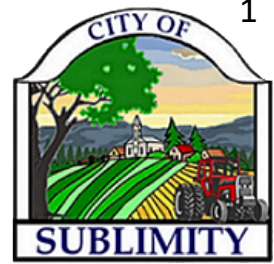




**JOINT SPECIAL SESSION AGENDA
STAYTON CITY COUNCIL
SUBLIMITY CITY COUNCIL
Monday, August 19, 2024**

Stayton Community Center
400 W. Virginia Street
Stayton, Oregon 97383



HYBRID MEETING

The Stayton City Council and the Sublimity City Council will be holding a joint hybrid meeting utilizing Zoom video conferencing software. The meeting will be in-person but can also be live streamed on the City of Stayton’s YouTube account. Please use the following option to view the meeting:

7:00 p.m. – City Council Joint Special Session – <https://youtube.com/live/srIRGhfmTvM>

Public Comment and Public Hearing Testimony: Meetings allow for in-person, virtual, or written public comment. If a community member has a barrier which prevents them from participating via one of the methods below, they should contact Stayton or Sublimity City staff **no less than three hours prior to the meeting start time** to make arrangements to participate.

Comments and testimony are limited to three minutes. All parties interested in providing public comment or testifying as part of a public hearing shall participate using one of the following methods:

- **In-Person Comment:** Parties interested in providing in-person verbal public comment shall fill out a “Request for Recognition” form available at the meeting. Forms must be filled out and submitted to the Assistant City Manager or designee prior to the meeting start time.
- **Video or Audio Conference Call:** Parties interested in providing virtual public comment shall contact City staff **at least three hours prior to the meeting start time** with their request. Staff will collect their contact information and provide them with information on how to access the meeting to provide comments.
- **Written Comment:** Written comment submitted to City Staff **at least three hours prior to the meeting start time** will be provided to the public body in advance of the meeting and added to the City Council’s webpage where agenda packets are posted.

Stayton City Staff: citygovernment@staytonoregon.gov

Sublimity City Staff: Information@cityofsublimity.org

-
- 1. CALL TO ORDER** **7:00 PM**

 - 2. FLAG SALUTE**

3. GENERAL BUSINESS

- 1. Stayton Resolution No. 1113,
Sublimity Resolution No. 2425-6,
Authorizing a New Ten-Year Contract for the Acceptance and
Treatment of Wastewater from Sublimity to Stayton**
 - a. Staff Report – City of Stayton and City of Sublimity
 - b. Public Comment
 - c. Council Discussion
 - d. Sublimity Council Decision
 - e. Stayton Council Decision

ACTION**4. ADJOURN**

The meeting location is accessible to people with disabilities. A request for an interpreter for the hearing impaired or other accommodations for persons with disabilities should be made at least 48 hours prior to the meeting. If you require special accommodations, contact City Hall at (503) 769-3425.



CITY OF STAYTON
M E M O R A N D U M

TO: Mayor Brian Quigley and the Stayton City Council

FROM: James Brand, Finance Director

DATE: August 19, 2024

SUBJECT: Staff Report for Resolution No. 1113 – Authorizing Agreement for Treatment of Sublimity Wastewater

BACKGROUND INFORMATION

An Intergovernmental Agreement signed in 2007 has governed an agreement for the City of Sublimity to transmit its wastewater to the City of Stayton for a monthly fee. During a Utility Rate Study conducted by contractors of the City of Stayton (FCS Group), it was determined that the City of Sublimity was not paying an adequate amount for the services they were receiving by the City of Stayton to treat its wastewater. In addition, the 2007 Intergovernmental Agreement between the Cities for sewerage services was not being fully followed. This prompted discussions between the cities to come to a new agreement. Sublimity proposed to move from a partner in the responsibility of the Wastewater System to become a wholesale type customer of Stayton.

Stayton and Sublimity staff and Mayors have met multiple times over the course of several months to discuss and agree upon terms for an updated agreement. Agreement was made for a monthly invoice composed of an Operations & Maintenance fee, a depreciation fee, and a return on investment fee. The new agreement will be effective July 1, 2024 and will last for 10 years, with annual renewals thereafter. The Operations and Maintenance fee may increase by a stated inflation factor annually and calibrated more thoroughly every three years based on actual operations and maintenance costs.

A committee between the cities will also be refined to ensure all the necessary and correct people are at the table to meet approximately two to four times annually or as needed. Among other things, the committee will focus on the abatement of Inflow and Infiltration into the Wastewater collection systems. Plans for growth in each city will be shared so adequate planning can be made for improvements to the Wastewater Treatment Facility. The cities will also discuss compliance with Stayton's National Pollutant Discharge Elimination System (NPDES) permit. Data will be collected and shared such as the levels of pH, BOD, TSS, metals, and total flows to the wastewater treatment plant. City ordinances may be introduced or modified in order to meet desired standards.

FISCAL IMPACT

This contract represents a more equitable agreement than has been in practice in the last few years. It includes a larger monthly payment owing from the City of Sublimity to the City of Stayton.

This contract has been discussed and agreed in principle for a few months now. The financial aspects have already been in operation since July 1, 2024, and both cities have planned their current fiscal budgets under the assumption these terms are adopted. This contract will help both cities plan for their future budgeting and will generate stable income for Stayton that should enable Stayton to properly fund the operations and investment into the Wastewater Treatment Facility.

SUMMARY

A 2007 IGA between Stayton and Sublimity is in need of updating and a new fee for the treatment of Sublimity's wastewater needed to be calculated. With the help of consultants and city attorneys, a new ten-year IGA has been written to continue the treatment of Sublimity's wastewater at Stayton's treatment plant. The new IGA contains a new payment methodology, new responsibilities, and a new ongoing committee to be formed with open communication between the cities.

OPTIONS AND MOTIONS

The City Council is presented with the following options.

1. Adopt Resolution No. 1113 as presented.

Motion to approve the Intergovernmental Agreement in Resolution No. 1113 as presented.

2. Adopt Resolution No. 1113 as amended.

Motion to amend the Intergovernmental Agreement and adopt Resolution 1113 as amended.

3. Take no action.

This would retain the agreement from the 2007 Contract between Stayton and Sublimity.

City of Sublimity
RESOLUTION NO. 2425-6

A RESOLUTION AUTHORIZING A NEW TEN-YEAR CONTRACT FOR THE ACCEPTANCE AND TREATMENT OF
WASTEWATER FROM SUBLIMITY TO STAYTON

WHEREAS, the City of Sublimity (“Sublimity”) and City of Stayton (“Stayton”) have had a contract since 2007 for Stayton to receive and treat wastewater from Sublimity; and

WHEREAS, Stayton completed a Utility Rate Study that revealed rates from Sublimity were not covering the costs of providing service for Sublimity and Stayton initiated negotiations with Sublimity to update the contract (now referred to as an intergovernmental agreement (IGA)); and

WHEREAS, Sublimity and Stayton staff and Mayors met over the course of several months to discuss and agree upon terms for the updated IGA; and

WHEREAS, after agreeing to the terms in principle, an updated IGA was prepared with input from both jurisdictions’ attorneys; and

WHEREAS, through the course of IGA negotiations, additional issues were raised that require additional and continued coordination outside of the contract itself; and

WHEREAS, the contract outlines the additional issues to be discussed and agreed upon within the next 6 months; and

WHEREAS, the attached IGA, with more frequent terms requiring update and evaluation of costs will help ensure that the residents in both jurisdictions contribute their “fair share” to the cost of the treatment of wastewater.

NOW, THEREFORE, THE CITY OF SUBLIMITY RESOLVES:

Section 1: The Sublimity City Council authorizes the Mayor and City Recorder to sign the contract attached as Exhibit A to this Resolution

Section 2: This Resolution is effective upon adoption.

RESOLUTION ADOPTED by the City Council this August 19, 2024, and signed by the Mayor and City Recorder in authentication of its passage.

Mayor, City of Sublimity
Michael Taylor

ATTEST:

City Recorder, City of Sublimity
Katie Scott

**INTERGOVERNMENTAL AGREEMENT
BY AND BETWEEN THE CITY OF STAYTON, OREGON
AND THE CITY OF SUBLIMITY, OREGON
IN RE: STAYTON-SUBLIMITY WASTEWATER TREATMENT SERVICES**

This Intergovernmental Agreement, made and entered into this 19th day of August 2024, pursuant to ORS 190.010, the Intergovernmental Cooperation Act, by and between the City of Stayton, a municipal corporation, hereinafter referred to as “Stayton,” and the City of Sublimity, a municipal corporation, hereinafter referred to as “Sublimity.”

WHEREAS, Stayton operates a Wastewater Treatment Plant (as defined herein) meeting the requirements of the State of Oregon Department of Environmental Quality (DEQ); and

WHEREAS, Stayton has a written agreement with the DEQ through a National Pollutant Discharge Elimination Permit (NPDES) #101601 to provide sewage treatment services to Sublimity (the “NPDES Permit”); and

WHEREAS, the cities of Stayton and Sublimity desire to meet all current and future Federal and State Regulations (i.e., Willamette River Total Maximum Daily Load (TMDL) requirements, Capacity, Management, Operation and Maintenance (CMOM) regulations, etc.); and

WHEREAS, there exists between the cities of Stayton and Sublimity an Intergovernmental Agreement dated July 2, 2007, which allows Sublimity to connect to Stayton's sewerage system for sewage treatment, conveyance, pumping, and disposal and provides for Sublimity to share in the financial responsibility for the facilities it uses; and

WHEREAS, the cities of Stayton and Sublimity have reviewed the current arrangement for equitably sharing the financial responsibility for the operation and maintenance of the Wastewater Treatment Plant and disposal of sewage necessary to provide adequate and proper sewage treatment service to both cities and determined that adjustments were prudent; and

WHEREAS, it is in the best interests of both cities to cooperate to the fullest extent possible in the planning, financing, construction, operation, and maintenance of the Wastewater Treatment Plant and that portion of Stayton's sewer collection system that transports sewerage from Sublimity to the Stayton Wastewater Treatment Plant; and

WHEREAS, this Intergovernmental Agreement is intended to entirely supersede and replace the agreement between the cities of Stayton and Sublimity dated July 2, 2007.

NOW, THEREFORE, IN CONSIDERATION of the covenants and agreements hereinafter set forth to be kept and performed by the parties hereto, and intending to be legally bound, it is mutually agreed as follows:

Article 1
Definitions

- 1.1 "Adjusted Base Year" means the fiscal year following a Triennial Cost of Services study.
- 1.2 "Agreement" means this agreement for the Stayton-Sublimity Sewerage Services.
- 1.3 "Allocated Depreciation Fee" means the annual loss in service value not restored by current maintenance of depreciable assets resulting from the provision of service to Sublimity for Stayton Assets Servicing Sublimity. The annual depreciation fee shall be based on appropriately estimated average remaining services lives and original costs, when constructed or acquired, of depreciable Stayton Assets Servicing Sublimity. This fee is adjusted on a triennial basis.
- 1.4 "Allocated Operations and Maintenance Fee" means Sublimity's estimated allocated share of Stayton's costs to operate and maintain the Stayton Assets Servicing Sublimity. This fee is adjusted annually.
- 1.5 "Comprehensive Plan" is a city's primary statement of public policy regarding land use, economic development, natural resources, and social well-being. It provides a yardstick to the community to evaluate the options that will allow it to achieve its goals and objectives. It also forms the basis for developing land use regulations and making land use and development decisions. It recommends certain steps that will allow cities to mobilize resources and groups of people to develop the community according to the stated goals and values. Stayton and Sublimity have each adopted a separate Comprehensive Plan.
- 1.6 "Ordinance" means all existing or hereafter amended or enacted ordinances of the City of Stayton.
- 1.7 "Point of Delivery" means the location of the interface between that section of the Stayton Collection System and the Sublimity Collection System; and which point is more specifically identified as that point located south of Highway 22, in sanitary sewer manhole 409-10, located in Golf Lane, as shown on the Stayton GIS map.
- 1.8 "Rate Base" means the net book value of Stayton Assets Servicing Sublimity and is based on the original cost of such Stayton Assets Servicing Sublimity less an accumulated reserve for depreciation.

1.9 "Return-on-Investment Fee" means the product of the agreed upon rate of return expressed as a percentage times the Rate Base. For the test fiscal year 2023/2024, the agreed upon rate of return percentage is 5.50%.

1.10 "Sublimity Collection System" means all the sewer lines and sewerage lift stations designed, constructed, acquired, and otherwise brought into operation by Sublimity connecting Sublimity to Stayton's Wastewater Treatment Plant for the purpose of collection and conveyance of Sublimity sewage to Stayton's Wastewater Treatment Plant, together with all easements, properties, or rights of way containing said system. The Sublimity Collection System terminates at the Point of Delivery.

