



**TALENT CITY COUNCIL
STUDY SESSION AGENDA**
– HELD AT TOWN HALL & VIA ZOOM –
206 E. Main Street
January 29th, 2024 - 6:00 PM

To attend to the meeting via Zoom, please visit the City's website at www.cityoftalent.org for the link information.

All Council meetings are digitally recorded and will be available on the City website: www.cityoftalent.org. The meeting location is accessible to persons with disabilities. A request for an interpreter for the hearing impaired, or for other accommodations for persons with disabilities, should be made at least 48 hours in advance of the meeting to the City Recorder at 541-535-1566, x1012.

The City Council reserves the right to add or delete items as needed, change the order of the agenda, and discuss any other business deemed necessary at the time of the study session and/or meeting.

- 1. Call to Order / Roll Call**
- 2. Presentation from HDR on Preliminary Water Rate Options**
- 3. Adjournment**



City Council Agenda Report

Meeting Date: January 29th, 2024 **Staff Contact:** Tessa DeLine, Finance Director
Department: Finance **E-Mail:** TDeLine@cityoftalent.org
Staff Recommendation: Informational Only **Estimated Time:** 45 minutes + questions

RECOMMENDATION

Receive Water Utility Rate findings and options and provide possible direction to city staff on changes to Water utility rates.

BACKGROUND

In 2023, the City of Talent contracted with HDR, Inc. to conduct a Water Rate Cost of Service Study for the Water Fund. A rate study is recommended to be conducted approximately every five years to ensure that the City will have sufficient water revenues to meet the ongoing operational, long-term debt, and capital obligations. The last rate study was conducted in 2011.

City staff worked closely to assist HDR, Inc. to produce a comprehensive review of the City's water utility rates including an extensive review of current rates and future operational, long-term debt and capital costs to the Water Fund. The desired outcome of this study was to ensure that rates are sufficient to cover costs associated with ongoing maintenance and operations of the water utility along with wholesale water costs. The rates should also fund anticipated capital improvement costs while supporting debt obligations and maintaining a minimum of 90 days of operating reserves.

Rate Study Overview

Staff from HDR, Inc. will present the findings of the Water Rate Cost of Service Study and will be able to answer questions regarding the findings and recommendations within the rate model. The key purpose of the study includes:

- Provide an adequate level of rate revenue to operate and maintain the City's water utility.
- Develop the study using generally accepted methodologies tailored to the City's unique customer characteristics.
- Develop cost-based water rates that are fair, equitable, and in proportion to the cost of providing service to the City's customers.
- Reflect prudent financial planning criteria.
 - Maintain target debt service coverage (DSC) ratio.
 - Prudent rate funding of capital.
 - Meet target reserve balances.

Findings and Recommendations

The revenue analysis as part of the study concludes that current water rates are insufficient to meet revenue requirements for the fiscal years 2024-25 through 2033-34. Current rates are unable to keep

pace with increasing operating, capital improvement costs, wholesale water purchase costs, and debt service obligations. Below are comparisons of the different rate alternatives utilizing average Single Family Residential household water consumption.



FISCAL IMPACT

The Water Rate Cost of Service Study has identified insufficient revenues in the Water Fund. HDR, Inc. is recommending customer rate increases to address the projected revenue deficiencies in funding the necessary operating expenses, capital expenses, debt service expenses, and reserve requirements.

OPTIONS

The Council has the following alternatives to consider:

- Status Quo: Maintaining four tier consumption (all customers) with no charge for gallons consumed in the first tier along with a transition of the fixed meter charge to the AWWA weighting.
- Option One: Maintaining four tier consumption (all customers) and charge for gallons consumed in the first tier along with a transition of the fixed meter charge to the AWWA weighting.
- Option Two: Creating three tier consumption for Single-Family Residential and a uniform consumption charge for Multi-Family Residential, Commercial and Irrigation. Transition of the fixed meter charge to the AWWA weighting.
- Option Three: Same as Option Two plus a fixed fee designed to fully fund Capital Improvement

Projects.

POTENTIAL MOTION

A motion to approve by the Council is not expected at the January 29th, 2024 special City Council study session. Staff direction regarding an option is desired. It is recommended that the City Council provide directions to staff on adjusting water rates at the February 7th City Council meeting to allow for implementation for the March 2024 billing period.

ATTACHMENTS

PowerPoint Presentation for the January 29th, 2024 meeting.



