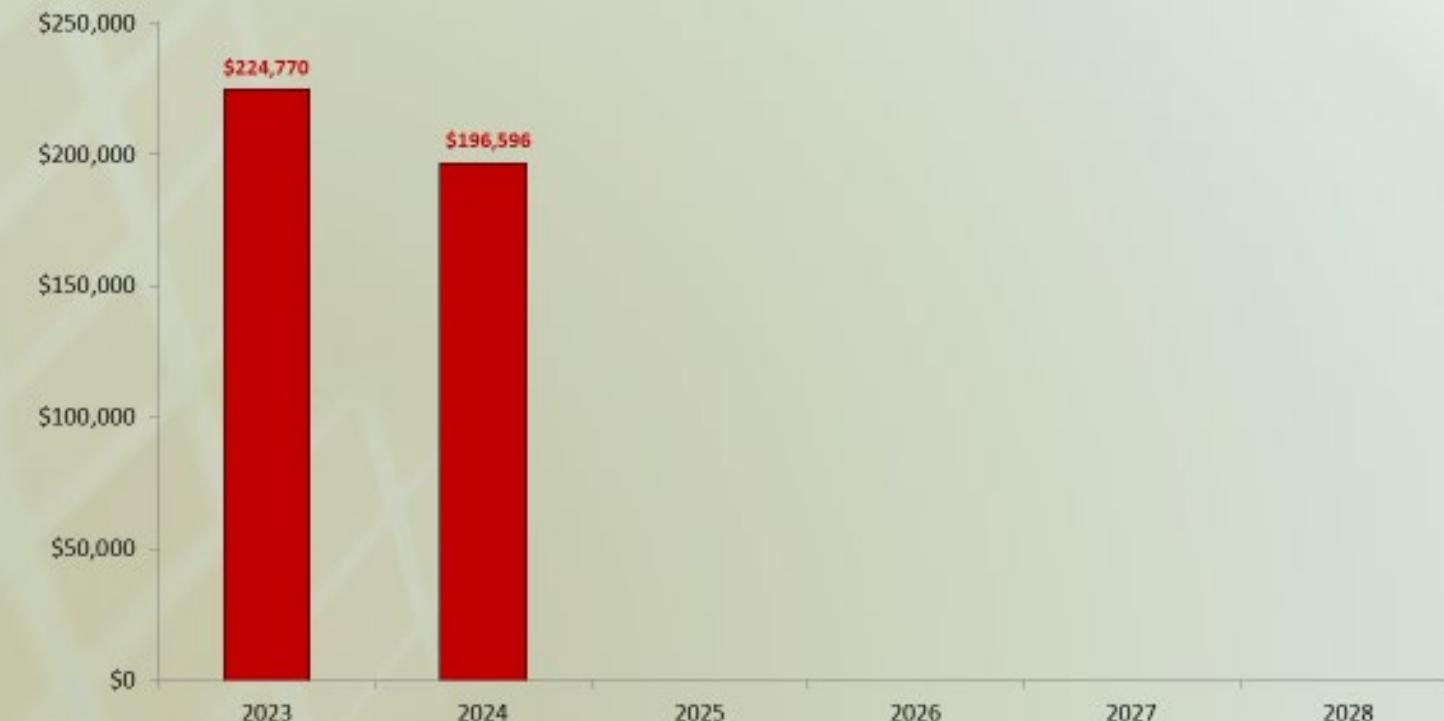


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Sewer – Continued



- Enterprise Reserve fund cash position

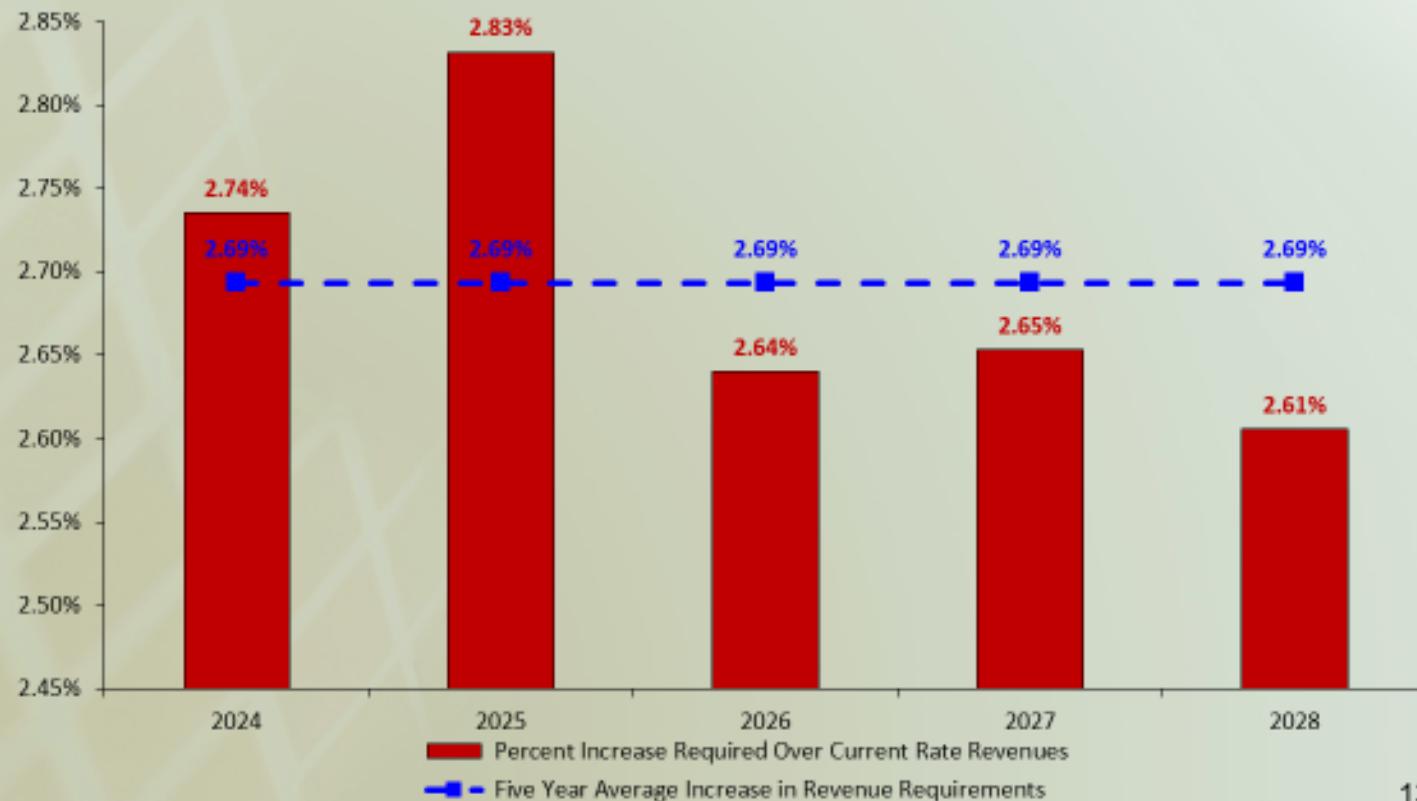


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Sewer – Continued



- Enterprise Reserve fund cash position



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“What-if” Scenario Options at a glance