1.11 "Stayton Collection System" means all the sewer lines and sewerage lift stations designed, constructed, acquired, and otherwise brought into operation by Stayton, connecting to Stayton's Wastewater Treatment Plant for the purpose of collection and conveyance of Stayton and Sublimity sewage to Stayton's Wastewater Treatment Plant, together with all easements, properties or rights of way containing said system. Stayton Collection System includes the Mill Creek sewer line which conveys sewage from the Point of Delivery to the Wastewater Treatment Plant. The Stayton Collection System includes the Point of Delivery.

1.12 "Stayton Assets Servicing Sublimity" means the portion of the Wastewater Treatment Plant and the Stayton Collection System that serve Sublimity. These assets include the Wastewater Treatment Plant, the portion of the Stayton Wastewater Collection System that conveys Sublimity sewage from the Point of Delivery to the Wastewater Treatment Plant (i.e., the Mill Creek sanitary sewer) and the Mill Creek pump station.

1.13 "Service" means the provision of sewage treatment services by Stayton to Sublimity pursuant to this Agreement.

1.14 "Wastewater Treatment Plant" means the integrated sewage treatment and effluent disposal facility to accommodate sewage treatment service for both Stayton and Sublimity, including without limitation, the structures, chlorination/dichlorination equipment, the laboratory building and all associated equipment, and the effluent and sludge disposal.

1.15 "NPDES permit" has the meaning set forth in the second Recital above.

1.16 "Utility Basis Rate" means the fee that Stayton charges Sublimity annually for wastewater treatment services. The Utility Basis Rate consists of three distinct components; the Allocated Depreciation Fee, the Allocated Operations and Maintenance Fee, and the Return-on-Investment Fee. The Allocated Depreciation Fee and Return-on-Investment Fees are adjusted every three years. The Operation and Maintenance Fee is adjusted annually.

1.17 “2024 Cost of Service Study and Wholesale Cost Analysis” means Utility Rate Study completed by FSC Group in January 2024 and the Utility Rate Study: Wastewater Utility, attached as Exhibit A and incorporated into this Agreement.

Article 2

TERM

2.1 Original Term. The Agreement term commences on July 1, 2024, and extends until June 30, 2033, unless otherwise terminated or amended as provided herein (“Original Term”).

2.2 Renewals Terms. At the end of the Original Term or any Renewal Term, the Agreement shall automatically renew for a successive one-year term (each, a “Renewal Term”). The Original Term and each Renewal Term shall collectively be referred to as the “Term.”

2.3 Notice of Termination. The Original Term, or any Renewal Term, will not renew if either party gives notice of intent to terminate at least 360 days prior to the end of the Original Term or a Renewal Term.

Article 3

PHYSICAL FACILITIES AND SERVICES

3.1 Stayton is the owner and operator of the Wastewater Treatment Plant and shall be solely responsible for the planning, financing, construction and reconstruction, operation, maintenance, and repair of, and capital improvements to, the Wastewater Treatment Plant, and shall bear all costs related thereto, except as specifically set out in Article 5 of this Agreement. The Stayton Public Works Director, or duly authorized designee, is hereby assigned the responsibility to operate all sewage treatment, effluent, and sludge disposal facilities. Stayton is solely responsible for NPDES permit compliance. Stayton may install monitoring equipment and take actions deemed necessary to detect and stop illegal dumping to maintain NPDES permit compliance. Sublimity shall take reasonable enforcement action against users within the Sublimity Collection System that could cause NPDES permit violations.

3.2 Stayton shall be solely responsible for the planning, financing, construction and reconstruction, operation, maintenance, and repair of, and capital improvements to, the Stayton Collection System, and shall bear all the costs related thereto, except as specifically set out in Article 5 of this Agreement.

3.3 Stayton shall accept and treat all wastewater flowing to the Wastewater Treatment Plant from the Sublimity Collection System in accordance with state and federal law, the NPDES permit, and this Agreement. Stayton shall be solely responsible for regulation and control of industrial and commercial wastewater flowing to the Wastewater Treatment Plant, provided, however, Sublimity is responsible for ensuring regulatory compliance within the Sublimity Collection System. Stayton shall promptly and reasonably review and issue decisions upon any development-related permits, or otherwise provide any other necessary land use decisions and other related documents, which are required as a result of an

actual or anticipated impact on or change to wastewater flows from the Sublimity Collection System to the Wastewater Treatment Plant.

3.4 Sublimity shall be responsible for the planning, financing, construction and reconstruction, operation, maintenance, and repair of, and capital improvements to, Sublimity Collection System to Point of Delivery plus its share of the costs as outlined in Article 4.

3.5 Neither party shall extend any sewage connections outside its respective city limits except:

- 3.5.1 When either city approves an annexation agreement for a designated area within that city's urban growth boundary and the agreement calls for the extension of services and construction of land and building improvements as a condition of the proposed annexation; or
- 3.5.2 When an extension outside the city limits is mandated under an order from DEQ.

3.6 This section does not restrict the ability of either city to expand its respective city limits by annexation or extend its urban growth boundary at any time in compliance with the Comprehensive Plan and laws of the respective city and the State of Oregon, except when and if a capacity-based moratorium has been placed on the Wastewater Treatment Plant, as subject to the provisions of Article 10 below.

3.7 The parties recognize that Stayton carries a heavy burden under this Agreement as the owner and operator of the Wastewater Treatment Plant and as the party tasked with the responsibility for the planning, financing, and capital improvements to the Wastewater Treatment Plant and is responsible for reporting to regulating authorities. To aid Stayton in these obligations and help plan for the Wastewater Treatment Plant's ability to serve both communities in the future, the parties agree to create a joint sewer systems operations agreement (Operations Agreement). The parties agree to execute the Operations Agreement within one hundred and eighty (180) days of the effective date of this Agreement. The Operations Agreement will contain obligations between the parties as described in Exhibit C.

Article 4 SEWER COMMITTEE

4.1 Stayton and Sublimity agree that a joint Sewer Committee was established July 1, 1991. The Committee shall be composed as follows:

- 4.1.1 Stayton Representatives: five (5) people, consisting of the Mayor of Stayton, Stayton's Public Works Director, and three (3) others selected by the Mayor.
- 4.1.2 Sublimity Representatives: five (5) people, consisting of the Mayor of Sublimity, Sublimity's Public Works Director, and three (3) others selected by the Mayor.

4.1.3 The Committee shall be chaired by the Mayor of the City where the Committee meets. The Committee shall endeavor to regularly alternate the meeting location between the two cities.

4.2 The Sewer Committee shall meet at least once annually, to review the general operations and consider future needs of the wastewater collection and treatment systems in both communities. The Committee may hold special meetings on an as-needed basis. The Sewer Committee must obtain a majority of a quorum of the Sewer Committee to approve any item.

4.2.1 The responsibilities of the Sewer Committee shall be to:

i. Review an annual report on the operation of the wastewater treatment facilities including:

- a. Compliance with all state and federal regulations;
- b. NPDES permit requirements affecting Sublimity's operations;
- c. Capital project update;
- d. Sewer master plan amendments.
- e. Annual inflow and infiltration reduction progress.

ii. Annually review proposed rates and charges, including systems development charges, imposed by each city to ensure that adequate funds will be available to pay for annual operations and maintenance costs, plus sufficient reserves to pay for planned capital improvements. This review shall not impact each city's authority to enact sewer charges deemed necessary to fund maintenance and operations of the wastewater facilities for that community.

iii. Annually discuss anticipated land use proposals, including new development or additions to existing developments, which may affect the capacity of the Wastewater Treatment Plant and related facilities.

4.2.2 Each city will adopt sewer master plans that evaluate the operation of the wastewater systems. The adopted master plans shall provide plans that accommodate growth through expansion or modification of the wastewater treatment facilities and related sewer collections systems. The sewer master plans shall be reviewed no less than once every five (5) years.

4.2.3 Review issues related to the interpretation or enforcement of this Agreement as described in Article 9.2 of this Agreement.

4.2.4 Nothing in this section will preclude the Stayton Public Works Director from taking any emergency action needed to operate the Wastewater Treatment Plant and the Stayton Collection System from the Point of Delivery to the Wastewater Treatment Plant or preclude the

respective city councils from taking any necessary action to deal with emergencies, without first referring the issue to the Sewer Committee.

Article 5 FINANCING

5.1 Utility Basis Rate Components. Sublimity will pay the Utility Basis Rate to Stayton in consideration of the Services. The Utility Basis Rate shall be comprised of three (3) components:

- 5.1.1 Allocated Operations and Maintenance Fee
- 5.1.2 Allocated Depreciation Fee
- 5.1.3 Return-on-Investment Fee

5.2 Utility Basis Rate Calculation. Exhibit B provides the Utility Basis Rate Sublimity shall pay to Stayton for FY 2024/2025. The Utility Basis Rate shall be adjusted year-to-year as provided by this Agreement.

5.3 Payment. Sublimity shall make pro rata monthly payments of the applicable fiscal year's Utility Basis Rate. Each monthly payment shall be made after receipt of an invoice from Stayton, with payment due by the last day of each month, commencing in July 2024.

5.4 Pre-payment Option. Sublimity shall have the option to prepay the first three (3) years of the Allocated Depreciation Fee to Sublimity within ninety (90) days of the effective date of this Agreement.

Article 6 RATE REVIEWS AND ADJUSTMENTS

6.1 Triennial Reviews. The parties agree to review and adjust the Utility Basis Rate every three (3) years, beginning in fiscal year 2027/2028.

6.2 Triennial Cost of Service Studies. Within 365 days prior to an Adjusted Base Year effective date, Stayton shall complete and finance a cost-of-service study by a mutually agreed on third party consultant (Triennial Cost of Service Study) using the fiscal year prior to the Adjustment Base Year effective date as the test year. For example, the 2024 Cost of Service Study and Wholesale Cost Analysis used fiscal year 2022/2023 as the test year for a base year effective date of July 1, 2024. The Triennial Cost of Service Study must provide for each test year: (1) Stayton's total annual operation and maintenance requirements; (2) Stayton's total annual depreciation; and (3) the Rate Base. Sublimity shall have access to any preliminary drafts and can provide input to Stayton while the study is in development. In addition, each Triennial Cost of Service Study shall be subject to Sublimity's final review and approval, which approval shall not be unreasonably withheld, prior to its finalization. Stayton shall provide Sublimity a final copy of the Triennial Cost of Service Study by December 31 of the year prior to the Adjusted Base Year effective date of each triennial.

6.3 Triennial Review Schedules. During the Original Term, the parties shall adjust the Utility Basis Rate on the following schedule:

| | Test Year | Adjusted Base Year | Adjusted Base Year Effective Date | Effective Period |
|-------------------|--------------|--------------------|-----------------------------------|--------------------------------|
| First Adjustment | FY 2026/2027 | FY 2027/2028 | July 1, 2027 | July 1, 2027- June 30, 2030 |
| Second Adjustment | FY 2029/2030 | FY 2030/2031 | July 1, 2030 | July 1, 2030- June 30, 2033 |

If this Agreement extends past the Original Term, subsequent reviews shall be held on a triennial basis from the last Adjusted Base Year effective date using the same process established herein.

6.4 Utility Basis Rate Adjustment Methodology. The parties agree to adjust the Utility Basis Rate on a triennial basis using the methodology discussed below, unless the parties mutually agree to use an alternative adjustment methodology:

6.4.1 Allocated Operation and Maintenance Fee: the parties shall use Stayton’s total annual operation and maintenance requirement as determined by the most recent Triennial Cost-of-Services Study and apply the same allocation basis as the parties employed in the 2024 Cost of Service Study and Wholesale Cost Analysis to determine the adjusted Allocated Operation and Maintenance Fee.

6.4.2 Allocated Depreciation Fee: the parties shall use Stayton’s total annual depreciation expense as determined by the most recent Triennial Cost-of-Services Study and apply the same allocation basis as the parties employed in the 2024 Cost of Service Study and Wholesale Cost Analysis to determine the adjusted Allocated Depreciation Fee.

6.4.3 Return-on-Investment Fee: the parties agree to a 5.5% return on investment.

6.4.4 The adjusted Utility Basis Rate shall be effective on the Adjusted Base Year Effective Date and throughout the effective period as set out in section 6.3.

6.5 Annual Reviews. On years not subject to an adjustment pursuant to section 6.3, the parties shall adjust the Allocated Operation and Maintenance Fee.

6.5.1 Allocated Operation and Maintenance Fee. On each July 1st, the Allocated Operations and Maintenance Fee will be adjusted by the annual average increase for the calendar year prior of the CPI-U West-Size Class B/C, provided however, no adjustment will be made if the CPI-U is negative.

6.5.2 No annual adjustments for Allocated Depreciation Fees and Return-on-Investment Fees.

Article 7
RATES AND RESERVE FUNDS

7.1 Each city shall impose sewer user rates, systems development charges, and other such charges or assessments as are deemed necessary by that party in an amount sufficient to cover its respective financial responsibilities for ongoing operation and maintenance costs, debt service, capital improvements and other financial responsibilities as set forth in this Agreement and contemplated by future needs and development.