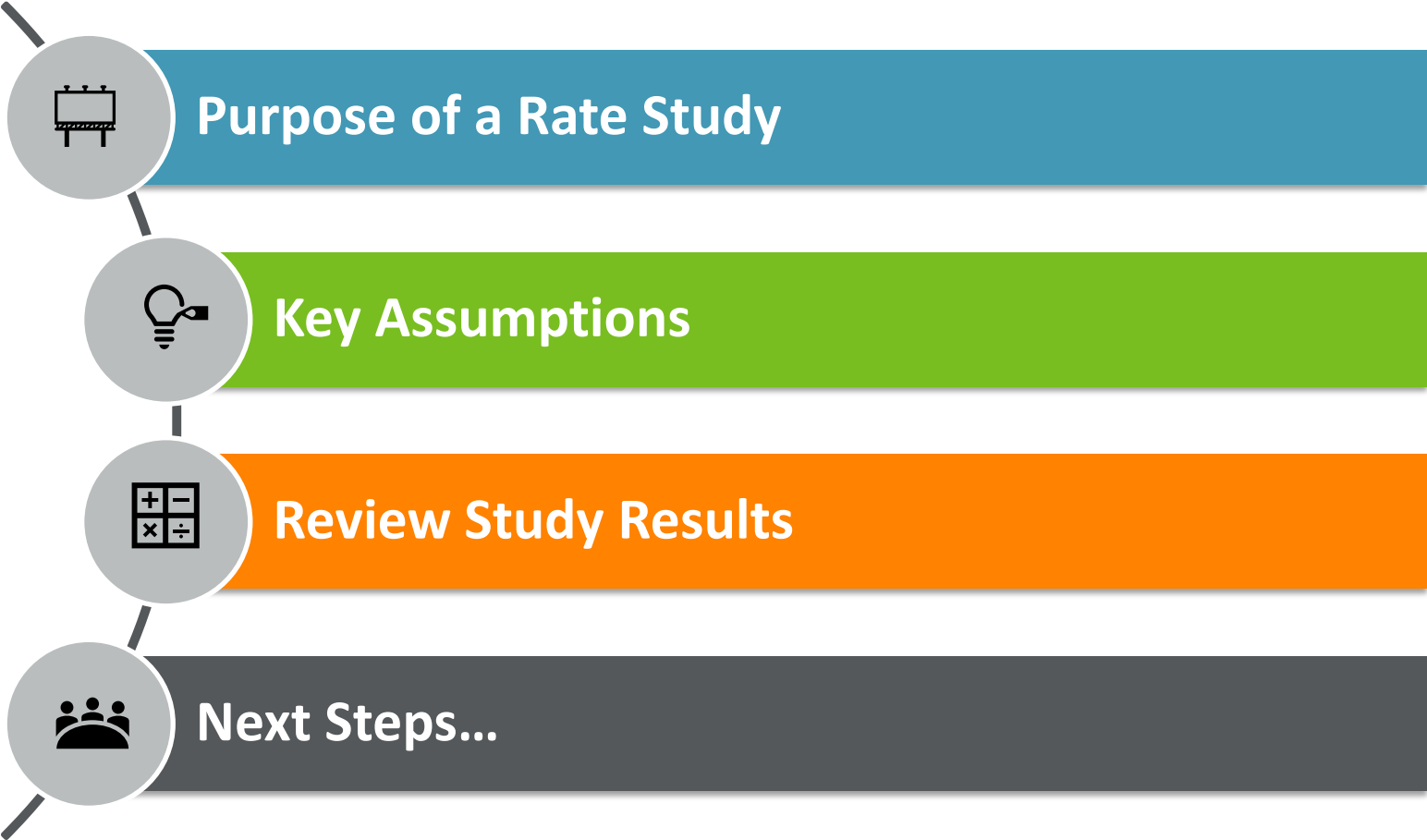
City of Talent

Draft Water Rate Study Results

January 29th, 2024

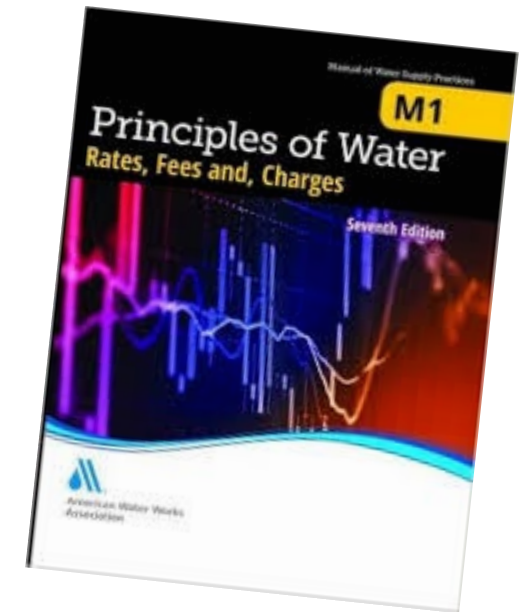


Overview of the Presentation

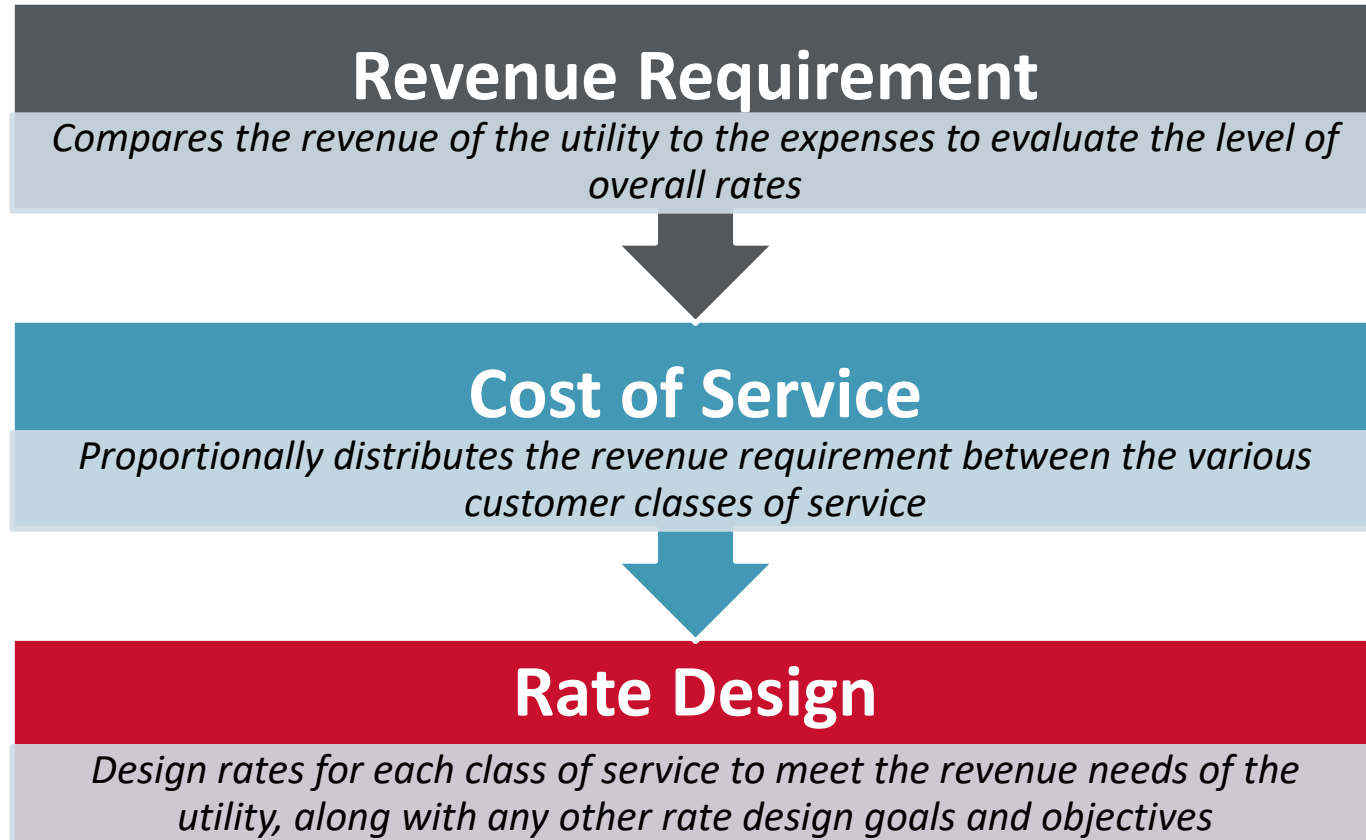


Purpose of a Rate Study

- Provide an adequate level of rate revenue to operate and maintain the City's water utility
- Develop the study using generally accepted methodologies tailored to the City's unique customer characteristics
- Reflect prudent financial planning criteria
 - Maintain target debt service coverage (DSC) ratio
 - Prudent rate funding of capital
 - Meet target reserve balances
- Develop cost-based water rates



Developing Cost-Based Water Rates



Key Components of the Study

- Calculated annual revenues based on current rates and customer statistics
- Started with the City's 2023-24 budget
 - Projected based on escalation factors for 2024-25 through 2033-34
 - Additional shared staff assumed in 2024-25 (45% allocated to Water)
- Utilized the City's capital improvement plan
 - Identified capital funding source (e.g., rates, reserves, long-term debt)
- Cost of service test year is 2023-24 to develop proposed rates for year 1
 - 5-year transition plan (2023-24 through 2027-28)



Revenue Requirement

Overview of the Revenue Requirement

Compares utility revenues to expenses

- Determines the level of revenue (rate) adjustment necessary

Uses prudent financial planning criteria

- Adequate funding of renewal and replacements
- Maintaining sufficient ending reserve balances

Reviews a specific time period

- Typically, review a five-to-ten-year period
- Rate setting is often 2 – 5 years

Utilities is analyzed on a “stand-alone basis”

- No transfer of funds from other City funds
- Rates need to support operations and capital

