



Staff Report

File #: 20-358

Version: 1

Date: 10/12/2020

Item #: 4.a.

TO: Mayor and City Council

THROUGH: Steve Powers, City Manager

FROM: Peter Fernandez, PE, Public Works Director

SUBJECT:

Proposed Fees and Charges for Utility Service Rates (Water, Wastewater, and Stormwater).

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

Result Area(s): Good Governance; Safe Community; Safe, Reliable, and Efficient Infrastructure

ISSUE:

Shall Council adopt Resolution No. 2020-44, with exhibit, establishing fees and charges for utility service rates (waste, wastewater, and stormwater) effective January 1, 2021, and January 1, 2022?

RECOMMENDATION:

Adopt Resolution No. 2020-44 with exhibit, establishing fees and charges for utility service rates (water, wastewater, and stormwater) effective January 1, 2021, and January 1, 2022.

SUMMARY:

Council has had a long-standing commitment to providing adequate funding for the City's water, wastewater, and stormwater systems (collectively referred to as the Utility) to meet the current growing and changing needs of our community and to comply with state and federal regulations. Because of this commitment, Council has adopted the rate increases necessary to operate and maintain the systems, complete important capital projects, and preserve the financial stability of the Utility.

Recommended rate increases:

- Wastewater 3.0 percent in 2021 and 2022
- Water 3.0 percent in 2021 and 2022, and
- Stormwater 5.0 percent in 2021 and 2022.

As a result of careful planning and annual rate adjustments, the City has been able to make the required investments, navigate economic challenges, and address emerging operational needs without urgent or exorbitant rate increases. The Utility Fund remains financially sound, even during recent economic challenges and as the overall trend in water consumption per account continues downward.

FACTS AND FINDINGS:

Water/Wastewater Task Force (W/WWTF)

Every two years the W/WWTF is convened to consider the biennial rate proposal. The W/WWTF is advisory to the Salem Public Works Director and in 2020 was comprised of:

- Four City Councilors;
- Representatives from City of Keizer and City of Turner;
- A representative from the Marion County Commission;
- A representative of East Salem Suburban Water District;
- Representatives from Salem Chamber of Commerce and SEDCOR; and
- Two members at-large.

The W/WWTF received an overview of the Utility on August 12 and the rate proposal on August 18, 2020. The W/WWTF endorsed the staff recommendation. One member recommended a greater rate increase be considered to promote financial stability in uncertain economic times.

Public Outreach and Responses

All W/WWTF meetings were noticed to the public. Following the W/WWTF recommendation, the City's website was updated with outreach materials including the bill estimator, information on how to read your bill, and information about the proposed rate increases. In addition, over 41,000 postcards were mailed directly to customers inside Salem city limits notifying them of the public hearing on proposed utility rates. The postcard contained information about the proposed rate increase including the URL for the Utilities webpage, an email address to request an account analysis, and information on how to submit testimony to the City Recorder or provide virtual testimony during the hearing. Comments received through September 24, 2020, are included as Attachment 6. In addition to the written comments, three customers have requested bill estimates and two neighborhood associations requested information for their meetings.

Capital Investment

Based on the replacement cost of current assets, staff estimates that an annual investment of at least \$33.8 million is needed to replace aging infrastructure. For many years this has included both cash-funded capital investments and utility revenue bonds for larger projects. Overall, cash-funded capital investment has been increasing as debt service obligations have declined. In FY 2021, the City is investing nearly \$38.6 million in capital projects (\$19.5 in cash-funded capital and \$19.1 million in debt service). The \$60 million revenue bond sale in February 2020 increased annual debt service by \$4.3 million, reducing the amount available each year for the cash-funded capital transfer.

Operations and Maintenance

Public Works Department staff continue to identify operational efficiencies and savings in areas that are controllable; however, the majority of each system's expenses are fixed, regardless of how much water is consumed, wastewater is treated, or stormwater is conveyed. In FY 2019-20, operating expenditures increased 4.3 percent over the prior year. Future year operating expenditures are expected to increase at between 3 and 4 percent per year.

Reserves

Reserve levels are set based on bond covenants and industry best management practices. In FY 2020-21, the Utility Fund will maintain \$19.1 million in debt reserves and a 120-day operating reserve of \$23.7 million. The operating reserve includes a rate stabilization reserve of \$6.9 million, available to use in lieu of an urgent rate increase in periods where net revenues may be insufficient to meet debt coverage requirements. A minimal unrestricted fund balance is maintained in the next five years of the financial model.

Rates

Long-term financial planning is integral to the Utility's success and focuses on adequately investing in the systems through capital construction, properly funding operations and maintenance, maintaining sufficient reserves and debt coverage, and balancing these needs against the desire for smaller, more predictable annual rate increases rather than periodic rate spikes. The rate increases required to achieve these goals are as follows:

- Wastewater 3.0 percent in 2021 and 2022
- Water 3.0 percent in 2021 and 2022, and
- Stormwater 5.0 percent in 2021 and 2022.