7.2 The individual collection and billing of customers within each city shall be the sole responsibility of each city.

7.3 Each city shall maintain adequate cash reserves to cover capital improvements identified in the respective city's sewer master plan, as described in Article 4.2.2, and a reasonable reserve intended to cover any other unforeseen capital improvements, as such amount is determined in each city's sole discretion.

Article 8
STAYTON ADDITIONAL RESPONSIBILITIES

8.1 Stayton agrees to provide technical assistance and training opportunities to Sublimity employees related to sewer services. Training may include, but not be limited to, operation and maintenance of collection system facilities, and state and federal mandates and standards.

8.2 Stayton agrees to provide contract aid and assistance to Sublimity by responding to emergency problems when requested by Sublimity. If Sublimity contracts with Stayton to provide technical assistance, training, equipment or operators, or any other services related to the sewage system, then Stayton will bill Sublimity actual costs to provide said aid or assistance and Sublimity agrees to remit funds to pay the bills by the 20th of the month after receipt of billing.

8.3 Stayton will maintain accurate records, as-built plans, specifications, and operations manuals related to the Stayton Collection System, Stayton Assets Servicing Sublimity, Wastewater Treatment Plant, and the NPDES Permit.

8.4 Stayton represents that it shall comply with all local, state, and federal rules and regulations and the NPDES Permit at all times during the performance of this Agreement, including, but not limited to, in connection with facilities master planning, forecast for Sublimity's wastewater demands, and needed Wastewater Treatment Plant and system maintenance and upgrades. Stayton shall promptly notify Sublimity of any NPDES permit violations, any pending or threatened DEQ compliance matters, and provide any updated facilities master plans or other supporting documents whenever updated.

Article 9
SUBLIMITY ADDITIONAL RESPONSIBILITIES

9.1 Sublimity agrees to provide contract aid and assistance to Stayton by responding to emergency problems when requested by Stayton. If Stayton contracts with Sublimity to provide technical assistance, training, equipment or operators or any other services related to the sewage system, then Sublimity will bill Stayton actual costs to provide said aid or assistance and Stayton agrees to remit funds to pay the bills by the 20th of the month after receipt of billing.

9.2 Sublimity will maintain accurate records, as-built plans, specifications, and operations manuals related to the Sublimity Collection System and agrees to provide Stayton with copies of plans, specifications and as-built drawings of sewage collection or pumping facilities, as requested. Sublimity will maintain accurate records of its systems development charge collections and expenditures related to the Sublimity Collection System.

9.3 Sublimity's approval of new connections, or changes in use that lead to increased flow to the Point of Delivery, must take into consideration the capacity of the Wastewater Treatment Plant and the reasonable and equitable allocation of such capacity related to the projected growth of each city.

Article 10
MUTUAL RESPONSIBILITIES

10.1 Each city agrees to take all necessary steps to adopt, keep current, and enforce rules, regulations, and standards concerning the collection and disposal of sewage within its respective jurisdiction. Such rules, regulations, and standards shall be compatible with good engineering practices and consistent with the requirements and regulations of the DEQ and the EPA. Such rules and regulations shall, after adoption or modification, be filed with the other city.

10.2 Stayton and Sublimity agree to review, develop, adopt, and enforce industrial waste and grease trap ordinances in each city.

10.3 Stayton and Sublimity agree that the design, construction, and inspection of all facilities and improvements within each respective jurisdiction shall be in accordance with plans approved by DEQ.

10.4 In the event the operating capacity of the Wastewater Treatment Plant reaches capacity, as defined by the parameters of the NPDES permit, and as determined by Stayton or DEQ, then:

10.4.1 Stayton agrees to incorporate and include Sublimity's capacity in the context of any corresponding ORS 279.520(2) analysis; and

10.4.2 Sublimity may, in its reasonable discretion, terminate this Agreement upon thirty (30) days prior written notice to Stayton; and

10.4.3 To the extent both cities enact a development moratorium as a result of such capacity limit, neither city shall permit any additional users to be connected to the system in excess of the moratorium limits and may enact limitations which may be imposed on users in both cities. Any limitations on connections or use will be retained until flows are again within the parameters established by the NPDES permit, more facilities are provided, or the problems can be rectified by some other means in accordance with then-existing development moratoriums.

10.5 Stayton and Sublimity each agree to maintain, operate, and keep in good repair all sewage collection interceptors, trunk lines, collector mains, laterals, pumping stations, treatment facilities, and any other related facilities which are the responsibility of that party.

10.6 Stayton and Sublimity each agree that in the event of an emergency the Stayton Public Works Director is granted the authority to take any emergency action needed to operate the Wastewater Treatment Plant and related facilities and the respective city councils may independently or jointly take any necessary action to deal with the emergency.

Article 11 GENERAL CONDITIONS

11.1 In the event that Sublimity fails or neglects to make payments to Stayton of any amounts due and payable, at the times and as herein provided, and such default shall continue for ninety (90) days of the receipt of billing, for services provided under terms of this Agreement, then Stayton may seek injunctive relief from the Circuit Court in Marion County which may order prompt and immediate payment of all amounts due to Stayton plus court costs and attorneys' fees in addition to any other relief granted to the prevailing party.

11.2 In the event that questions of interpretation or enforcement of this Agreement arise, the issues will be referred to the Sewer Committee for review. The Sewer Committee may either:

11.2.1 Resolve the issue and notify both cities of the action that has been taken subject to review by the respective City Councils; or

11.2.2 Recommend action(s) to the respective City Councils to resolve the issue.

11.3 In the event that irreconcilable disputes over the interpretation or enforcement of this Agreement do occur, except for billing issues described in Section 11.1 above, Stayton and Sublimity each agree to the following dispute resolution process:

11.3.1 The Sewer Committee or either City Council shall provide written notice of the disputed issue or complaint which shall be filed with the respective City Councils. Within thirty (30) days of receipt of the written notice, the cities of Stayton and Sublimity shall each appoint one or more representatives to mediate the issues. The representatives shall meet, propose a resolution, and submit the recommended resolution to each respective City Council within ninety (90) days of their appointment. Each City Council will then accept or reject the mediated resolution within thirty (30) days; failure to accept a recommended resolution will be treated as a rejection if no action is taken within the thirty (30) day deadline.

11.3.2 In the event the dispute involves Article 6 Rate Reviews and Adjustments, and is not resolved by mediation, or the parties are unable to jointly appoint representatives in accordance with section 11.3.1, the aggrieved party may submit the dispute to binding arbitration. Upon request for arbitration, the city requesting arbitration shall submit to the other city a list of the names of five (5) independent arbitrators. The other city may select any one of the five (5). If the cities cannot decide on an arbitrator with qualifications that relate to the dispute at hand within fifteen (15) days, then either city may apply to the presiding judge of the Marion County Circuit Court to appoint the required arbitrator.

The arbitrator shall proceed according to Oregon's Uniform Arbitration Act governing arbitration and any rules specifically adopted by the cities. If the cities do not agree upon rules for the arbitration, the arbitrator shall establish rules and advise each respective city. The award of the arbitrator shall have the effect provided in Oregon law. The arbitration shall take place in Marion County. Costs of the arbitrator will be split equally, and each city will be responsible for their own costs and attorney fees.

11.3.3 Any litigation arising under or as a result of this Agreement shall be tried before the court without a jury. The parties agree to be responsible for payment of their respective professional and expert fees, including attorneys' fees in both mediation and litigation and any appeals therefrom.

11.4 If any part, paragraph, section, or provision of the Agreement is determined to be invalid by any court of competent jurisdiction, such adjudication shall not affect the validity of any remaining section, part, or provision of this Agreement.

11.5 This Agreement shall be duly executed on behalf of each city. It shall be deemed effective upon the date of execution by the last authorized representative and this Agreement shall replace and supersede the agreement between the cities of Stayton and Sublimity dated October 22, 1991, the addendum to the intergovernmental agreement dated January 12, 1996, the letter of understanding dated June 15, 1998, and the intergovernmental agreement dated July 2, 2007.

11.7 The terms and conditions of this Agreement shall be reviewed by the Sewer Committee every three years thereafter that this Agreement remains in effect and recommendations for any amendments shall be submitted to the respective City Council of each city.

11.8 Upon the written request of either city, the city councils of both Stayton and Sublimity shall meet in joint work session to consider amendments. Amendments may only be approved during a regularly scheduled meeting of the City Council in each respective city.

11.9 This Agreement may only be amended by a written agreement approved by the City Council of each respective city and executed by the authorized representative of each city.

11.10 A waiver by a party of any breach by the other shall not be deemed to be a waiver of any subsequent breach.

11.11 This Agreement contains the entire agreement between the parties and supersedes all prior written or oral discussions or agreements regarding the same subject.


11.12 This Agreement may be executed in several counterparts, each of which shall be an original and each of which shall constitute but one and the same instrument. A signed copy of this Agreement transmitted by facsimile, email, or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original executed copy of this Agreement for all purposes. Each city agrees that this Agreement may be electronically signed, and that any electronic signature appearing on this Agreement is the same as a handwritten signature for the purposes of validity, enforceability, and admissibility.

11.13 To the extent permitted by the Oregon Constitution, and within the limits of the Oregon Tort Claims Act, each city agrees to indemnify, defend, and hold harmless the other city and its officers, employees, and agents from and against all damages, losses, and expenses, including but not limited to attorney fees and costs related to all claims, suits, and liabilities arising out of or resulting from the indemnifying city's actions or omissions in the performance of or failure to perform under this Agreement. For the sake of clarity, and without limiting the parties' broad mutual indemnification, Stayton specifically agrees to defend and indemnify Sublimity against all claims related in full or in part to Stayton's NPDES permit compliance

In providing the services specified in this Agreement, both cities are public bodies and maintain their public body status as specified in ORS 30.260. Both cities understand and acknowledge that each retains all immunities and privileges granted them by the Oregon Tort Claims Act and all other statutory rights granted as a result of their status as public bodies.

EXHIBIT A

Utility Rate Study completed by FSC Group in January 2024



City of Stayton

UTILITY RATE STUDY

FINAL REPORT
JANUARY 2024

Washington

7525 166th Avenue NE, Ste. D215
Redmond, WA 98052
425.867.1802

Oregon



5335 Meadows Road, Ste 330
Lake Oswego, OR 97035
503.841.6543

Colorado

2755 Canyon Blvd
Boulder, CO 80302
719.284.9168

www.fcsgroup.com

This entire report is made of readily
recyclable materials, including the bronze
wire binding and the front and back cover,
which are made from post-consumer
recycled plastic bottles.



FCS GROUP

Solutions-Oriented Consulting

January 25, 2024

Julia Hajduk, City Manager
City of Stayton
362 N. 3rd Avenue
Stayton, OR 97383

Subject: Utility Rate Study

Dear Julia:

FCS GROUP is pleased to submit this report summarizing the results of the utility rate study for the water, sewer, and stormwater utilities. The proposed rate increases are projected to meet each utility's annual operating and maintenance expenditures, fund planned capital improvement projects, and generate funding for operating and capital reserves while improving interclass equity. It has been a pleasure to work with you and other City staff on this effort. Please let me know if you have any questions or need additional information for this report. I can be reached at (425) 615-6056.

Yours very truly,



Matt Hobson
Project Manager



John Ghilarducci
Principal



Zech Hazel
Project Consultant

TABLE OF CONTENTS

| | |
|--|----|
| <u>Table of Contents</u> | 17 |
| <u>Section I. Introduction</u> | 18 |
| <u>Purpose</u> | 18 |
| <u>Approach</u> | 18 |
| <u>Scope</u> | 18 |
| <u>Section II. General Methodology</u> | 19 |
| <u>Rate Setting Principles and Methodology</u> | 19 |
| <u>Fiscal Policies</u> | 19 |
| <u>Revenue Requirement</u> | 21 |
| <u>Cost of Service</u> | 22 |
| <u>Section III. Water Utility</u> | 23 |
| <u>Revenue Requirement</u> | 23 |
| <u>Cost-of-Service Analysis</u> | 29 |
| <u>Section IV. Sewer Utility</u> | 38 |
| <u>Revenue Requirement</u> | 38 |
| <u>Cost-of-Service Analysis</u> | 44 |
| <u>Section V. Stormwater Utility</u> | 52 |
| <u>Revenue Requirement</u> | 52 |
| <u>Section VI. Summary</u> | 58 |
| <u>Methodology</u> | 58 |
| <u>Rate Study Results</u> | 58 |
| <u>Rate Schedules</u> | 59 |

Section I. INTRODUCTION

PURPOSE

In 2022, FCS GROUP was engaged by the City of Stayton (“City”) to conduct a water, sewer, stormwater, and transportation utility rate study, including cost-of-service analyses for the water and sewer utilities. The purpose of the study was to provide a rate forecast and financial plan targeting cost of service and revenue sufficiency for a six-year forecast period beginning with the fiscal year ending June 30, 2024 (FY 2024) and ending with the fiscal year ending June 30, 2029 (FY 2029).

APPROACH

The methods used to complete the study are based on analytical principles that are generally accepted and widely followed throughout the industry – rates and charges should generate enough revenue to maintain self-supporting and financially viable utilities.