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

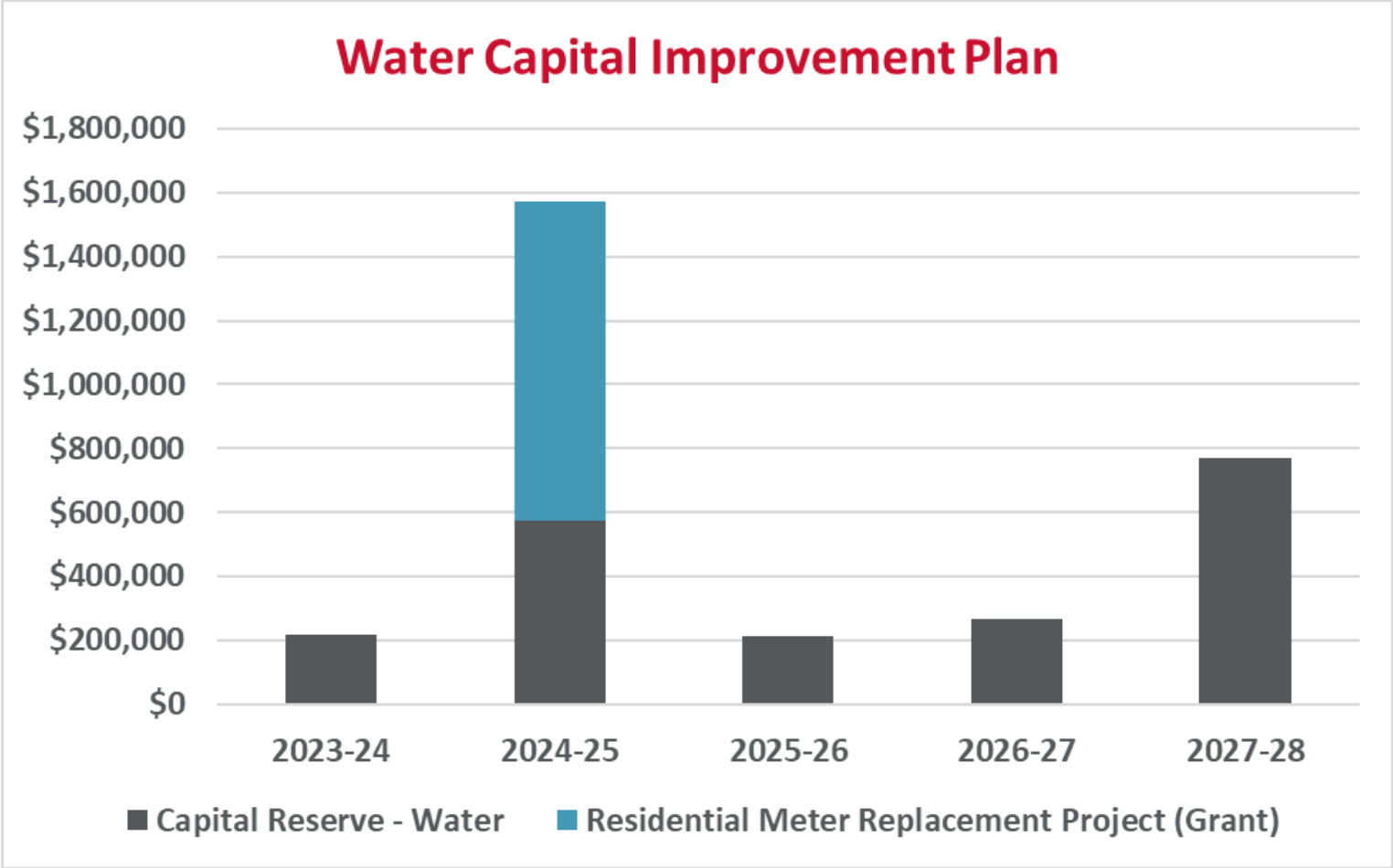
Revenue Requirement Key Issues

- Purchased water will see significant impacts through Medford Water's investment in projects that benefit the TAP (Talent, Ashland, Phoenix)
- Supply chain and inflationary measures in materials and supplies continues to be increase costs to provide water service
- Increased debt service prepayment to avoid balloon payments
- Renewal and replacement of aging infrastructure
- Regulatory related capital improvements
- Estimated \$50,000 write-off of old Bad Debt in 2024-25 Fiscal Year
- Reserve balances in the Water Fund continues to decrease and are currently at lowest levels in a decade

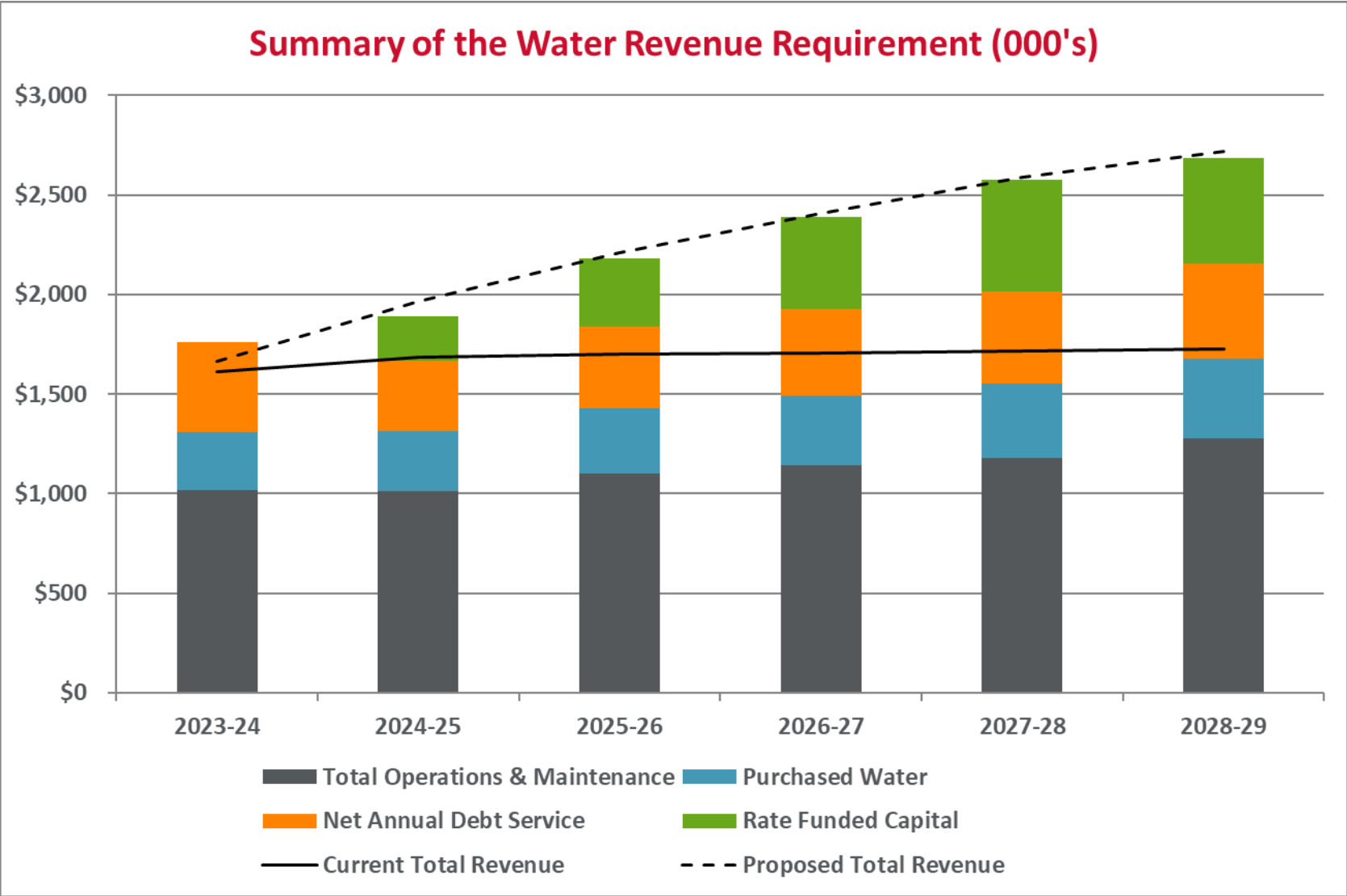
Capital Improvement Plan Key Issues

- The City's water meters are very old and past useful life (mostly over 15 years)
 - ARPA grant to replace in 2024-25
- Regulatory required capital improvements
 - Water Management and Conservation Plan, AWIA Risk and Resilience Assessment & Emergency Response Plan, Water Master Plan, and Seismic Resilience Plan.
- Asbestos Concrete (AC) pipe replacement
 - Approximately 20% - 30% of Talent's Distribution Water Distribution System is AC pipe and is currently deteriorating and nearing the end of its useful life
 - The Environmental Protection Agency (EPA) included AC pipe in its overall assessment of asbestos as a toxic material.
- Waterline replacements need to occur prior to any street improvements

