

**DRAFT**

## **Water & Sewer Rates Recommendations**

October 12, 2015

Prepared for:



City of Molalla  
117 N. Molalla Ave.  
Molalla, OR 97038

Prepared by:

Gerald Fisher, PE, Senior Project Manager

**Project Delivery Group, LLC**

3150 SE 22<sup>nd</sup> Street

Salem, Oregon 97302

## Introduction

In early September 2015, Project Delivery Group (PDG) was asked to review the sewer and water enterprise funds and recommend adjustments to service charges. This work was performed under an existing engineering services contract executed on May 8, 2015. The objective of this report is to provide an interim rate increase to meet funding requirements in fiscal year (FY) 2016-17.

## Background and Budget Preparation

Performing a review of the Consumer Price Index – All Urban Consumers in Portland-Salem, the inflation rate from 2006 to 2014 was 29.8%. The average inflation rate was 2.9%, 2.3%, and 2.4% for the 10, 15, and 20 year averages, respectively. For the purposes of this review the average consumer inflation for 2015 and beyond was set at 3.0%.

A budget for FY 2016-17 was prepared and an inflation index of 3% was applied Personnel Service and Materials and Services estimated costs from FY 2015-16. Only three expenditure line items were modified in these two sections. PERS increased by 16.5% based on a recent League of Oregon Cities estimate. Insurance and the Assistant Plant Operator line items increased by 5% based on input from staff. Based on prior year actuals, User Fee revenues increased by a modest 1% and other revenues were adjusted based on averages of prior year actuals. Each fund Contingency was set at 10% of the total fund revenues.

## Sewer Fund Review & Rate Recommendation

In 2006, the City received a Sanitary Sewer System Cost of Service Study Update from Donovan Enterprises, Inc. (DEI) outlining the revenue requirements to cover operating and capital improvement costs for FY 2006-07. DEI based their recommendation on increased system operating and maintenance costs and new debt service.

The 2006 actual costs for services by category were Personnel Services \$331,366, Materials and Services \$323,211, Capital Outlay \$5,130, and Transfers Out \$390,000. The 2007 budget saw a 21.20% increase in Personnel Services, 42.85% increase in Materials and Services, 874.58% increase in Capital Outlay, and a 15.38% increase in Transfers Out for an overall budget increase of 29.87%.

Personnel Services increased due to a change in cost allocations that covered multiple employees in the Public Works Department. Materials and Services increased due to increased energy, fuel and chemical costs along with deferred maintenance and some sewer rehabilitation costs. Capital Outlay costs were related to sewer rehabilitation work but the large increase compared to the prior year was due to very low expenditures in 2006. Transfers Out increases were tied to transfers to the Sewer System Expansion Fund for the construction of capital projects. The City anticipated using a Clean Water State Revolving Fund loan program for facility improvements in the amount of \$4,132,740. The annual debt service was estimated at \$154,833.

The City had no rate increases in 2004 and raised rates by 5.52% in 2005 and 9.31% in 2006 according to the report. The recommendation for 2007 was a rate increase of 29.90% which would raise the average single family sewer bill from \$32.01 per month to \$41.58 per month. City Council passed the rate increase on September 27, 2006 setting the base rate at \$24.69 per equivalent dwelling unit (EDU) and the variable rate at \$2.44 per hundred cubic feet (Ccf). The City has not increased the rate since 2006.

The following table outlines the costs increases associated with inflation, estimated increases higher than inflation (PERS), and proposed capital improvement costs based on the City's capital improvement plan. There are two options available to the City. Option 1 is to continue to fund debt principal with system development charge (SDC) fee funds and utilize rate funds for interest costs. Option 2 eliminates the use of SDC's for debt payment, to allow for the



recovery of the fund, and cover 100% of the loan costs with user fees. The yearly debt service for the CWSRF loan is \$187,343. The audited actual revenue for Improvement SDC's was \$15,148 in FY 2013-14 and adopted budget revenue of \$10,820 in FY 2014-15. Estimates for the current FY 2015-16 is \$48,690 which is still well below \$128,835 principal requirement for the CWSRF loan.