Throughout the study, we worked with the City to arrive at rate conclusions that meet forecasted utility financial obligations, achieve City goals and policies, comply with legal requirements, and adhere to industry best practices. Meetings were held with City staff to validate input parameters, review interim findings, and receive policy direction.

SCOPE

The scope of the project included the following key elements:

- Assess revenue needs for a multi-year period that includes adequate funding for operations and maintenance, system reinvestment, debt service, and other program activities.
- Project long-term capital needs and incorporate these needs into a multi-year funding forecast.
- Use industry standard methodologies to establish a defensible basis for assigning “cost shares” and establishing “equity” for water and sewer utility customers.
- Develop and recommend rate structures that generate enough revenue to meet each utility’s financial obligations on a standalone basis.

The general methodology for the utility rate study is summarized in Section II of the report. Sections III, IV, and V detail the assumptions, utility-specific methodologies, key factors, conclusions, and recommendations for the water, sewer, and stormwater utilities, respectively. The transportation utility fee study is still in progress and will be documented in an addendum to this report.

● GENERAL METHODOLOGY

RATE SETTING PRINCIPLES AND METHODOLOGY

The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that equitably recover costs from each class of customer by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to equitably collect those revenues.

The primary tasks of the utility rate study are listed below:

Revenue Requirement Analysis. This analysis identifies the total revenue requirement to fully fund each utility on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements and fiscal policy objectives.

Cost-of-Service Analysis. This analysis equitably distributes costs to customer classes based on their proportional demand and use of the utility.

Rate Design Analysis. This analysis includes the development of rates that generate sufficient revenue to meet each utility's revenue requirement forecast and continue to address the City's pricing objectives (e.g., rate equity, conservation, affordability, and revenue stability).

FISCAL POLICIES

The foundation for evaluating utility revenue needs consists of a set of fiscal policies. These policies, which can address a variety of topics including cash management, capital funding strategy, financial performance, and rate equity, are intended to promote long-term financial viability for the City's utilities.

Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. When evaluating fund reserve levels and objectives, it is important to recognize that the value of reserves lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuation of reserve levels may indicate that the system is working, while lack of variation over many years strongly suggests that the reserves are, in fact, unnecessary. For financial planning for the City's utilities, resources are separated into the following reserve categories:

Operating Reserve. An operating reserve is designed to provide a liquidity cushion; it protects the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Like other types of reserves, operating reserves also serve another purpose: they can help smooth rate increases over time. Target funding levels for an operating reserve are generally expressed as a certain number of days of operating and

maintenance (O&M) expenses, with the minimum day requirement varying with the expected revenue volatility of the utility.

The operating reserve target for the water utility is 90 days of O&M expenses. For the sewer and stormwater utilities, the target is 60 days of O&M expenses, as the sewer and stormwater utilities have less variable revenue month-to-month. It is assumed that any operating funds above the minimum balance are available for capital purposes.

Capital Reserve. A capital contingency reserve is an amount of cash set aside in case of an emergency should a piece of equipment or a portion of the utility's infrastructure fail unexpectedly. The reserve can also be used for other unanticipated capital needs including capital project cost overruns. Industry practices range from maintaining a balance equal to one to two percent of fixed assets, an amount equal to a 5-year rolling average of CIP costs, or an amount determined sufficient to fund equipment failure (other than catastrophic failure). The final target level should balance industry standards with the risk level of the City's utilities.

Based on discussions with City staff, the capital reserve for the water utility was set at \$200,000. The sewer utility capital reserve was set at \$1 million, and the stormwater capital reserve was set to \$80,000.

Debt Reserve. Bond covenants often establish reserve requirements as a means of protecting against the risk of nonpayment. A common reserve requirement is one year's debt service payment. The balance held in reserve for a particular debt instrument may be used to make the final payment on that debt instrument. Only the sewer utility has a required debt reserve. That reserve is set to \$345,000 – one year's debt service payment for the United States Department of Agriculture loan. Since the debt reserve provides a static reserve against inability to pay, it is unnecessary to maintain operating reserves against debt repayment.

System Reinvestment

A utility infrastructure (e.g., treatment plant, booster pumps, distribution mains) is a critical element of delivering services to the City's customers. Establishing a financial plan for the eventual replacement of these assets ensures system reliability and integrity. This practice is known as system reinvestment funding. Target system reinvestment funding levels are commonly linked to annual depreciation expense in the absence of a formal asset management plan. Depreciation expense is a measure of the decline in asset value associated with routine use of the system.

Particularly for utilities that do not already have an explicit system reinvestment policy in place, implementing a funding level based on full depreciation expense could significantly impact rates. A common alternative benchmark is annual depreciation expense net of debt principal payments on outstanding debt. This approach recognizes that customers are still paying for certain assets through the debt component of their rate and intends to avoid simultaneously charging customers for an asset and its future replacement. The specific benchmark used to set system reinvestment funding targets is a matter of policy that must balance various objectives including managing rate impacts, keeping long-term costs down, and promoting "generational equity" (i.e., not excessively

burdening current customers with paying for facilities that will serve a larger group of customers in the future).

As part of the rate study, the City established rate recommendations that include system reinvestment funding for the water, sewer, and stormwater utilities. The annual funding target for system reinvestment funding is equivalent to annual depreciation. For water, that funding target starts at \$382,000 in FY 2024 and increases as assets are added to the system. Likewise, for sewer, the target starts at \$612,000, and for stormwater that target starts at \$157,000.

Debt Management

Debt financing is one appropriate option for capital funding. Compared with pay-as-you-go funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also creates intergenerational equity – it is sometimes called “pay-as-you-use” because future customers who use the assets are the ones paying for them. However, debt should not be relied on too much as it carries the risk of default. Debt also reduces budget flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. Debt service coverage is a financial metric that provides a benchmark to creditors regarding the ability of each utility to meet its debt obligations.

Debt Service Coverage. Debt service coverage is a requirement typically associated with revenue bonds and some State loans and is a financial measure of the ability to repay debt.

A typical minimum coverage requirement for utility revenue bonds is 1.50. If the City issues debt, the coverage requirements essentially require that the City collect enough revenue to meet operating expenses and not only pay debt service but collect an additional 50 percent above the bonded debt service. The extra revenue is a cushion that assures bondholders that the City has the financial resources to meet its debt service obligations. FCS GROUP and City staff incorporated a minimum debt service coverage ratio of 2.00 for evaluating revenue sufficiency for each utility.

REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each utility. The result is a set of rate increases that ensure rate revenues fully recover the total cost of operating each system: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable not only sound financial performance for the City’s utility enterprise funds, but also a clear and reasonable relationship between the rates imposed on utility customers and the costs incurred to provide the service.

A revenue requirements analysis includes the following core elements to form a complete portrayal of the utility’s financial obligations.

Fiscal Policy Analysis. Monetizes formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding and debt service coverage.

Capital Funding Plan. Defines a strategy for funding the City’s capital improvement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).

Operating Forecast. Identifies future annual non-capital costs associated with the operation, maintenance, and administration of the system.

System Reinvestment. System reinvestment funding promotes the utility’s financial and overall system integrity by setting aside funding on an annual basis for eventual repair and/or replacement of fixed assets.

Sufficiency Testing. Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.

Strategy Development. Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the projection period.

COST OF SERVICE

The purpose of a cost-of-service analysis is to provide a rational basis for distributing the full costs of each utility service to each class of customers in proportion to the demands they place on the system. Detailed cost allocations, along with appropriate customer class designations, help to sharpen the degree of equity that can be achieved in the resulting rate structure design. This step was completed for the water and sewer utilities.

The key analytical steps of the cost-of-service analysis are as follows:

Functional Cost Allocation. Apportions the annual revenue requirement to the major functions of the system. In some instances, costs can be directly attributed to specific customer classes; in all other cases, costs are allocated proportionately based on functional characteristics as outlined in the later sections of this report.

Customer Class Designation. Identifies the customer classes that will be evaluated as part of the study. Existing as well as new or revised customer classes or class definitions may be considered. It is appropriate to group customers that exhibit similar usage characteristics and service requirements.

The City of Stayton has a contract with the City of Sublimity (Sublimity), which is located just north of Stayton, to treat Sublimity’s sewer flows. Sublimity is the City’s largest single sewer customer. All of Sublimity’s flows enter Stayton’s system through a single connection point at the Mill Creek manhole where the City monitors Sublimity’s total flows and strengths. Sublimity is treated as its own customer class for the purpose of the cost-of-service analysis.

Cost Allocation. Allocates the costs from the functional cost allocation to different customer classes based on their unique demands for each service as defined by system planning documents, industry standards, and recorded user history (from billing data). The results identify shifts in cost recovery by customer class from that experienced under the existing rate structure.

● WATER UTILITY

The City owns and operates a water utility, which provides water to customers within City limits. The utility's customers include approximately 2,100 single-family residential customers, 400 multi-family customers, and 340 non-residential accounts. Annual water consumption for the utility totaled over 450 million gallons in 2022. The City purchases water from the Santiam Water Control District and treats it at its water treatment facility. It maintains approximately 34 miles of transmission and distribution mains.

The following sections detail the revenue requirement and cost-of-service analyses for the water utility.

REVENUE REQUIREMENT

The main purpose of the revenue requirement analysis is to develop a funding plan ("revenue requirement") for the FY 2024 through FY 2029 study period. This section details the results of the water utility revenue requirement analysis.

Economic & Inflation Factors

The operating and maintenance expenditure forecast largely relies on the City's 2023 budget. The line items in the budget were then adjusted each year by using one of the following applicable factors:

- **General Cost Inflation.** Assumed to be 5.25 percent per year in FY 2024 and 2.40 percent thereafter based on the historical performance of the Consumer Price Index-Urban in the Western Region (CPI-U: West). While inflation has been higher in 2022 and 2023 than average, the length of the forecast necessitated a longer-term average. The ten-year average increase of the CPI-U: West as of this analysis was 2.40 percent.
- **Construction Cost Inflation.** Assumed to be 6.25 percent in FY 2024 and 3.00 percent thereafter based on the near-term and historical performance of the Engineering News-Record Construction Cost Index for the 20-City average.
- **Personnel Cost Inflation.** Based on the General Cost Inflation factor above, experience with other utilities, and discussions with City staff:
 Labor inflation: assumed to be 5.25 percent in FY 2024 and 2.40 percent per year thereafter.
 Benefits inflation: assumed to be 5.25 percent in FY 2024 and 2.40 percent per year thereafter.
- **Fund Earnings.** Assumed to be 1.90 percent per year based on the LGIP rate for Oregon in September 2022.
- **Customer Account Growth.** Assumed to be 0.65 percent per year, based on the 2022 Forecast by the Portland State University Population Research Center.

Fund Balances

Starting fund balances in FY 2024 were based on the City's FY 2023 actual beginning fund balances and adjusted based on budgeted revenues and expenses in FY 2023. The total FY 2024 beginning fund balance for the water utility was estimated to be \$1.5 million.

An important fiscal policy consideration is the minimum target level of the operating reserve. A general target for water utilities is to keep anywhere from 90 to 120 days of operating expenses in reserve to accommodate short-term fluctuations in cash flow. As discussed in Section II, the minimum operating reserve target is set to 90 days of operating expenses.

In addition to the operating reserve, a capital reserve minimum balance was set to \$200,000 based on discussions with City staff.

Utility Revenues

Without rate increases, the City is expecting to collect revenues in FY 2024 as listed below for the water utility.

- **Rate Revenues.** A total of \$2.0 million. About \$1.1 million will be collected from the single-family residential class, \$374,000 will be collected from the multi-family class, \$355,000 will be collected from the non-residential class, \$35,000 will be collected from the irrigation class, and \$142,000 will be collected from the City's metered water for parks irrigation, sewer treatment, and other City water usage.
- **Non-rate Revenues.** Non-rate revenues include an expected \$25,000 in hook-up fees and \$44,000 in late fees. System development charge revenue is expected to be \$87,000. The City will also collect interest on its fund balances.

Operating Expenses

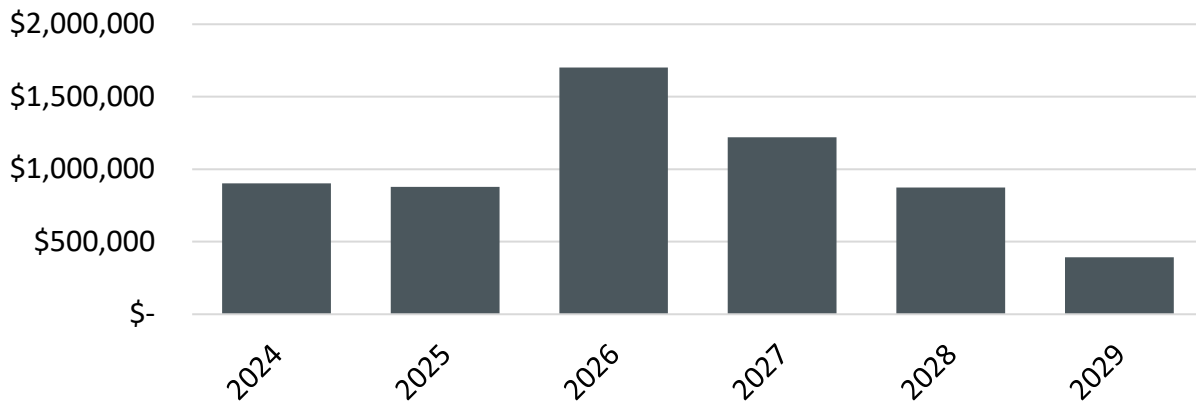
In FY 2024, water utility operating expenses are forecasted at \$1.5 million and are expected to increase at an annualized average rate of 3.5 percent up to \$1.7 million by FY 2029.