These increases are the smallest possible to maintain required reserve levels and a minimal unrestricted fund balance.

Estimated Impacts on Customer Bills

Units of water and wastewater are measured in hundred cubic feet (ccf), and one ccf is equal to 748 gallons. Approximately 76 percent of Salem's residential customers consume between two and eight

ccf per month as their average winter water usage, and 90 percent of Salem's residential customers have 5/8-inch (the old standard) or 3/4-inch (the new standard) meters. A typical single-family residential customer with a 5/8-inch or 3/4-inch meter using eight ccf of water and six ccf of wastewater will see an increase of \$3.09 and \$3.16 per month in 2021 and 2022, respectively.

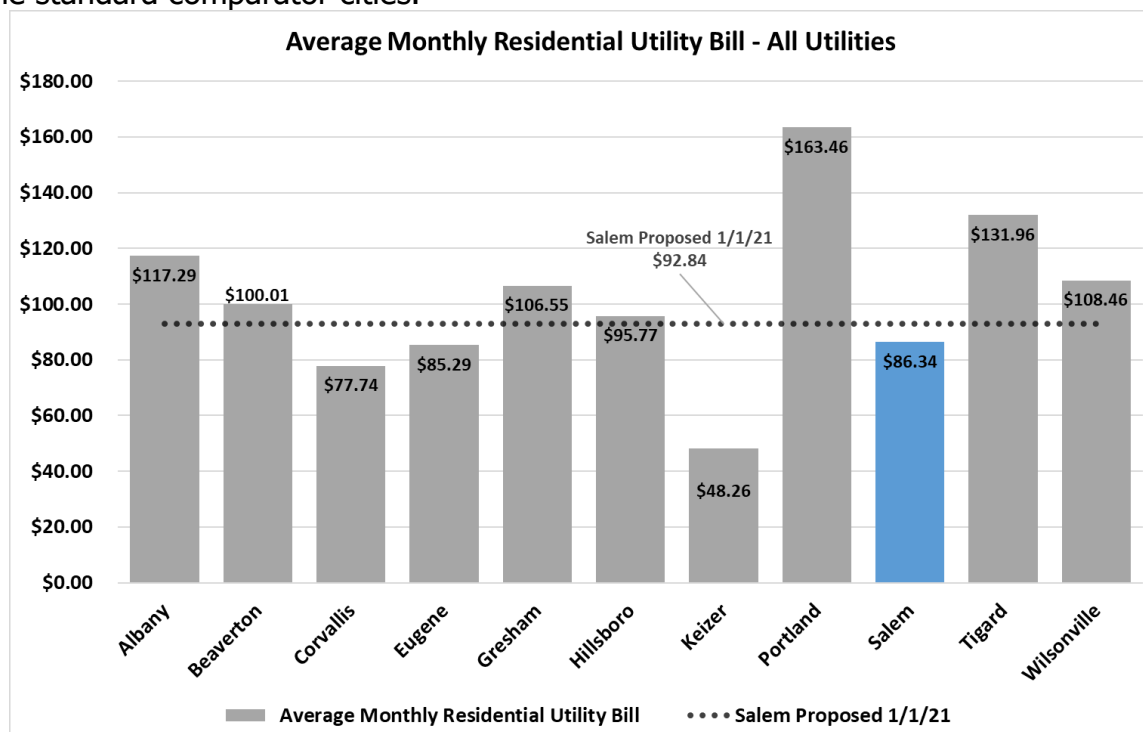
Single Family	Month Use (ccf)	Specific Info ¹	Current 1/1/2020	Proposed 1/1/2021	Proposed 1/1/2022
Water	8.0	0.75	\$31.70	\$32.68	\$33.67
Wastewater	6.0		36.61	37.72	38.84
Stormwater		Tier 2	17.17	18.02	18.92
Subtotal			\$85.48	\$88.42	\$91.43
Franchise Fee			4.27	4.42	4.57
Total Bill			\$89.75	\$92.84	\$96.00
Percent Change				3.4%	3.4%
Dollar Change				\$3.09	\$3.16

¹ Water meter size and residential stormwater tier.

Sample bills for all customer classes and service areas are contained in Attachment 1.

Affordability and Comparison to Other Cities

The total monthly City of Salem utility bill for a typical residential customer represents less than 2 percent of monthly median household income. Total bills shown for cities below are based on rates in effect in September 2020. Salem's proposed rate increase would take effect January 1, 2021, and eight of the ten identified cities also have a rate increase planned or adopted for January or February 2021. With the proposed rate increases, Salem is anticipated to continue to remain in the bottom third of the standard comparator cities.



Emergency Assistance

The City of Salem provides Emergency Assistance to customers who are qualified by area non-profits. In FY 2019-20, \$33,000 was provided to 312 customers. Originally the program allowed for up to \$150 per rolling 12-month period and was funded at \$20,000 per year through donations matched by utility rate revenue. On April 27, 2020, the Salem City Council increased available funding \$500,000, increased the limit to \$500 per account, and expanded the eligibility for the program to include the almost 3,200 Salem Housing Authority clients who had previously been excluded from the program. Since July 1, 2020, a total of \$16,000 has been disbursed. Staff is currently working with Mid Valley Community Action Agency on another potential program expansion opportunity.