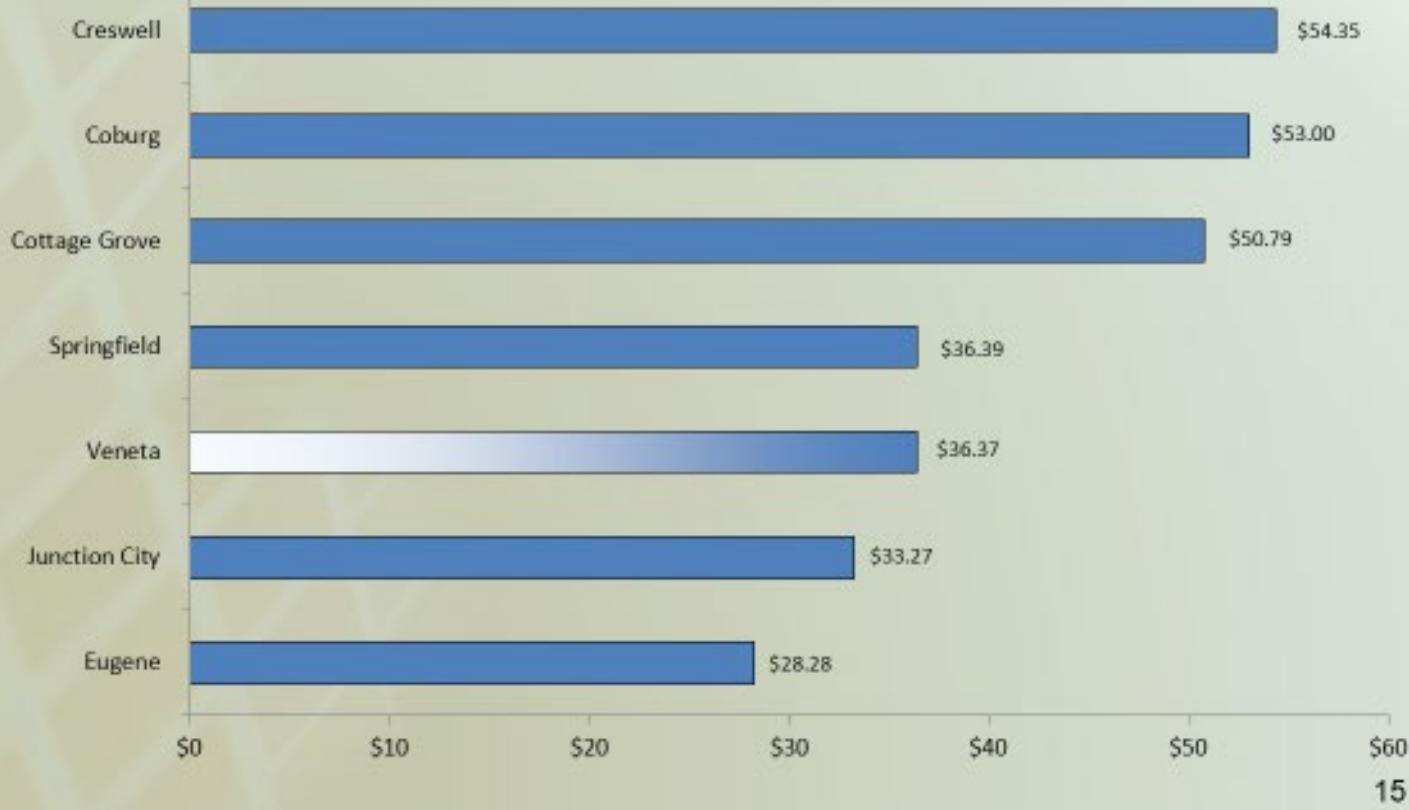


Line-Item Description	Base Case	Alternative Scenario
Water: 	4.08%	2.50%
2028 	\$3.0 million	\$3.0 million
Sewer: 	2.69%	1.00%