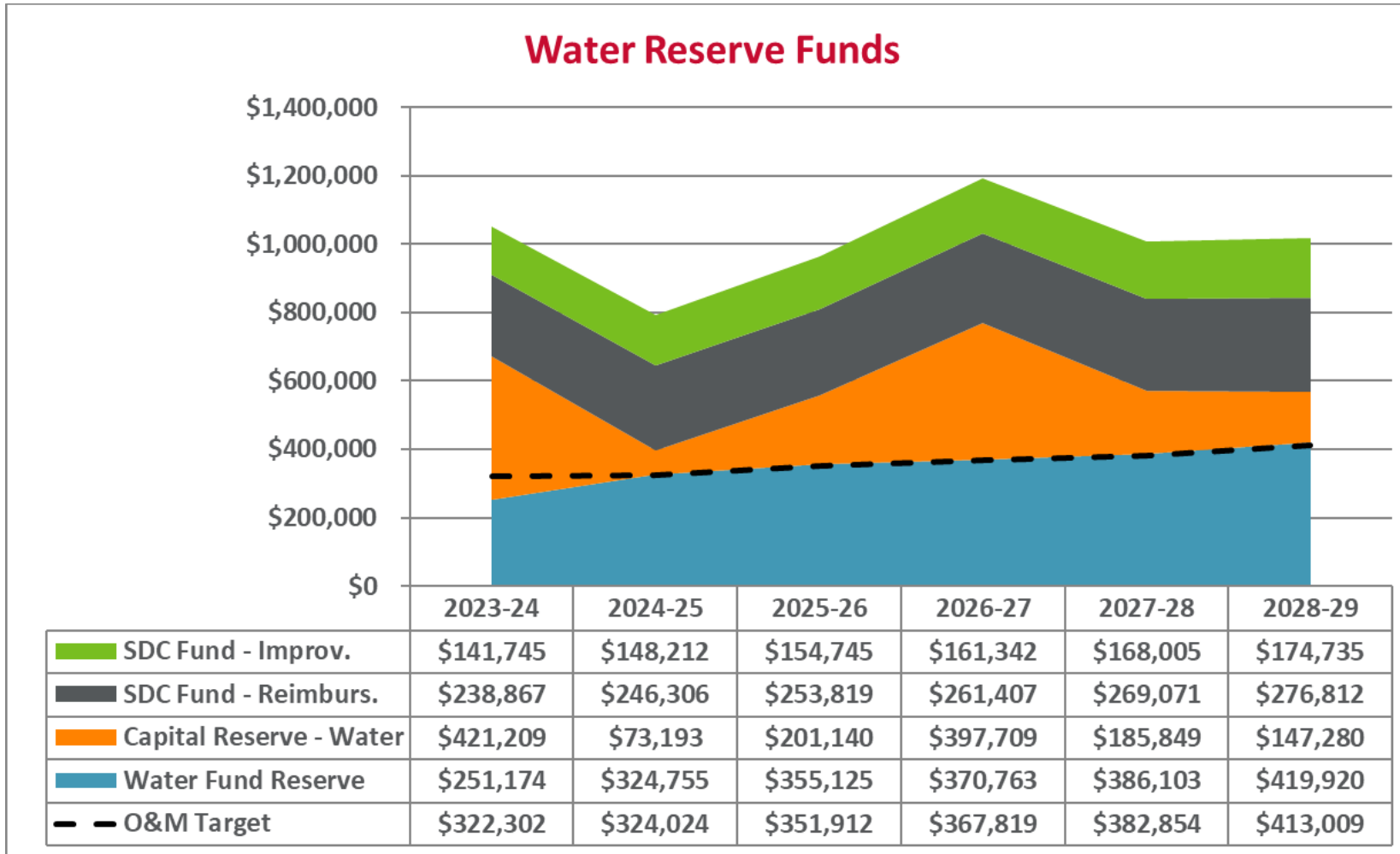
Water Capital Improvement Plan



Water Revenue Requirement



Reserve Fund Levels



***O&M Target = 90 days of O&M expenses**



Cost of Service

Overview of the Cost of Service

What is cost of service?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service

Why cost of service

- Generally accepted as “proportional and equitable”
- Avoids subsidies
- Revenues reflect costs

Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

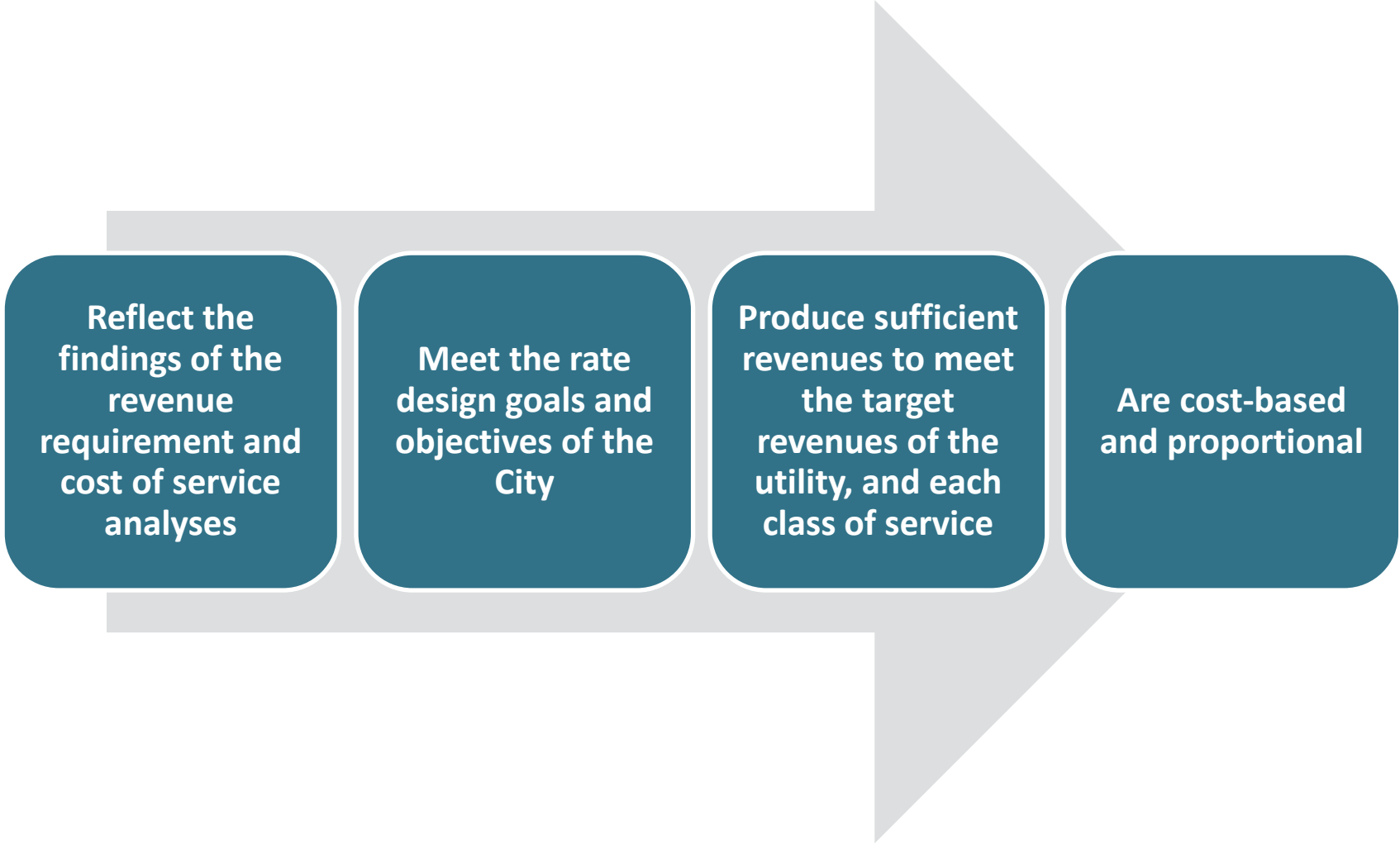
Cost of Service Summary

- Cost of service analysis provides the basis for the proposed rates
 - Based on customer characteristics and facility requirements
- First cost of service for the City
- Analysis will be impacted by the reconnection of pre-fire customers
- Results show the need for minor cost of service of service adjustments
 - Alternative 2 includes adjustments made through the consumption revenue