Utility Rate Relief Program

For many years, the City of Salem has provided utility rate relief to qualified low income customers. The program currently assists 579 customers at a cost of approximately \$80,000 annually in foregone revenue.

Initially, the utility rate relief discount represented 35 percent of the fixed wastewater base rate and peaked at approximately \$8.00 per month. During the implementation of the stormwater utility in 2014, the discount was converted to a fixed amount of \$9.00 per month. With the onset of the Streetlight Fee in 2016, the wastewater rate relief discount was increased to \$11.80 per month to fully offset impact of the streetlight fee. When the Operations Fee was adopted in 2020, the utility rate relief discount was increased to \$19.80, and a portion of the discount is absorbed by the General Fund.

The proposed rate relief discounts in the attached resolution return the wastewater portion to a percentage of the wastewater base fee. A percentage-based methodology for wastewater allows the discount to keep pace with future rate increases. If adopted, this methodology will be used to distribute the discount by fund source in the City's accounting system to ensure the discount is properly split between the Utility Fund, Streetlight Fund, and General Fund.

	Current	Proposed	
	2020	2021	2022
Utility Rate Relief Discount			
Wastewater Base Fee(60%)	\$ (9.00)	\$ (9.28)	\$ (9.55)
Streetlight Fee (100%)	(2.80)	(2.80)	(2.80)
Operations Fee (100%)	(8.00)	(8.22)	(8.22)
Total Discount	\$ (19.80)	\$ (20.30)	\$ (20.57)

Management of Delinquent Accounts

On August 10, 2020, City Council approved a return to standard account management and enforcement practices. As of September 23, there were 2,736 delinquent accounts representing over \$1.1 million in Utility, Streetlight, and Operations fees. Of these, 1,247 accounts representing \$675,000 have been notified of the 12-month payment plan option. (The notification letter is included as Attachment 5.) An additional 1,489 accounts have gone delinquent since August 10, 2020, representing another \$436,000, and will be notified of the opportunity for a payment plan. Customers are encouraged to contact Customer Services Utility Billing at 503-588-6099 for assistance.

As anticipated in the August 10, 2020 staff report (File 20-247), the delinquent balances are scheduled to be turned over to the Finance Accounts Receivable system on October 1, 2020, with the first invoices being mailed as early as November 1, 2020. The report also indicated that an update would be provided to City Council if any additional funding opportunities became available to assist customers. Staff is evaluating the possibility of using Coronavirus Relief Funds (CRF) from the State of Oregon for this purpose. These funds must be received by the end user prior to December 31, 2020. Investigation is underway to determine if a program can be developed quickly, meeting all requirements to disburse funds within the next three months. It is possible that initial invoices to customers may be delayed in pursuit of this opportunity.

BACKGROUND:

Financial Goals and Objectives

Council Policy C-14 guides Utility financial forecasting and rate proposal development. The Policy establishes operating and debt reserve levels, debt coverage ratios, a capital funding strategy, and basic parameters for rate proposal development. Rate proposals are based on the policy framework of the Cost of Service Analysis (COSA) and are presented to Council every other year. The biennial rate proposal establishes the revenue slope for each system (water, wastewater, and stormwater) in the Utility for each of the two years. COSA updates are completed every four years, with the next update anticipated in 2022.

Management targets are established to guide financial planning and modeling for the City and the Utility. These targets are designed to achieve the long-term goals of maintaining efficient operations, controlling costs, reducing debt, and increasing capital funding. Best management practices are also used to establish financial reserves for operations, rate stabilization, and debt. These financial planning goals are used to evaluate various rate proposal scenarios that best meet the needs of the Utility.

Cost of Service Analysis

Salem provides utility services to customers in many customer classifications and service areas, inside and outside of its city limits. Utility rates are based on a cost of service model. The costs to

provide treated drinking water, remove and treat wastewater, and collect, treat, and convey stormwater are assigned to the appropriate groups of customers in proportion to the services they receive. Projections are made about anticipated water consumption, wastewater volumes, and impervious surfaces creating stormwater runoff to estimate the unit demand for each service type. Rates are set to recover the cost of these service units and are then charged to customer accounts based on the actual level of services received.

An updated COSA was adopted in 2018, implementing two policy objectives. The rates adopted for 2020 achieved an increase to 25 percent from 20 percent cost recovery through fixed charges for water services. 2020 represented the second year of a planned five-year five percent revenue slope for stormwater to achieve full cost recovery for these services.

Alicia Blalock, Manager
Public Works Administration Division

Attachments:

1. Sample Bills
2. City of Salem Water, Wastewater, and Stormwater Utility Rate Proposal for 2021 and 2022
3. Resolution 2020-44
4. Exhibit 1 to Resolution 2020-44
5. Notification Letter for Payment Plan
6. Written Testimony through 9/24/2020