2028 	\$4.6 million	\$3.0 million

Neighboring Communities' Rates - Water



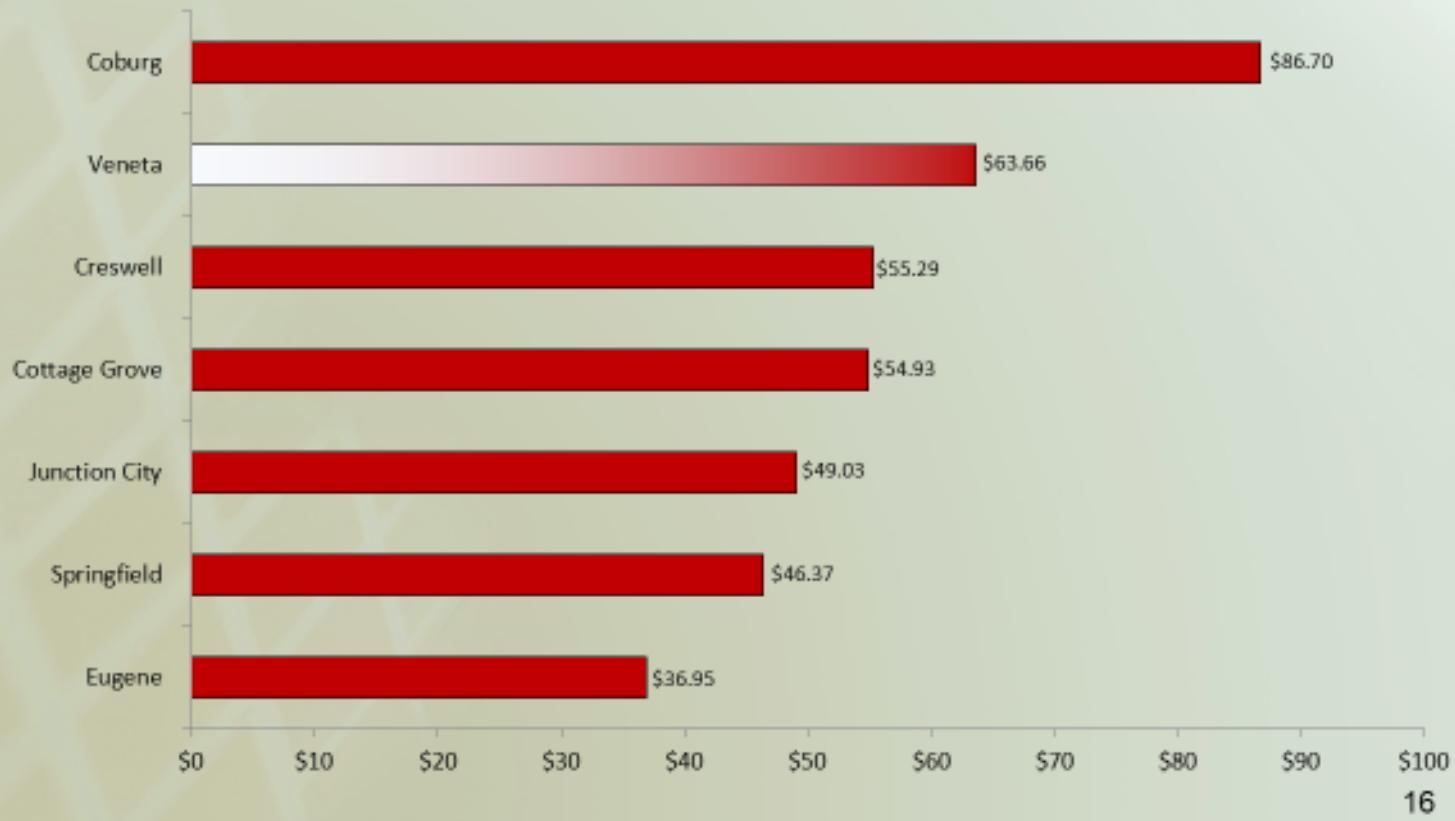
Regional Water Rates for 5 kgal of Water per Month - November, 2022