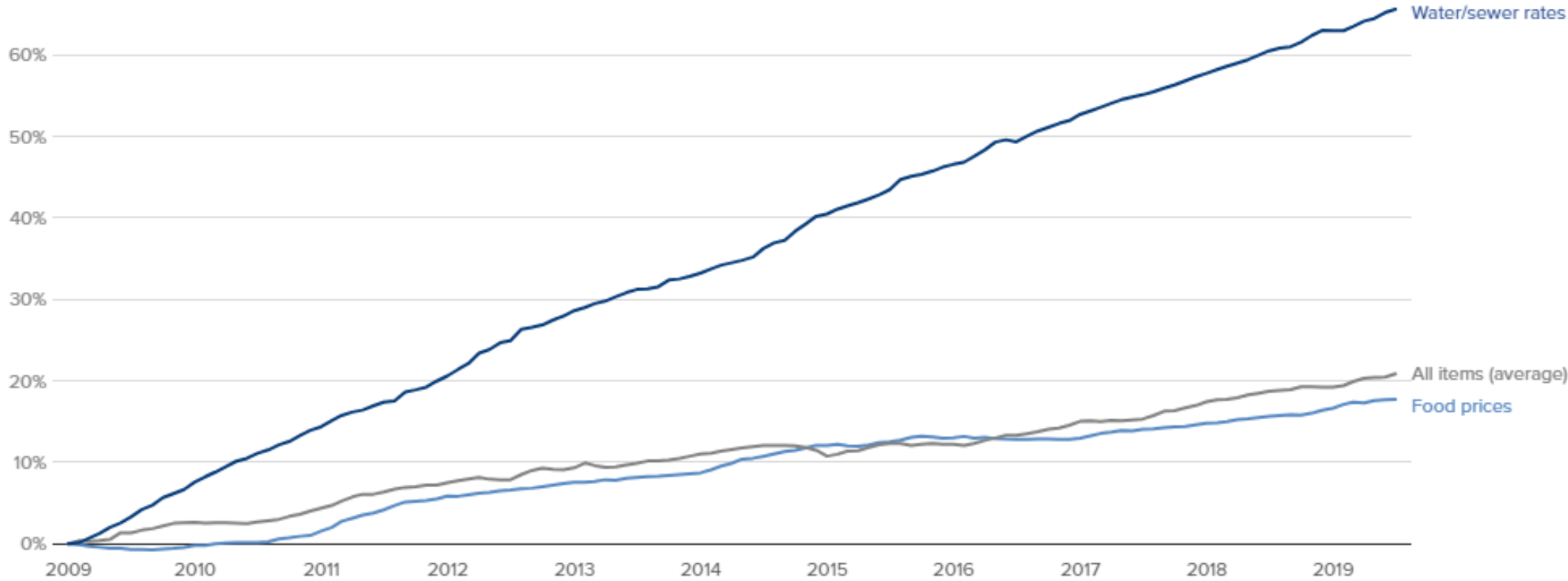
Rate Design

Overview of the Rate Design



Rate History

What Americans pay for water and sewer service has increased much faster than inflation or the price of food.



Source: Bureau of Labor Statistics—Consumer Price Index

Rate Design – Status Quo

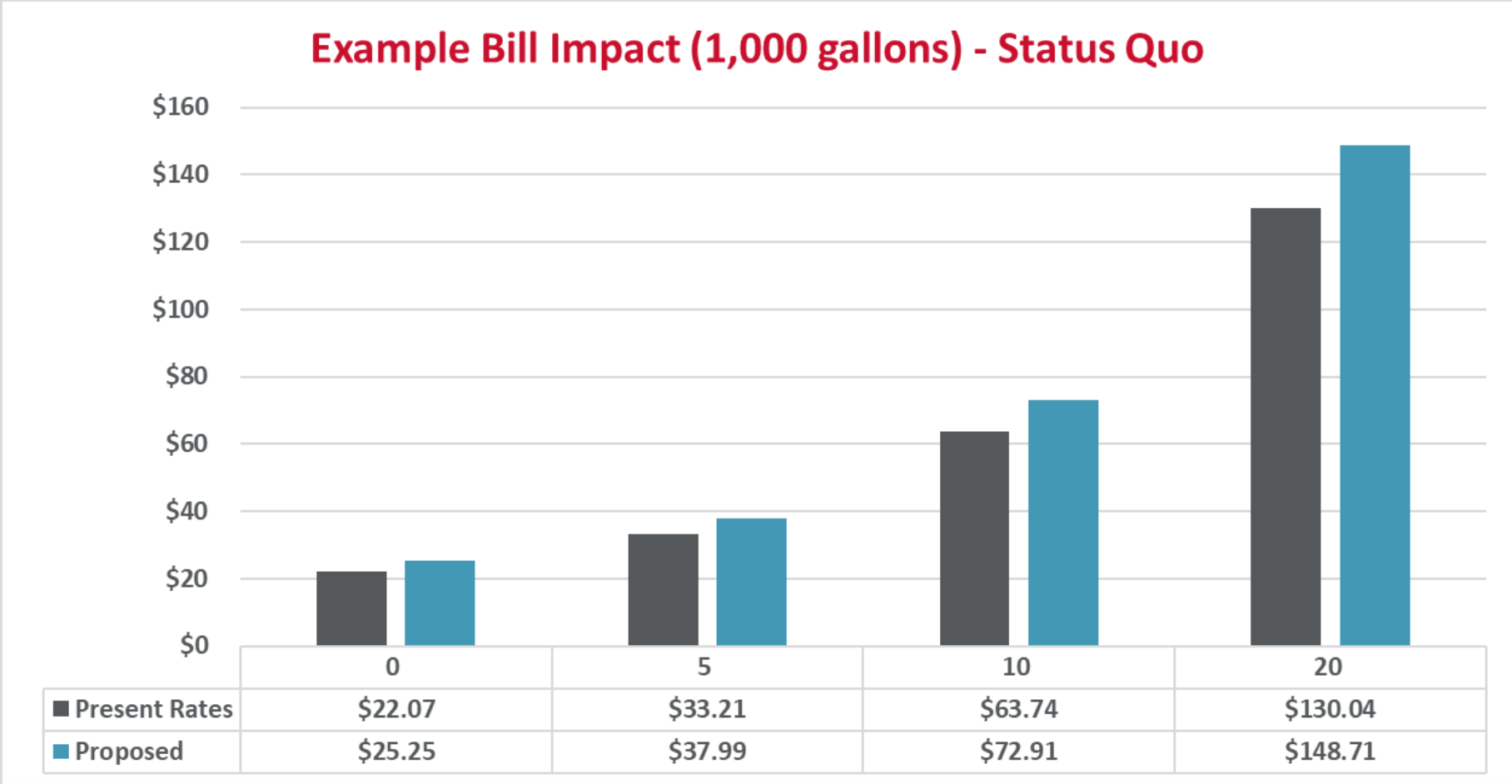
- Maintains rate structure for all customers
 - Fixed charge by meter size
 - 4-tiered consumption charge
- Transitions the fixed meter charge to the AWWA weighting
- **Benefits**
 - Avoids confusing customers with changing current structure
 - Results in a lower bill for low water use customers (free water in first tier)
- **Drawbacks**
 - Does not incentivize efficient water use in first tier via price signal
 - Does not address cost of service differences