**City of Molalla Sewer Fund Rate Recommendations  
October 2015**

Department	FY 15-16		Option 1 - FY 16-17 (w/SDC)		Option 2 - FY 16-17 (w/o SDC)	
	Income	Expense	Income	Expense	Income	Expense
Sewer Revenue	\$ 2,021,175		\$ 1,801,877		\$ 1,801,877	
Personnel Service		\$ 482,330		\$ 504,134		\$ 504,134
Materials and Services		\$ 888,850		\$ 915,516		\$ 915,516
Capital Improvements		\$ 155,500		\$ 257,500		\$ 257,500
Transfers		\$ 315,929		\$ 381,658		\$ 510,493
Contingency		\$ 100,000		\$ 180,188		\$ 180,188
<b>Fund Total</b>	\$ 2,021,175	\$ 1,942,609	\$ 1,801,877	\$ 2,238,996	\$ 1,801,877	\$ 2,367,831
<b>Estimated Carry-Over</b>	\$ 78,566		\$ (437,118)		\$ (565,953)	

**Sewer Fund Rate Increase Summary**

<b>Revenue Required</b>	\$ 2,238,996	\$ 2,367,831
<b>Est. User Fee Revenue</b>	\$ 1,611,311	\$ 1,611,311
<b>Est. Other Revenue</b>	\$ 190,566	\$ 190,566
<b>Addl. User Fee Need (Gap)</b>	\$ 437,118	\$ 565,953
<b>Rate Increase (%)</b>	<b>27.13%</b>	<b>35.12%</b>

Typically, when sewer system development charges are set up the total cost for all capacity related projects includes the costs for engineering and construction with the assumption that the project will be fully funded prior to the completion of construction. While allowed by statute, the use of SDC's for payment of loan or bond interest and the associated administrative fees should be avoided. Because the rate of recovery for SDC's is not consistent, SDC funding of project cost should only be considered when the SDC funded portion is collected by the City (Cash-on-Hand). Otherwise, City's run the risk of significant user rate increases to cover funding gaps when development stalls or does not occur.

In order to meet current debt requirements, complete capital improvement projects, and keep up with inflationary and other cost increases, we recommend that the City adopt Option 2 and complete a five year capital improvement and rate forecast prior to the beginning of FY 2016-17. Based on input from staff related to ongoing legal costs that will likely exceed the current budget for professional services, we also recommend that the fees take effect on or before January 01, 2016.

### Water Fund Review & Funding Forecast

In 2009, the City received a Proposed Rate Adjustments for Water Service from Donovan Enterprises, Inc. (DEI) outlining the revenue requirements to cover operating and capital improvement costs for fiscal year 2009-10. DEI based their recommendation on increased system operating and maintenance costs. The forecast estimated a 6% increase in FY 2009-10 followed by a 1.94%, 1.98%, 0%, 1.97%, and 2.06% in subsequent years through FY 2014-15.




The 2009 estimated costs for services by category were Personnel Services \$480,651, Materials and Services \$319,008, Capital Outlay \$0, and Transfers Out \$513,471. The 2010 budget saw a 7.86% increase in Personnel Services, 3.3% increase in Materials and Services, 0% increase in Capital Outlay, and a 2.91% decrease in Transfers Out for an overall budget increase of 3.05%.

The City implemented the 6% rate increase but did not follow the recommended increases in the report or make annual CPI adjustments as specified in Resolution No. 2009-19.

The City will pay off a Water General Obligation Bond in FY 2018-19 and a Water Revenue Bond in FY 2017-2018. Because no SDC funds are currently used for debt there is only one rate increase option to meet operating and improvement costs in FY 2016-17. The following table outlines the costs increases associated with inflation, estimated increases higher than inflation (PERS), and proposed capital improvement costs based on the City's capital improvement plan.

**City of Molalla Sewer Fund Rate Recommendations  
October 2015**

Department	FY 15-16		Option 1 - FY 16-17	
	Income	Expense	Income	Expense
 Water Revenue	\$ 2,095,875		\$ 1,854,804	
Personnel Service		\$ 521,650		\$ 545,468
Materials and Services		\$ 585,750		\$ 603,323
Capital Improvements		\$ 232,000		\$ 467,500
Transfers		\$ 250,000		\$ 323,150
Contingency		\$ 150,000		\$ 185,480
<b>Fund Total</b>	\$ 2,095,875	\$ 1,739,400	\$ 1,854,804	\$ 2,124,921
<b>Estimated Carry-Over</b>	\$ 356,475		\$ (270,117)	
<b>Revenue Required</b>			\$ 2,124,921	
<b>Est. User Fee Revenue</b>			\$ 1,336,329	
<b>Est. Other Revenue</b>			\$ 518,475	
<b>Addl. User Fee Need (Gap)</b>			\$ 270,117	
<b>Rate Increase (%)</b>			<b>20.21%</b>	

In order to meet current debt requirements, complete capital improvement projects, and keep up with inflationary and other cost increases, we recommend that the City adopt Option 1 and complete a five year capital improvement and rate forecast prior to the beginning of FY 2016-17. We also recommend that the fees take effect on or before July 01, 2016.