Neighboring Communities' Rates - Sewer



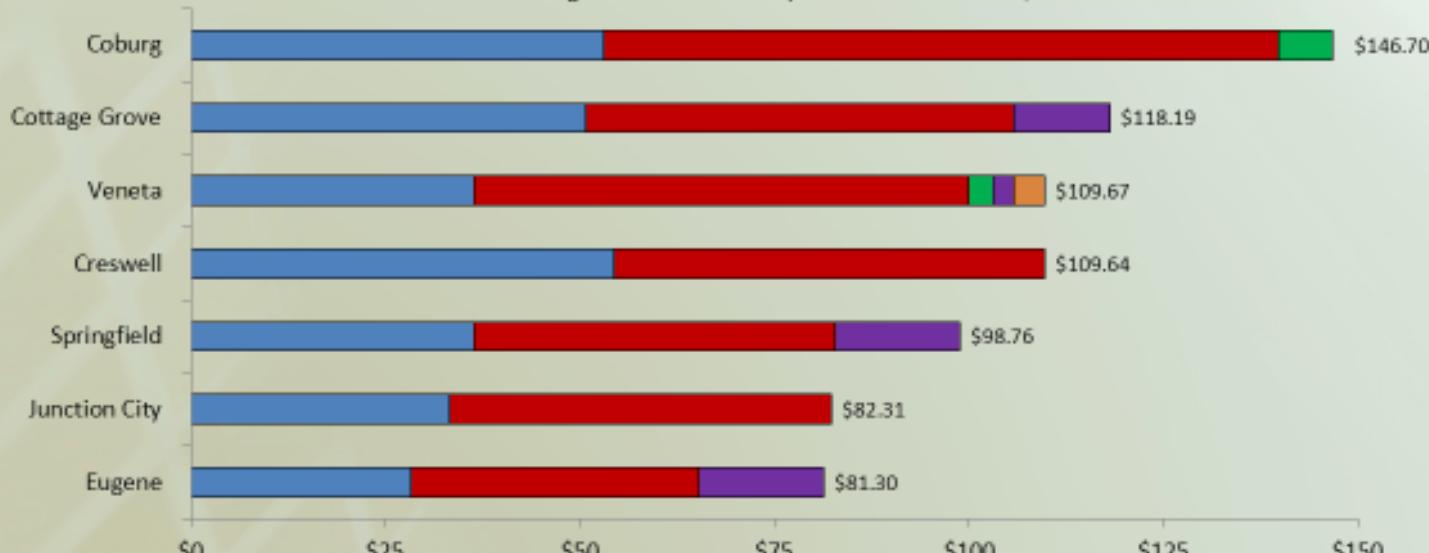
Regional Wastewater Rates for 4 kgal of Winter Average Monthly Flow - November, 2022



Neighboring Communities' Rates – Water & Sewer



Regional Utilities Rates per Month - November, 2022



	Eugene	Junction City	Springfield	Creswell	Veneta	Cottage Grove	Coburg
Water	28.28	33.27	36.39	54.35	36.37	50.79	53.00
Wastewater	36.95	49.03	46.37	55.29	63.66	54.93	86.70
Transportation	-	-	-	-	3.00	-	7.00
Stormwater	16.07	-	16.00	-	2.64	12.47	-
Public Safety	-	-	-	-	4.00	-	-
Total	\$81.30	\$82.31	\$98.76	\$109.64	\$109.67	\$118.19	\$146.70

Schedule



- Finalize rate proposals
- Draft final report
- Report back to the Council before the end of the year with conclusions and recommendations
- Plan for any proposed rate increases on February 1, 2023

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