Rate Design – Status Quo

City of Talent
Rate Design
Status Quo

	Present Rates	Proposed				
		2023-24	2024-25	2025-26	2026-27	2027-28
Fixed Charge - Inside City						
3/4	\$22.07	\$25.25	\$28.75	\$31.25	\$34.00	\$35.75
1"	48.04	52.40	56.75	58.52	60.23	59.70
1 1/2"	91.32	100.40	109.67	114.16	118.71	119.05
2"	191.01	201.74	210.59	208.12	203.83	190.55
3"	329.50	352.08	372.54	374.12	373.52	357.50
4"	485.30	528.36	571.02	587.43	602.95	595.95
6"	918.11	1,008.63	1,100.89	1,144.94	1,189.46	1,191.55
Fixed Charge - Outside City						
3/4	\$44.14	\$50.50	\$57.50	\$62.50	\$68.00	\$71.50
1"	96.08	104.80	113.50	117.04	120.46	119.40
1 1/2"	182.64	200.80	219.34	228.32	237.42	238.10
2"	382.02	403.48	421.18	416.24	407.66	381.10
3"	659.00	704.16	745.08	748.24	747.04	715.00
4"	970.60	1,056.72	1,142.04	1,174.86	1,205.90	1,191.90
6"	1,836.22	2,017.26	2,201.78	2,289.88	2,378.92	2,383.10
Consumption Charge - Inside City						
0 - 3,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3,000 - 6,000	5.57	6.37	7.33	8.00	8.90	9.15
6,000 - 9,000	6.11	6.99	8.04	8.78	9.76	10.04
9,000 +	6.63	7.58	8.72	9.53	10.59	10.89
Consumption Charge - Outside City						
0 - 3,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
3,000 - 6,000	11.14	12.74	14.66	16.00	17.80	18.30
6,000 - 9,000	12.22	13.98	16.08	17.56	19.52	20.08
9,000 +	13.26	15.16	17.44	19.06	21.18	21.78

Rate Design – Status Quo Bill Impacts



Rate Design – Alternative 1

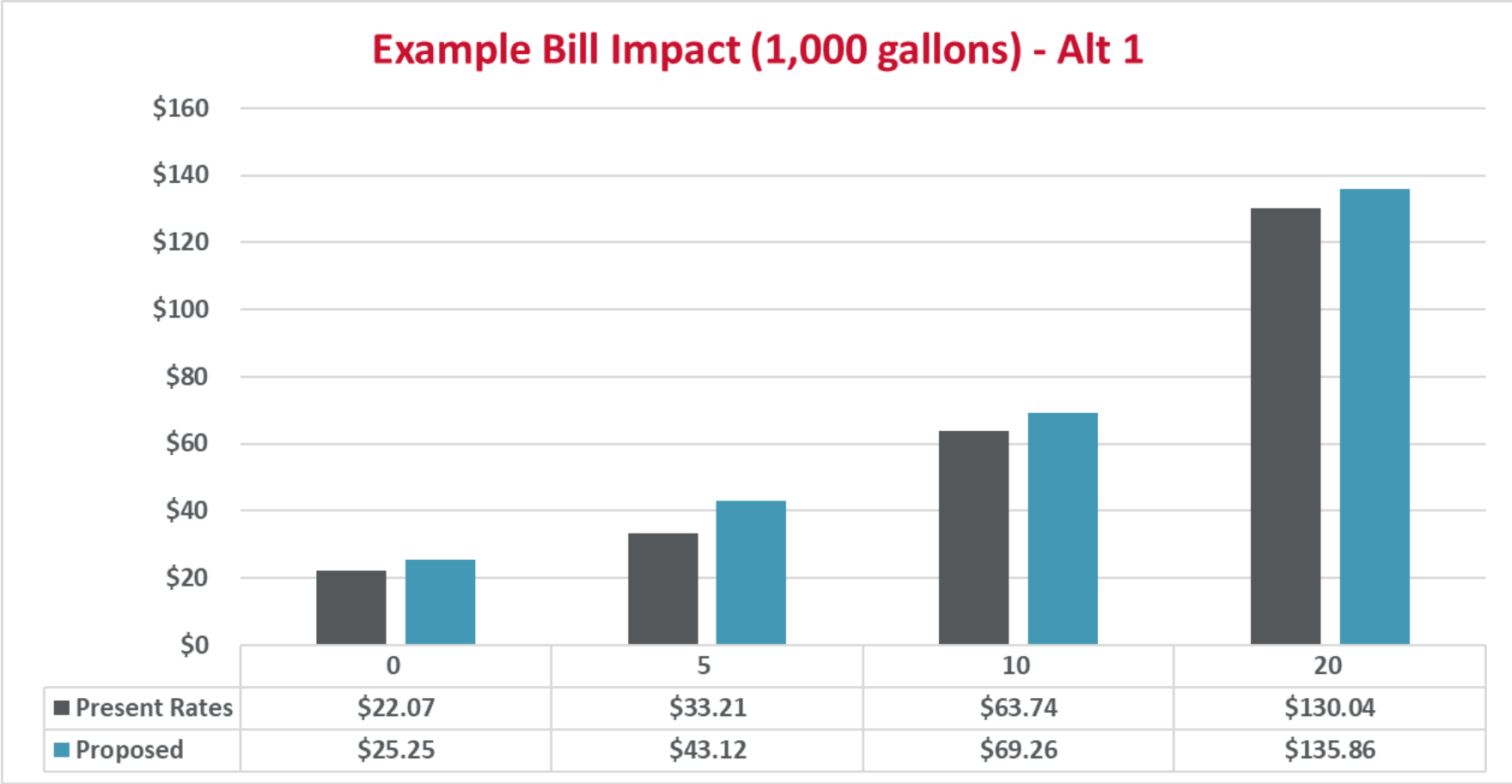
- Fixed charge by meter size (same as Status Quo)
- 4-tiered consumption charge
 - Now charges for the 1st tier (0 – 3,000 gallons)
- Fixed charge transitions to AWWA weighting
- **Benefits**
 - Maintains general structure but adds charging the first tier
 - Encourages efficient water use in the first tier
- **Drawbacks**
 - Will impact low water users (charging for the first tier)
 - Does not address cost of service differences

Rate Design – Alternative 1

City of Talent
Rate Design
Alternative 1

	<i>Present Rates</i>	<i>Proposed</i>				
		2023-24	2024-25	2025-26	2026-27	2027-28
<i>Fixed Charge - Inside City</i>						
3/4	\$22.07	\$25.25	\$28.75	\$31.25	\$34.00	\$35.75
1"	48.04	52.40	56.75	58.52	60.23	59.70
1 1/2"	91.32	100.40	109.67	114.16	118.71	119.05
2"	191.01	201.74	210.59	208.12	203.83	190.55
3"	329.50	352.08	372.54	374.12	373.52	357.50
4"	485.30	528.36	571.02	587.43	602.95	595.95
6"	918.11	1,008.63	1,100.89	1,144.94	1,189.46	1,191.55
<i>Fixed Charge - Outside City</i>						
3/4	\$44.14	\$50.50	\$57.50	\$62.50	\$68.00	\$71.50
1"	96.08	104.80	113.50	117.04	120.46	119.40
1 1/2"	182.64	200.80	219.34	228.32	237.42	238.10
2"	382.02	403.48	421.18	416.24	407.66	381.10
3"	659.00	704.16	745.08	748.24	747.04	715.00
4"	970.60	1,056.72	1,142.04	1,174.86	1,205.90	1,191.90
6"	1,836.22	2,017.26	2,201.78	2,289.88	2,378.92	2,383.10
<i>Consumption Charge - Inside City</i>						
0 - 3,000	\$0.00	\$3.19	\$3.68	\$4.05	\$4.40	\$4.75
3,000 - 6,000	5.57	4.15	4.78	5.27	5.72	6.18
6,000 - 9,000	6.11	5.11	5.90	6.49	7.05	7.61
9,000 +	6.63	6.66	7.68	8.46	9.19	9.92
<i>Consumption Charge - Outside City</i>						
0 - 3,000	\$0.00	\$6.38	\$7.36	\$8.10	\$8.80	\$9.50
3,000 - 6,000	11.14	8.30	9.56	10.54	11.44	12.36
6,000 - 9,000	12.22	10.22	11.80	12.98	14.10	15.22
9,000 +	13.26	13.32	15.36	16.92	18.38	19.84