Existing Debt Service

In addition to the operating expenses, the water utility has debt service averaging \$227,000 per year through FY 2032 (when it matures) for its full faith and credit obligation issued in 2016. In FY 2024, the principal payment is \$162,000 and the interest payment is \$65,000.

Capital Expenditures and Funding Strategy

A summary graph of the City's water capital program is in **Exhibit 3.1** below. The total cost of the capital program, escalated to the year of construction is estimated at \$6.0 million between 2024 and 2029, and averages \$1.0 million per year.

Exhibit 3.1 – Water Utility Capital Program Summary

The 2024-2029 capital funding plan is summarized in **Exhibit 3.2** below. The water utility is planning to set aside \$2.6 million in system reinvestment funding from its rate revenues during this period. When combined with other cash sources (such as SDCs, existing cash reserves, and interest on its fund balance), the City is planning to dedicate \$4.2 million in cash funding to the capital plan. In addition, the City is expecting to issue a total of \$1.8 million in full faith and credit obligation bonds to help fund improvements to the water system, with annual debt service to begin in FY 2025 starting at \$111,000.

Exhibit 3.2 – Water Utility Capital Funding Strategy

| Capital Funding Summary | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|------------------------------|-------------------|-------------------|---------------------|---------------------|-------------------|-------------------|
| Capital Project Costs | \$ 903,125 | \$ 879,128 | \$ 1,700,672 | \$ 1,221,250 | \$ 875,084 | \$ 392,614 |
| Funding Sources | | | | | | |
| Cash | \$ 903,125 | \$ - | \$ 1,379,800 | \$ 621,250 | \$ 875,084 | \$ 392,614 |
| FFCO Proceeds | - | 879,128 | 320,872 | 600,000 | - | - |
| Total Capital Funding | \$ 903,125 | \$ 879,128 | \$ 1,700,672 | \$ 1,221,250 | \$ 875,084 | \$ 392,614 |

Water Revenue Requirement Summary

Exhibit 3.3 graphically represents the water utility revenue requirement forecast through FY 2029. The stacked columns represent the costs and obligations of the utility such as operating expenses and rate funded capital, while the lines represent utility revenues before and after future adjustments.

- **Solid black line:** Revenue at existing rates.
Water utility revenue is expected to be roughly \$2.0 million in FY 2024 and is expected to grow at about 0.65 percent per year with customer growth.
- **Dashed black line:** Revenues with rate increases.
Rate revenue must increase by 6.25 percent in FY 2024 (above customer growth) followed by 3.00 percent per year to allow the utility to cover its projected financial obligations.
- **Dark blue bar:** Operating expenses.
Operating expenses are based on the adopted 2023 budget and increase with the annual cost escalation assumptions previously discussed.
- **Green bar:** Existing debt service.
Annual debt service on the City's existing full faith and credit obligation from 2016 starts at \$228,000 in FY 2024 and stays at about that level through FY 2029.
- **Purple bar:** New debt service.
Annual debt service for new full faith and credit obligations needed to fund the capital program starts at \$111,000 in FY 2025 and increases to \$166,000 by FY 2029.
- **Gold bar:** System reinvestment funding.
 - » System reinvestment funding starts at \$374,000 in FY 2023 and increases after that.
- **Turquoise bar:** Other rate-funded capital (additional funding above system reinvestment target).
 - » Other rate funded capital starts at \$19,000 in FY 2023 and varies year-to-year after that.

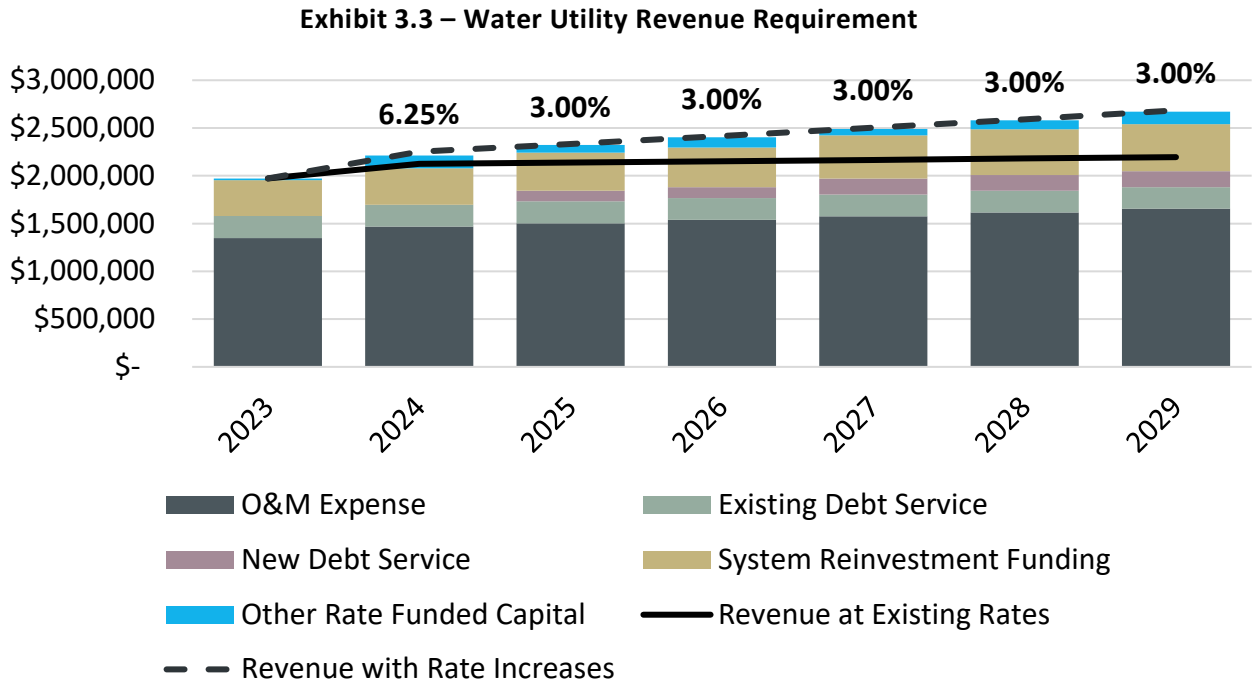


Exhibit 3.4 below provides the detailed summary tables of the revenue requirement analysis.

Exhibit 3.4 – Water Utility Revenue Requirement Detailed Tables

| Revenue Requirement | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues | | | | | | | |
| Rate Revenues Under Existing Rates | \$ 1,882,451 | \$ 2,046,071 | \$ 2,059,306 | \$ 2,072,627 | \$ 2,086,034 | \$ 2,099,527 | \$ 2,113,108 |
| Non-Rate Revenues | <u>89,743</u> | <u>78,074</u> | <u>79,269</u> | <u>79,944</u> | <u>80,628</u> | <u>81,320</u> | <u>82,021</u> |
| Total Revenues | \$ 1,972,194 | \$ 2,124,144 | \$ 2,138,575 | \$ 2,152,571 | \$ 2,166,662 | \$ 2,180,848 | \$ 2,195,129 |
| Expenses | | | | | | | |
| Cash Operating Expenses | \$ 1,348,900 | \$ 1,468,075 | \$ 1,503,621 | \$ 1,540,028 | \$ 1,577,318 | \$ 1,615,511 | \$ 1,654,630 |
| Existing Debt Service | 230,000 | 227,823 | 228,100 | 228,100 | 227,823 | 227,271 | 226,441 |
| New Debt Service | - | - | 110,934 | 110,934 | 166,401 | 166,401 | 166,401 |
| System Reinvestment Funding | 374,245 | 382,193 | 400,255 | 417,838 | 451,851 | 476,276 | 493,778 |
| Additions Required to Meet Reserves | - | - | - | - | - | - | - |
| Total Expenses | \$ 1,953,145 | \$ 2,078,091 | \$ 2,242,909 | \$ 2,296,899 | \$ 2,423,393 | \$ 2,485,459 | \$ 2,541,250 |
| Net Surplus (Deficiency) | \$ 19,049 | \$ 46,054 | \$ (104,335) | \$ (144,329) | \$ (256,731) | \$ (304,611) | \$ (346,121) |
| Additions to Meet Coverage | - | - | - | - | - | - | - |
| Total Surplus (Deficiency) | \$ 19,049 | \$ 46,054 | \$ (104,335) | \$ (144,329) | \$ (256,731) | \$ (304,611) | \$ (346,121) |
| Annual Rate Increase | | 6.25% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Cumulative Rate Increase | | 6.25% | 9.43% | 12.72% | 16.10% | 19.58% | 23.17% |
| Revenues After Rate Increases | \$ 1,882,451 | \$ 2,173,885 | \$ 2,253,586 | \$ 2,336,208 | \$ 2,421,860 | \$ 2,510,652 | \$ 2,602,699 |
| Additional Taxes from Rate Increase | - | - | - | - | - | - | - |
| Net Cash Flow After Rate Increase | \$ 19,049 | \$ 173,868 | \$ 89,945 | \$ 119,253 | \$ 79,095 | \$ 106,513 | \$ 143,470 |
| Coverage After Rate Increase: Bonded Debt | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Coverage After Rate Increase: Total Debt | 3.08 | 3.88 | 2.73 | 2.92 | 2.58 | 2.72 | 2.85 |
| Sample Residential Bill (5/8" Meter, x 10,000 gallons) | \$47.17 | \$50.11 | \$51.62 | \$53.16 | \$54.76 | \$56.40 | \$58.09 |
| Annual Increase (\$) | | \$2.95 | \$1.50 | \$1.55 | \$1.59 | \$1.64 | \$1.69 |
| Fund Balance | | | | | | | |
| Operating Reserve | | | | | | | |
| Beginning Balance | \$ 1,081,200 | \$ 443,474 | \$ 482,655 | \$ 494,341 | \$ 506,311 | \$ 518,570 | \$ 531,127 |
| plus: Net Cash Flow after Rate Increase | 19,049 | 173,868 | 89,945 | 119,253 | 79,095 | 106,513 | 143,470 |
| less: Transfer of Surplus to Capital Fund | <u>(656,775)</u> | <u>(134,688)</u> | <u>(78,259)</u> | <u>(107,283)</u> | <u>(66,835)</u> | <u>(93,956)</u> | <u>(130,609)</u> |
| Ending Balance | \$ 443,474 | \$ 482,655 | \$ 494,341 | \$ 506,311 | \$ 518,570 | \$ 531,127 | \$ 543,988 |
| <i>Actual Days of O&M</i> | <i>120 days</i> | <i>120 days</i> | <i>120 days</i> | <i>120 days</i> | <i>120 days</i> | <i>120 days</i> | <i>120 days</i> |
| <i>Minimum Balance Requirement</i> | \$ 332,605 | \$ 361,991 | \$ 370,756 | \$ 379,733 | \$ 388,928 | \$ 398,345 | \$ 407,991 |
| <i>Maximum Balance Requirement</i> | \$ 443,474 | \$ 482,655 | \$ 494,341 | \$ 506,311 | \$ 518,570 | \$ 531,127 | \$ 543,988 |
| Capital Reserve | | | | | | | |
| Beginning Balance | \$ 365,000 | \$ 1,084,380 | \$ 798,048 | \$ 1,692,420 | \$ 629,363 | \$ 619,615 | \$ 407,918 |
| plus: System Reinvestment Funding | 374,245 | 382,193 | 400,255 | 417,838 | 451,851 | 476,276 | 493,778 |
| plus: Transfers from Operating Fund | 656,775 | 134,688 | 78,259 | 107,283 | 66,835 | 93,956 | 130,609 |
| plus: Capital Grants / Other Resources | - | - | - | - | - | - | - |
| plus: SDC Revenue | 78,800 | 79,310 | 79,823 | 80,339 | 80,859 | 81,382 | 81,908 |
| plus: Full Faith and Credit Obligation Proceeds | - | - | 1,200,000 | - | 600,000 | - | - |
| plus: Interest Earnings | <u>6,935</u> | <u>20,603</u> | <u>15,163</u> | <u>32,156</u> | <u>11,958</u> | <u>11,773</u> | <u>7,750</u> |
| Total Funding Sources | \$ 1,481,755 | \$ 1,701,173 | \$ 2,571,547 | \$ 2,330,036 | \$ 1,840,866 | \$ 1,283,002 | \$ 1,121,964 |
| less: Capital Expenditures | <u>(397,375)</u> | <u>(903,125)</u> | <u>(879,128)</u> | <u>(1,700,672)</u> | <u>(1,221,250)</u> | <u>(875,084)</u> | <u>(392,614)</u> |
| Ending Capital Fund Balance | \$ 1,084,380 | \$ 798,048 | \$ 1,692,420 | \$ 629,363 | \$ 619,615 | \$ 407,918 | \$ 729,350 |
| <i>Minimum Target Balance</i> | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 | \$ 200,000 |
| Combined Beginning Balance | \$ 1,446,200 | \$ 1,527,854 | \$ 1,280,703 | \$ 2,186,761 | \$ 1,135,674 | \$ 1,138,186 | \$ 939,045 |
| Combined Ending Balance | \$ 1,527,854 | \$ 1,280,703 | \$ 2,186,761 | \$ 1,135,674 | \$ 1,138,186 | \$ 939,045 | \$ 1,273,338 |
| <i>Ending Total Days of Operating Expenditures</i> | <i>413 days</i> | <i>318 days</i> | <i>531 days</i> | <i>269 days</i> | <i>263 days</i> | <i>212 days</i> | <i>281 days</i> |
| <i>Combined Minimum Target Balance</i> | <i>532,605</i> | <i>561,991</i> | <i>570,756</i> | <i>579,733</i> | <i>588,928</i> | <i>598,345</i> | <i>607,991</i> |