Rate Design – Alternative 1 Bill Impacts



Rate Design – Alternative 2

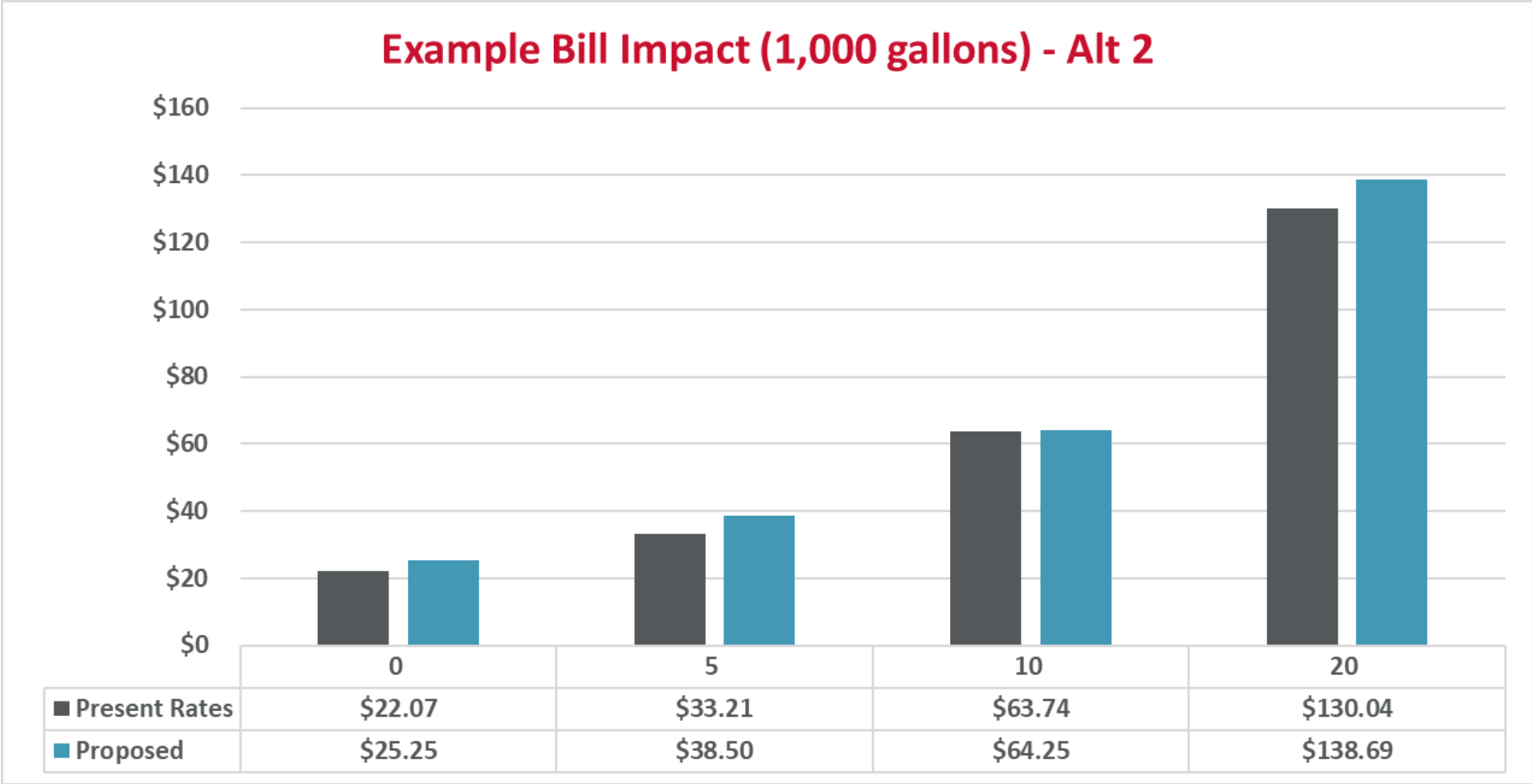
- Fixed charge by meter size (same as Status Quo)
- Consumption charge
 - Residential: 3-tiered structure with revised tiers (0 – 5,000 gal, 5,000 – 12,000 gal, and 12,000+ gal)
 - Multi-Family, Commercial, and Irrigation: uniform consumption charge
- **Benefits**
 - Maintains general structure but adds charging the first tier
 - Encourages efficient water use in the first tier
 - Addresses cost of service differences
- **Drawbacks**
 - Will impact low water users (charging for the first tier)

Rate Design – Alternative 2

City of Talent Rate Design Alternative 2						
	Present	Proposed				
	Rates	2023-24	2024-25	2025-26	2026-27	2027-28
Fixed Charge - Inside City						
3/4	\$22.07	\$25.25	\$28.75	\$31.25	\$34.00	\$35.75
1"	48.04	52.40	56.75	58.52	60.23	59.70
1 1/2"	91.32	100.40	109.67	114.16	118.71	119.05
2"	191.01	201.74	210.59	208.12	203.83	190.55
3"	329.50	352.08	372.54	374.12	373.52	357.50
4"	485.30	528.36	571.02	587.43	602.95	595.95
6"	918.11	1,008.63	1,100.89	1,144.94	1,189.46	1,191.55
Fixed Charge - Outside City						
3/4	\$44.14	\$50.50	\$57.50	\$62.50	\$68.00	\$71.50
1"	96.08	104.80	113.50	117.04	120.46	119.40
1 1/2"	182.64	200.80	219.34	228.32	237.42	238.10
2"	382.02	403.48	421.18	416.24	407.66	381.10
3"	659.00	704.16	745.08	748.24	747.04	715.00
4"	970.60	1,056.72	1,142.04	1,174.86	1,205.90	1,191.90
6"	1,836.22	2,017.26	2,201.78	2,289.88	2,378.92	2,383.10

City of Talent Rate Design Alternative 2						
	Present	Proposed				
	Rates	2023-24	2024-25	2025-26	2026-27	2027-28
Consumption Charge - Inside City						
0 - 3,000	\$0.00	--	--	--	--	--
3,000 - 6,000	5.57	--	--	--	--	--
6,000 - 9,000	6.11	--	--	--	--	--
9,000 +	6.63	--	--	--	--	--
Residential						
0 - 5,000	--	\$2.65	\$3.11	\$3.30	\$3.75	\$3.85
5,000 - 12,000	--	5.15	6.04	6.41	7.29	7.48
12,000 +	--	8.02	9.41	9.98	11.35	11.65
Multi-Family						
All Use	--	\$6.50	\$7.63	\$8.09	\$9.20	\$9.44
Commercial						
All Use	--	\$5.95	\$6.98	\$7.41	\$8.42	\$8.64
Irrigation						
All Use	--	\$7.50	\$8.80	\$9.34	\$10.61	\$10.90
Consumption Charge - Outside City						
0 - 3,000	\$0.00	--	--	--	--	--
3,000 - 6,000	11.14	--	--	--	--	--
6,000 - 9,000	12.22	--	--	--	--	--
9,000 +	13.26	--	--	--	--	--
Residential						
0 - 5,000	--	\$5.30	\$6.22	\$6.60	\$7.50	\$7.70
5,000 - 12,000	--	10.30	12.09	12.83	14.57	14.96
12,000 +	--	16.04	18.82	19.97	22.69	23.30
Multi-Family						
All Use	--	\$13.00	\$15.26	\$16.19	\$18.40	\$18.89
Commercial						
All Use	--	\$11.90	\$13.97	\$14.82	\$16.84	\$17.29
Irrigation						
All Use	--	\$15.00	\$17.60	\$18.68	\$21.23	\$21.79

Rate Design – Alternative 2 Bill Impacts



Rate Design – Alternative 3

- Fixed charge is the same structure, but reduced, by meter size
- Consumption charge
 - Residential: 3-tiered structure with revised tiers (0 – 5,000 gal, 5,000 – 12,000 gal, and 12,000+ gal)
 - Multi-Family, Commercial, and Irrigation: uniform consumption charge
- Water System Replacement Fee
 - Fixed fee designed to fund capital improvement projects
- **Benefits**
 - Maintains general structure but adds charging the first tier
 - Encourages efficient water use in the first tier
 - Addresses cost of service differences
- **Drawbacks**
 - Will impact low water users (charging for the first tier)