COST-OF-SERVICE ANALYSIS

The purpose of a cost-of-service analysis is to provide a rational basis for distributing the full costs of each utility service to each class of customers in proportion to the demands they place on the system. Detailed cost allocations, along with appropriate customer class designations, help to sharpen the degree of proportionality that can be achieved in the resulting rate structure design. The key analytical steps of the cost-of-service analysis are as follows:

- **Functional Cost Allocation.** Establishes a rational relationship between functions (activities) and costs. Each line item of the City’s budget is allocated to each function based on how those expenses serve the system. The functions of service are:
 - Peak.** Costs associated with meeting incremental peak demands.
 - Base.** Costs associated with meeting average demands.
 - Customer.** Fixed costs that do not vary with meter size or usage (e.g., utility billing)
 - Fire.** Costs related to direct fire protection (hydrants) and oversizing facilities for fire flow (mains, reservoirs, etc.)
 - Meters & Services.** Costs associated with installation, maintenance, and repairs of meters and services.
- **Customer Class Distinctions.** Identifies the customer classes that will be evaluated as part of the study. It is appropriate to group customers that exhibit similar usage characteristics and service requirements. The rate study evaluated six customer classes: single-family residential, multi-family, non-residential, City accounts, irrigation, and fire line.
- **Cost Allocation.** Allocates the costs from the functional cost allocation to different customer classes based on their unique demands for each service as defined through the cost classification process. For example, the cost allocation for the Customer functional cost pool is based on the number of customer accounts, while the cost of providing peak capacity services is based on peak total water usage. Accounts, MSEs (meter service equivalents¹), annual total water usage, and peak season water usage statistics are developed to allocate the cost-of-service to customer classes. The results identify shifts between cost recovery by customer class from that experienced under the existing rate structure.

Functional Cost Allocation

The first step in the cost-of-service analysis is to define the functions or activities that are supported by the water utility. The major functions of the water utility are as follows: customer, meters & services, base capacity, peak capacity, and fire protection.

Following the selection of the major functions of service, test year (FY 2024) revenue requirements for each accounting line-item were assigned to the functions of service. In some cases, the expenses within an accounting line-item solely support one function of service. Such direct assignments

¹ Allocation factor that accounts for differences in investments in meters based on size of service pipe. Other factors that may be considered include materials used, location of meters, and local geography.

include: all customer, all meters & services, all base, all peak, all fire, and as all other (a redistribution of costs based on all other assignments).

In other cases, the expenses within an accounting line-item support multiple functions of service: a water operator's salary expenses could be reasonably split across the existing plant in service, and therefore the expenses are distributed to each function in proportion to the system asset makeup.

Functional Cost Allocation Factors

Examples of cost allocation factors within the functional cost allocation step include:

- **Transfer to the General Fund.** The transfer to the general fund includes many indirect costs related to the operation of the utility. The City provided a breakdown of that transfer showing that 13.06 percent of the transfer was related to customer billing costs. The remainder of the transfer was assigned "as all other," meaning that the remainder of the costs were assumed to benefit the utility based on the distribution of all other costs to the functions of service. The transfer to the general fund is the largest single line item in the budget.
- **Supply and Treatment.** This analysis is based on the ratio of average and peak day demands as reported within the City's water system plan. According to the plan, average day demand is 2.71 million gallons per day. Peak day demand is 6.50 million gallons per day. Average day demand is equivalent to 41.69 percent of peak day demand (2.71 divided 6.50). Based on this methodology, 41.69 percent of supply and treatment expenses are allocated to the Base function with the remaining 58.31 percent of expenses allocated to the Peak function. Examples of line-items expenses that are assigned this cost allocation include chemical supplies, lab fees, chlorination tablets, and any treatment-related FTE expenses are distributed across the water functions based on this percentage allocation.
- **Transmission and Distribution.** This analysis is based on a proportional analysis of the City's existing pipes, which accounts for upsizing in pipe diameter due to capacity and fire flow requirements, resulting in a functional split of 29.87 percent to the base function, 41.78 percent to the peak function, and 28.35 percent to the fire protection function. For example, the cost of salaries for water utility maintenance workers (which represent those workers repairing distribution pipes) is distributed across the water functions based on this percentage allocation. These calculations are summarized in **Exhibit 3.5** below.

Exhibit 3.5 – Water Transmission and Distribution Analysis

| Main Size (in.) | Total (2023 \$) | Proportional Fire Cost | FUNCTIONS OF WATER SERVICE | | | |
|-------------------------------|----------------------|------------------------|----------------------------|---------------------|----------------------|---------------------|
| | | | METERS & SERVICES | BASE | PEAK | FIRE PROTECTION |
| 0.75-in | \$ 157,410 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 1-in | 389,290 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 1.25-in | 314,710 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 1.50-in | 196,790 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 2-in | 1,539,340 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 3-in | 408,650 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 4-in | 2,243,780 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 6-in | 5,198,710 | \$ 2,888,172 | 0.00% | 18.53% | 25.91% | 55.56% |
| 8-in | 7,291,240 | 3,189,918 | 0.00% | 23.45% | 32.80% | 43.75% |
| 10-in | 3,864,645 | 1,391,272 | 0.00% | 26.68% | 37.32% | 36.00% |
| 12-in | 4,268,480 | 1,304,258 | 0.00% | 28.95% | 40.49% | 30.56% |
| 14-in | 113,400 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 16-in | 1,716,400 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 18-in | 879,975 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 20-in | 2,261,500 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 24-in | 3,300 | | 0.00% | 41.69% | 58.31% | 0.00% |
| 30-in | 104,325 | | 0.00% | 41.69% | 58.31% | 0.00% |
| TOTAL | \$ 30,951,945 | | \$ - | \$ 9,246,656 | \$ 12,931,670 | \$ 8,773,620 |
| Allocation Percentages | | | 0.00% | 29.87% | 41.78% | 28.35% |

- **Storage.** This analysis is based on the system’s operational, equalizing, standby, and fire suppression storage requirements, resulting in a functional split of 40.44 percent to the base function, 48.33 percent to the peak function, and 11.23 percent to the fire protection function. For example, the capital costs of new storage facilities are distributed across the water functions based on this percentage allocation. These calculations are summarized in **Exhibit 3.6** below.

Exhibit 3.6 – Water Storage Analysis

| Storage Requirements | MG of Storage | FUNCTIONS OF WATER SERVICE | | | | |
|-------------------------------|---------------|----------------------------|-------------------|-------------|-------------|-----------------|
| | | CUSTOMER | METERS & SERVICES | BASE | PEAK | FIRE PROTECTION |
| Peaking | 0.66 | 0.00% | 0.00% | 0.00% | 100.00% | 0.00% |
| Operational | 1.04 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% |
| Fire | 1.08 | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| Emergency | 6.84 | 0.00% | 0.00% | 41.69% | 58.31% | 0.00% |
| TOTAL (MG) | 9.62 | - | - | 3.89 | 4.65 | 1.08 |
| Allocation Percentages | | 0.00% | 0.00% | 40.44% | 48.33% | 11.23% |

- **Plant in Service.** Based on an allocation of the original cost of the City’s existing water system assets. Less than 2 percent of the City’s water assets are assigned to the meters and services function, 36.15 percent are assigned to the base function, 48.86 percent are assigned to the peak function, and 13.49 percent are assigned to the fire protection function. An example of a line-item expense that is assigned this cost allocation is the City’s existing debt service. The cost

allocation methodology and calculations are summarized in **Exhibit 3.7** below.

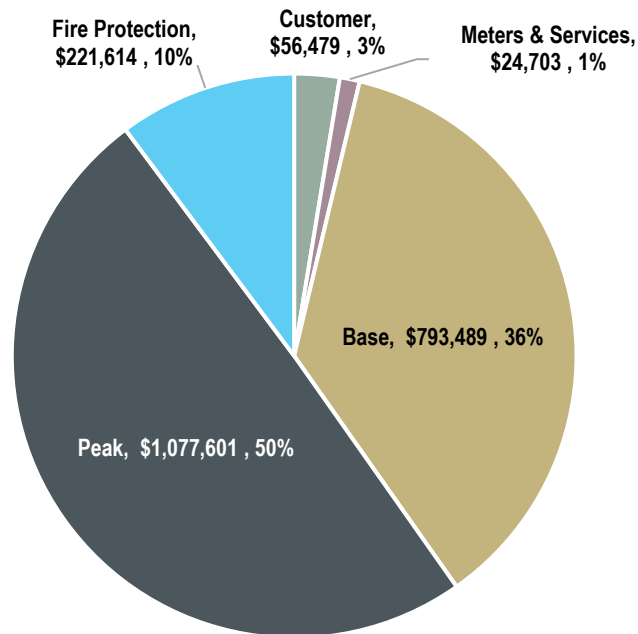
Exhibit 3.7 – Water Plant in Service Analysis

| Plant in Service | Total Costs | FUNCTIONS OF WATER SERVICE | | | | |
|-------------------------------|----------------------|----------------------------|-------------------|---------------------|---------------------|---------------------|
| | | CUSTOMER | METERS & SERVICES | BASE | PEAK | FIRE PROTECTION |
| Supply/Treatment | \$ 6,738,884 | 0.00% | 0.00% | 41.69% | 58.31% | 0.00% |
| Pumping | 81,726 | 0.00% | 0.00% | 41.69% | 58.31% | 0.00% |
| Storage | 3,670,761 | 0.00% | 0.00% | 40.44% | 48.33% | 11.23% |
| Transmission & Distribution | 6,995,292 | 0.00% | 0.00% | 29.87% | 41.78% | 28.35% |
| Meters & Services | 267,069 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% |
| Hydrants (within T&D) | - | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| General Plant | 996,891 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| TOTAL | \$ 18,750,623 | \$ - | \$ 282,065 | \$ 6,778,362 | \$ 9,160,741 | \$ 2,529,455 |
| Allocation Percentages | | 0.00% | 1.50% | 36.15% | 48.86% | 13.49% |

Cost Classification of Revenue Requirements

Exhibit 3.8 below summarizes the cost classification of the City’s water utility costs after classifying each line item of the revenue requirement to one of the functions described above. As shown, peak costs are the largest share of the utility’s costs at 50 percent, followed by base costs at 36 percent, and other cost categories.

Exhibit 3.8 – Water Utility Cost of Service Summary



Customer Class Distinctions

A class of service is a grouping of utility customers with similar usage characteristics who are served at similar costs. Classes of service can be defined based on several factors such as water usage patterns, service requirements, geography, or other factors. A cost-of-service analysis determines the proportional recovery of costs from each class of service based on these unique demands. The

classes of service evaluated as part of the water rate study are based on the City’s existing rate schedule and include:

- **Single-family Class.** Single-family homes.
- **Multi-family Class.** Apartment and other multi-dwelling housing.
- **City.** Water accounts that represent City usage – such as those of parks irrigation meters and the City’s wastewater treatment plant.
- **Non-residential.** Any commercial customer, or a non-residential customer that does not fall into the other categories.
- **Irrigation.** Water accounts used exclusively for irrigation.
- **Fire Line.** Water accounts are used exclusively for emergency fire delivery.

Customer Classes Use Water Differently

To highlight the class distinctions, FCS GROUP analyzed the water usage characteristics of each class. The irrigation class peaks the most but has relatively low average annual use. The single-family class also exhibits high peak demands due to high levels of lawn watering during the summer months. The commercial class also peaks (at a lower level) in the summer for the same reason. The City class has the smallest peaking factor, presumably because the City class includes accounts that have consistent year-round water usage such as the wastewater treatment plant. The multi-family class is the second highest water user on an annual basis but has one of the lowest peaking requirements of all classes.

Exhibit 3.9 shows the peaking factor for each customer class based on water usage in FY 2022, based on the annual and peak month use in thousands of gallons (kgal). Also, note that these are monthly peaking factors and thus are different from the per-day peaking factors used to allocate the supply and treatment function in the previous section.

Exhibit 3.9 – Water Utility Peaking Factors by Customer Class (FY 2022)

| | Annual Average Use (kgal/month) | Peak Month Use (kgal/month) | Peak ÷ Average (Peaking Factor) |
|-----------------|---------------------------------|-----------------------------|---------------------------------|
| Single-Family | 17,910 | 54,059 | 3.02 |
| Multi-Family | 7,244 | 14,525 | 2.01 |
| City | 6,332 | 10,920 | 1.72 |
| Non-Residential | 4,117 | 8,310 | 2.02 |
| Irrigation | 906 | 4,021 | 4.44 |
| Fire Line | 42 | 42 | 1.00 |
| Total | 36,552 | 91,835 | 2.51 |

Cost Allocation

The next step of the cost-of-service is to assign functional costs to the customer classes. The water functions are allocated to the customer classes as follows:

- **Customer.** Based on the number of meters (accounts).
- **Meters & Services.** Based on the number of meter service equivalents (MSEs) based on American Water Works Association (AWWA) factors.
- **Base Capacity.** Based on the annual total usage (kgal).
- **Peak Capacity.** Based on the peak month usage (kgal).
- **Fire Protection.** Based on fire flow requirements (accounts weighted by estimated fire flow gallons per minute and duration).

Exhibit 3.10 shows how each class is distributed to each water function. As shown, the single-family class represents 73 percent of accounts but only represents 49 percent of annual water use and 59 percent of peak use.

Exhibit 3.10 – Water Utility Customer Statistics by Class

| | Accounts | MSEs | Annual Use | Peak Use | Fire Flow Requirement |
|------------------------|----------|---------|------------|----------|-----------------------|
| Single-Family | 73.11% | 67.00% | 49.00% | 58.84% | 41.54% |
| Multi-Family | 15.03% | 16.16% | 19.82% | 15.81% | 8.54% |
| City | 0.77% | 2.41% | 17.32% | 11.89% | 3.94% |
| Non-Residential | 8.99% | 12.55% | 11.26% | 9.04% | 45.98% |
| Irrigation | 1.15% | 1.88% | 2.48% | 4.38% | 0.00% |
| Fire Line | 0.94% | 0.00% | 0.12% | 0.05% | 0.00% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Water Utility Cost of Service Results

The final step of the cost-of-service analysis is to compare the allocation of the test year revenue requirement with the rate revenue generated by each customer class at existing rates. This evaluation identifies general differences between the allocated cost to provide utility services to customer classes and the rate revenue collected. It also identifies proportional differences in the cost that the City incurs to provide services to different customer classes. The cost-of-service analysis provides an initial and reasonable basis for potential rate adjustments to align rates with the cost of providing service. This cost-rate relationship is a primary tool used by public utilities when developing changes to rates.

Exhibit 3.11 below provides a comparison of the current rate revenue distribution between customer classes and the distribution of revenues resulting from the cost-of-service analysis within the water utility. The rate increases in the far-right column indicate the theoretical rate adjustment needed to align each customer class's existing rate revenue toward the cost of service.

Exhibit 3.11 – Water Utility Cost of Service Results

| Cost of Service Summary | Existing 2024 | COSA 2024 | Difference (\$) | COSA |
|-------------------------|---------------------|---------------------|-------------------|---------------|
| | Revenue | Revenue | | Adjustment to |
| | | | | Difference |
| Single-Family | \$ 1,140,245 | \$ 1,172,754 | \$ 32,509 | 2.85% |
| Multi-Family | 373,743 | 359,021 | (14,723) | -3.94% |
| City | 141,643 | 275,304 | 133,661 | 94.36% |
| Non-Residential | 355,157 | 296,908 | (58,249) | -16.40% |
| Irrigation | 35,282 | 67,958 | 32,675 | 92.61% |
| Fire Line | - | 1,941 | 1,941 | 0.00% |
| Total | \$ 2,046,071 | \$ 2,173,885 | \$ 127,815 | 6.25% |

A cost-of-service analysis is a reasonable allocation of the test year revenue requirement to classes of service based on available financial and operational data, expectations of future demand for service, and the allocation methodologies described in the previous sections. Given the need for assumptions and these other factors, FCS GROUP recommends a reasonable range for class-specific results to be plus or minus 10.0 percent, including the system average overall increase.

As shown, the revenue collection from the City class is most out of line with its cost of service. The City only began to charge its own meters in FY 2024, but even with that change, it will take several years to bring the revenue from those other governmental sources in line with the cost to serve them. The irrigation class is also largely under-collecting when compared to its cost of service. This is mostly due to the high strain of peak demands placed on the system by irrigation meters.

Interpreting Cost of Service Results

A cost-of-service analysis is a snapshot in time and because costs fluctuate each year, the needed increase by class can also fluctuate and interclass rate changes are not suggested unless the class's revenue difference is consistently outside of the plus or minus 10.0 percent range of reasonableness. For classes outside the threshold, public utilities can leverage several financial strategies to align rate revenues with cost-of-service results. These policy decisions may focus on the timing and level of rate adjustments for a particular class of service. For example, an agency may decide to gradually increase rates for a class of service over several years in order to make progress towards cost of service while also keeping the rate increases relatively affordable. If an agency anticipates major changes to programs and services in the future, it may consider a slower or delayed strategy to rate adjustments until new cost data is available.

FCS GROUP recommends the following guidelines when considering policy options to adjust existing rates based on cost-of-service results:

- **Prioritize Class-Specific Rate Adjustments.** Prioritize adjustments to those classes that are farthest outside the threshold. Consider monitoring future cost of service results for classes that are relatively close but outside of the threshold.
- **Develop Multi-Year Phase-In Plan.** Developing a multi-year rate strategy can transition classes towards cost of service while also addressing potential affordability concerns.
- **Consider Future Utility Costs.** Future cost of service results can shift in response to major changes in programs, facility operations, and availability of information. Gradually implementing rate adjustments can provide flexibility in responding to current and future costs.

- **Hold Rates at Existing Levels.** For those customer classes whose rates are higher than the cost of service, consider holding rates at existing levels until rates are generally aligned with cost. This strategy can avoid the need to lower rates one year only to increase rates in future years.
- **Monitor Long-Term Trends.** Further evaluation may be appropriate for classes that are outside the range of reasonableness to confirm if results are indicative of an on-going trend or are an anomaly. This can be a particularly effective strategy if a cost-of-service analysis has not been conducted recently or is being completed for the first time.
- **Monitor Changes in Demand from Rate Adjustments.** Significant decreases or increases in rates can impact the demand for utility services – particularly for usage-based rates and subscription services. An agency should actively monitor the demand impact of major changes to rates and develop a contingency plan as needed.
- **Seek Legal Counsel.** Class-specific rate adjustments may be subject to existing contract agreements between the City and specific customer groups. FCS GROUP recommends that the City seek legal counsel to determine any legal restrictions or requirements that would affect rate adjustments based on the cost-of-service analysis.

Cost-of-Service Phase-In Strategy

Based on feedback from City staff, a multi-year strategy was developed to transition the classes of service toward cost-of-service over the six-year rate-setting period. A rate increase schedule by class is shown in **Exhibit 3.12** below to provide an alternative to a one-time increase and lessen the impact of the cost-of-service analysis. This rate increase schedule brings the revenue from each class within 10 percent of their costs to serve by FY 2029.

Exhibit 3.12 – Water Utility Cost of Service Phase-in Schedule

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|------------------------|-------|--------|--------|--------|--------|--------|
| Single-Family | 6.25% | 2.41% | 2.11% | 1.78% | 1.40% | 0.97% |
| Multi-Family | 6.25% | 1.50% | 1.50% | 1.50% | 1.50% | 1.50% |
| City | 6.25% | 16.00% | 16.00% | 16.00% | 16.00% | 16.00% |
| Non-Residential | 6.25% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Irrigation | 6.25% | 16.00% | 16.00% | 16.00% | 16.00% | 16.00% |
| Fire Line | 6.25% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

Water Rates

Exhibit 3.13 details the recommended rates for the FY 2024 to FY 2029 rate-setting period. To maintain the simplicity of the City’s fixed rate schedule, the fixed rates were increased for all classes by the overall rate increases calculated in the previous section. The volume charges were differentiated by class to bring each class’s revenue collection closer to its cost-of-service. The combined effect of the fixed and volume charge changes roughly tracks the phase-in schedule discussed above.

Exhibit 3.13 – Water Rates with Cost-of-Service Phase-in

| Rate Design Schedule | Previous | Existing | Proposed | Proposed | Proposed | Proposed | Proposed |
|--|----------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| System-wide Increase in Revenue | | 6.25% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Fixed Rates (All Classes) | | | | | | | |
| <u>Base Fee</u> | \$16.91 | \$17.96 | \$18.50 | \$19.06 | \$19.63 | \$20.22 | \$20.82 |
| <u>Meter Equivalent Charge</u> | | | | | | | |
| 3/4" | \$8.53 | \$9.06 | \$9.33 | \$9.61 | \$9.90 | \$10.20 | \$10.50 |
| 1" | \$21.37 | \$22.71 | \$23.39 | \$24.09 | \$24.81 | \$25.56 | \$26.32 |
| 1 1/4" | \$31.92 | \$33.91 | \$34.93 | \$35.98 | \$37.06 | \$38.17 | \$39.32 |
| 1 1/2" | \$42.62 | \$45.28 | \$46.64 | \$48.04 | \$49.48 | \$50.96 | \$52.49 |
| 2" | \$68.08 | \$72.34 | \$74.51 | \$76.74 | \$79.04 | \$81.41 | \$83.86 |
| 3" | \$127.73 | \$135.71 | \$139.78 | \$143.98 | \$148.30 | \$152.74 | \$157.33 |
| 4" | \$212.89 | \$226.19 | \$232.98 | \$239.97 | \$247.16 | \$254.58 | \$262.22 |
| 6" | \$425.64 | \$452.23 | \$465.80 | \$479.78 | \$494.17 | \$508.99 | \$524.26 |
| 8" | \$702.38 | \$746.26 | \$768.65 | \$791.71 | \$815.46 | \$839.92 | \$865.12 |
| 10" | \$979.12 | \$1,040.28 | \$1,071.49 | \$1,103.63 | \$1,136.74 | \$1,170.85 | \$1,205.97 |
| <u>Fire Standby Charge</u> | | | | | | | |
| Class 1 | \$6.23 | \$6.62 | \$6.82 | \$7.02 | \$7.23 | \$7.45 | \$7.67 |
| Class 2 | \$26.51 | \$28.17 | \$29.02 | \$29.89 | \$30.78 | \$31.71 | \$32.66 |
| Class 3 | \$178.50 | \$189.65 | \$195.34 | \$201.20 | \$207.23 | \$213.45 | \$219.85 |
| Class 4 | \$424.73 | \$451.26 | \$464.80 | \$478.74 | \$493.10 | \$507.90 | \$523.13 |
| Class 5 | \$830.65 | \$882.54 | \$909.01 | \$936.28 | \$964.37 | \$993.30 | \$1,023.10 |
| Volume Charges (by Class) | | | | | | | |
| Single-family | \$1.55 | \$1.65 | \$1.66 | \$1.66 | \$1.66 | \$1.66 | \$1.66 |
| Multi-Family | \$1.55 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 |
| City | \$1.55 | \$1.65 | \$1.95 | \$2.31 | \$2.73 | \$3.21 | \$3.77 |
| Non-Residential | \$1.55 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 |
| Irrigation | \$1.55 | \$1.65 | \$2.14 | \$2.73 | \$3.41 | \$4.21 | \$5.15 |
| Fire Line | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

● SEWER UTILITY

The City owns and operates the sewer utility, which provides sewer service to customers within City limits and to the City of Sublimity. The utility's customers include approximately 3,200 residential customers, 170 non-residential accounts, and the City of Sublimity as a single customer. Annual sewer flows in 2022 total over 575 million gallons. The City maintains approximately 35 miles of transmission mains in the City boundaries, of which about 3.5 miles are in the Mill Creek Sewer Line that conveys Sublimity's flows from the connection point at the north of the City south to the treatment plant. The following sections detail the revenue requirement and cost-of-service analyses for the sewer utility.

REVENUE REQUIREMENT

As previously mentioned, the main purpose of the revenue requirement analysis is to develop a funding plan ("revenue requirement") for the FY 2024 through FY 2029 study period. This section details the results of the sewer utility revenue requirement analysis.

Economic & Inflation Factors

The operating and maintenance expenditure forecast largely relies on the City's FY 2023 budget. The line items in the budget are then adjusted each future year by using one of the applicable factors discussed in **Section III**.