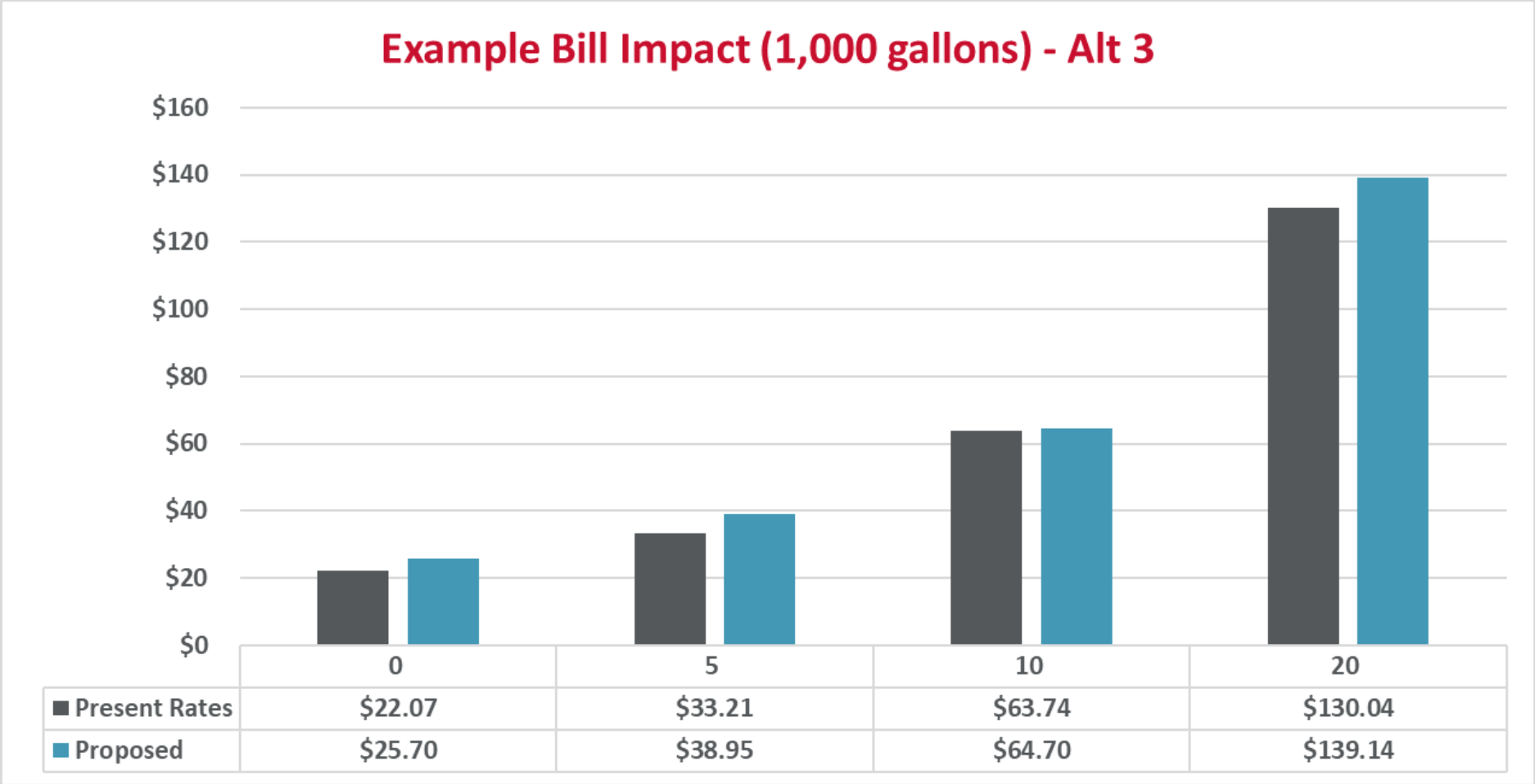
Rate Design – Alternative 3

City of Talent Rate Design Alternative 3						
	Present	Proposed				
	Rates	2023-24	2024-25	2025-26	2026-27	2027-28
Fixed Charge - Inside City						
3/4	\$22.07	\$23.70	\$26.00	\$28.50	\$29.50	\$31.00
1"	48.04	49.19	51.32	53.37	52.25	51.77
1 1/2"	91.32	94.24	99.18	104.11	103.00	103.23
2"	191.01	189.36	190.45	189.81	176.85	165.23
3"	329.50	330.47	336.90	341.20	324.09	310.00
4"	485.30	495.93	516.40	535.73	523.15	516.77
6"	918.11	946.72	995.59	1,044.18	1,032.03	1,033.23
Fixed Charge - Outside City						
3/4	\$44.14	\$47.40	\$52.00	\$57.00	\$59.00	\$62.00
1"	96.08	98.38	102.64	106.74	104.50	103.54
1 1/2"	182.64	188.48	198.36	208.22	206.00	206.46
2"	382.02	378.72	380.90	379.62	353.70	330.46
3"	659.00	660.94	673.80	682.40	648.18	620.00
4"	970.60	991.86	1,032.80	1,071.46	1,046.30	1,033.54
6"	1,836.22	1,893.44	1,991.18	2,088.36	2,064.06	2,066.46
Water System Replacement Fee						
Inside City	\$0.00	\$2.00	\$3.00	\$4.00	\$5.00	\$6.00
Outside City	0.00	4.00	6.00	8.00	10.00	12.00

City of Talent Rate Design Alternative 3

	Present	Proposed				
	Rates	2023-24	2024-25	2025-26	2026-27	2027-28
Consumption Charge - Inside City						
0 - 3,000	\$0.00	--	--	--	--	--
3,000 - 6,000	5.57	--	--	--	--	--
6,000 - 9,000	6.11	--	--	--	--	--
9,000 +	6.63	--	--	--	--	--
Residential						
0 - 5,000	--	\$2.65	\$3.11	\$3.30	\$3.75	\$3.85
5,000 - 12,000	--	5.15	6.04	6.41	7.29	7.48
12,000 +	--	8.02	9.41	9.98	11.35	11.65
Multi-Family						
All Use	--	\$6.50	\$7.63	\$8.09	\$9.20	\$9.44
Commercial						
All Use	--	\$5.95	\$6.98	\$7.41	\$8.42	\$8.64
Irrigation						
All Use	--	\$7.50	\$8.80	\$9.34	\$10.61	\$10.90
Consumption Charge - Outside City						
0 - 3,000	\$0.00	--	--	--	--	--
3,000 - 6,000	11.14	--	--	--	--	--
6,000 - 9,000	12.22	--	--	--	--	--
9,000 +	13.26	--	--	--	--	--
Residential						
0 - 5,000	--	\$5.30	\$6.22	\$6.60	\$7.50	\$7.70
5,000 - 12,000	--	10.30	12.09	12.83	14.57	14.96
12,000 +	--	16.04	18.82	19.97	22.69	23.30
Multi-Family						
All Use	--	\$13.00	\$15.26	\$16.19	\$18.40	\$18.89
Commercial						
All Use	--	\$11.90	\$13.97	\$14.82	\$16.84	\$17.29
Irrigation						
All Use	--	\$15.00	\$17.60	\$18.68	\$21.23	\$21.79

Rate Design – Alternative 3 Bill Impacts



Rate Design – Alternative Comparison (3/4” Meter, Inside City)



Water Efficiency Incentives

Purchase supplies from Medford Water starting in 2024-25 to encourage conservation and efficient water usage

- 100 bathroom sink aerators
- 100 showerheads
- 100 kitchen sink aerators



Total water use reductions could total up to 1.3 million gallons per year!

Next Steps

- Incorporate City direction and comments
 - Revise analyses based on discussion, if needed
- Present February 7, 2024 and move forward with final direction
- Finalize the rate study
- Implementation new rates - March 2024



Thank you for your input!



Revenue Requirement Summary

	2023-24	2024-25	2025-26	2026-27	2027-28
Proposed Rate Revenue Adjustment	13.5%	13.5%	8.5%	8.5%	4.5%