Fund Balances

FY 2024 starting fund balances were based on the City's FY 2023 actual beginning fund balances adjusted based on budgeted revenue and expenditures in FY 2023. The total FY 2024 beginning fund balance for the sewer utility was estimated to be \$5.00 million.

An important fiscal policy consideration is the minimum target level of the operating reserve. A general target for sewer utilities is to keep anywhere from 60 to 90 days of operating expenses in reserve to accommodate short-term fluctuations in cash flow. As discussed in Section II, the minimum operating reserve target is set to 60 days of operating expenses.

In addition to the operating reserve, a capital reserve minimum balance was set to \$1 million based on discussions with City staff.

Utility Revenues

Without rate increases, the City is expecting to collect revenues in FY 2024 as listed below for the sewer utility.

- **Rate Revenues.** A total of \$3.7 million. About \$2.7 million will be collected from the residential class, \$375,000 will be collected from the non-residential class, and \$575,000 will be collected from Sublimity.

Sublimity Billing. Sublimity is billed with three rates: a flow charge per thousand gallons, a strength surcharge if flow strengths exceed a certain threshold, and a debt service charge that is assessed based on the City’s contract with Sublimity. Under existing rates, \$379,000 will be collected from the flow charge and \$196,000 will be collected from the debt service charge.

- **Non-rate Revenues.** Non-rate revenues only include the interest collected on the utility’s fund balances as well as the payments from Sublimity for their share of the debt service. Those payments are expected to total \$196,000 in FY 2024.

Operating Expenses

In FY 2024, sewer utility operating expenses are forecasted at \$2.8 million in cash operating expenses, which are expected to increase at an annualized average rate of 2.4 percent up to \$3.2 million by FY 2029.

Existing Debt

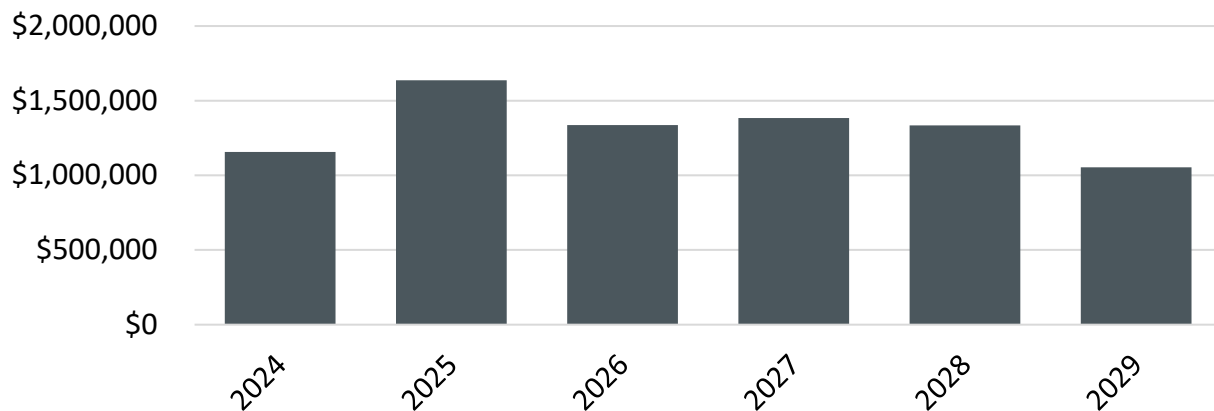
The City is expecting to pay \$816,000 in debt service payments, which take the form of two notes:

- **Full Faith and Credit Obligation (2013).** The total debt service related to this obligation is \$471,000, of which \$65,000 (18.79 percent) is assessed to Sublimity. The debt service for this loan ends in FY 2029, which will also decrease revenue collection from Sublimity.
- **USDA Loan.** The total debt service related to this obligation is \$345,000 in FY 2024, of which \$131,000 (27.88 percent) is assessed to Sublimity. The debt service for this loan ends in FY 2042, which will also decrease revenue collection from Sublimity.

Capital Expenditures and Funding Strategy

A summary graph of the City’s sewer capital program is shown in **Exhibit 4.1** below. The total cost of the capital program, with escalation, will be \$7.9 million between 2024 and 2029. The capital program will cost an average of \$1.3 million per year.

Exhibit 4.1 – Sewer Utility Capital Program Summary



The 2024-2029 capital funding plan is summarized in **Exhibit 4.2** below. The City is targeting \$4.1 million in system reinvestment funding during this period based on the system reinvestment target discussed in a previous section. When combined with other cash sources (such as SDCs, existing

cash reserves, further rate revenue transfers, and interest on its fund balance), the City is planning to dedicate \$7.9 million in cash funding to the capital plan, which full funds the capital plan without the use of new debt.

Exhibit 4.2 – Sewer Utility Capital Funding Summary

| Capital Funding Summary | Total | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--------------------------------|---------------------|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| Capital Project Costs | \$ 7,904,631 | \$ 1,157,459 | \$ 1,637,651 | \$ 1,336,726 | \$ 1,384,478 | \$ 1,334,504 | \$ 1,053,813 |
| Funding Sources | | | | | | | |
| Cash | \$ 7,904,631 | \$ 1,890,550 | \$ 1,809,295 | \$ 764,409 | \$ 834,871 | \$ 1,191,346 | \$ 1,414,162 |
| Loan Proceeds | - | - | - | - | - | - | - |
| Total Capital Funding | \$ 7,904,631 | \$ 1,890,550 | \$ 1,809,295 | \$ 764,409 | \$ 834,871 | \$ 1,191,346 | \$ 1,414,162 |

Sewer Revenue Requirement Summary

Exhibit 4.3 graphically represents the sewer utility revenue requirement forecast. The stacked columns represent the costs and obligations of the utility such as operating expenses and rate-funded capital, while the lines represent utility revenues before and after future adjustments.

- **Solid black line:** Revenue at existing rates.
Sewer utility revenue is expected to be roughly \$3.8 million in FY 2024 and is expected to grow at about 0.60 percent per year with customer growth – however, retirement of the 2013 Full Faith and Credit Obligation will end the assessment to Sublimity for that loan and decrease revenue slightly in FY 2028 and FY 2029.
- **Dashed black line:** Revenues with rate increases.
Rate revenue must increase by 6.25 percent per year (above customer growth) for one year. After that, rate increases can drop to 5.50 percent per year until FY 2029 when they can drop again to 3.00 percent.
- **Dark blue bar:** Operating expenses.
Operating expenses are based on the adopted FY 2023 budget and increase with the annual cost escalation assumptions previously discussed.
- **Green bar:** Existing debt service.
Annual debt service on the City’s current wastewater loans starts at \$816,000 in FY 2024 and decreases to \$345,000 by FY 2029.
- **Gold bar:** System reinvestment funding.
Rate funded capital starts at \$612,000 in FY 2024 and increases to \$749,000 by FY 2029.
- **Turquoise bar:** Other rate-funded capital (additional funding above system reinvestment target).
Other Rate funded capital is non-existent in the early years but reaches \$686,000 in FY 2029.

Exhibit 4.3 – Sewer Utility Revenue Requirement

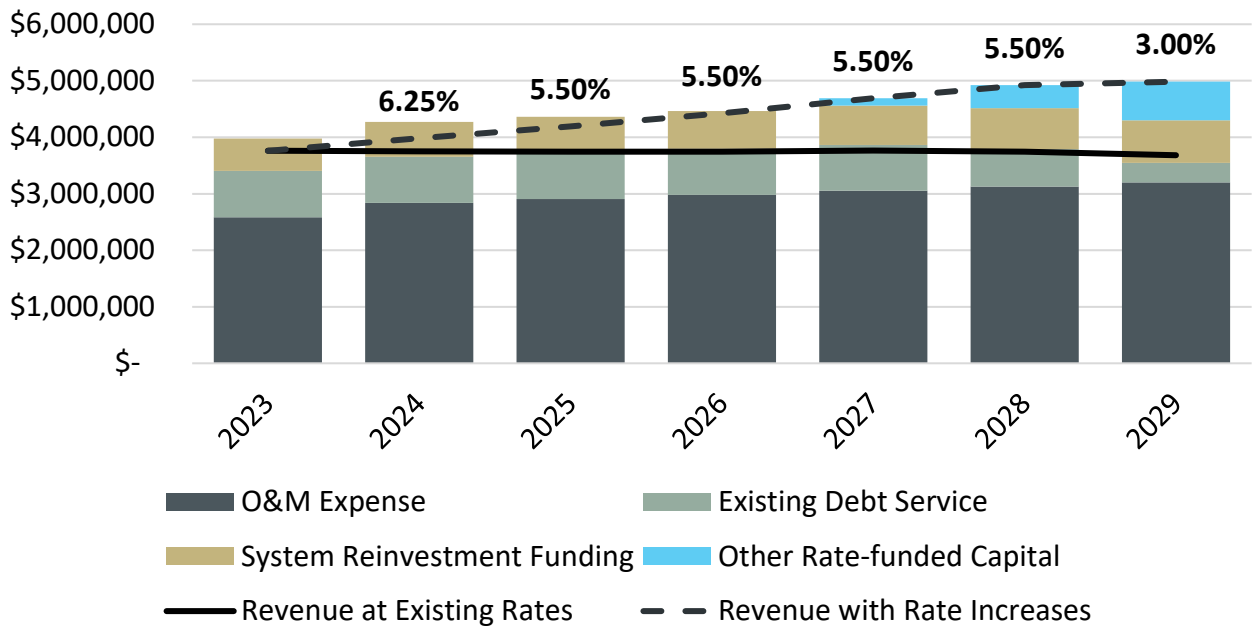


Exhibit 4.4 below provides the detailed summary tables of the revenue requirement analysis.

Exhibit 4.4 – Sewer Utility Revenue Requirement Detailed Tables

| Revenue Requirement | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues | | | | | | | |
| Rate Revenues Under Existing Rates | \$ 3,653,229 | \$ 3,674,957 | \$ 3,698,140 | \$ 3,719,948 | \$ 3,741,819 | \$ 3,723,327 | \$ 3,657,323 |
| Non-Rate Revenues | 106,543 | 75,770 | 47,490 | 23,700 | 22,913 | 24,371 | 24,718 |
| Total Revenues | \$ 3,759,771 | \$ 3,750,727 | \$ 3,745,630 | \$ 3,743,649 | \$ 3,764,732 | \$ 3,747,698 | \$ 3,682,041 |
| Expenses | | | | | | | |
| Cash Operating Expenses | \$ 2,586,000 | \$ 2,840,445 | \$ 2,909,430 | \$ 2,980,093 | \$ 3,052,475 | \$ 3,126,618 | \$ 3,202,564 |
| Existing Debt Service | 818,197 | 816,197 | 818,897 | 816,147 | 813,097 | 664,747 | 345,447 |
| New Debt Service | - | - | - | - | - | - | - |
| System Reinvestment Funding | 575,204 | 612,179 | 635,328 | 668,081 | 694,816 | 722,505 | 749,195 |
| Additions Required to Meet Reserves | - | - | - | - | - | - | - |
| Total Expenses | \$ 3,979,401 | \$ 4,268,821 | \$ 4,363,655 | \$ 4,464,321 | \$ 4,560,388 | \$ 4,513,870 | \$ 4,297,206 |
| Net Surplus (Deficiency) | \$ (219,630) | \$ (518,095) | \$ (618,026) | \$ (720,673) | \$ (795,656) | \$ (766,172) | \$ (615,166) |
| Additions to Meet Coverage | - | - | - | - | - | - | - |
| Total Surplus (Deficiency) | \$ (219,630) | \$ (518,095) | \$ (618,026) | \$ (720,673) | \$ (795,656) | \$ (766,172) | \$ (615,166) |
| Annual Rate Increase | | 6.25% | 5.50% | 5.50% | 5.50% | 5.50% | 3.00% |
| Cumulative Rate Increase | | 6.25% | 12.09% | 18.26% | 24.76% | 31.63% | 35.57% |
| Revenues After Rate Increases | \$ 3,653,229 | \$ 3,904,642 | \$ 4,145,384 | \$ 4,399,170 | \$ 4,668,411 | \$ 4,900,834 | \$ 4,958,374 |
| Additional Taxes from Rate Increase | - | - | - | - | - | - | - |
| Net Cash Flow After Rate Increase | \$ (219,630) | \$ (288,410) | \$ (170,782) | \$ (41,451) | \$ 130,936 | \$ 411,335 | \$ 685,886 |
| Coverage After Rate Increase: Bonded Debt | 3.59 | 3.53 | 3.98 | 4.46 | 4.99 | 5.43 | 5.37 |
| Coverage After Rate Increase: Total Debt | 1.51 | 1.49 | 1.68 | 1.89 | 2.12 | 2.82 | 5.37 |
| Sample Residential Bill (One Residential Unit) | \$66.85 | \$71.03 | \$74.93 | \$79.06 | \$83.40 | \$87.99 | \$90.63 |
| Annual Increase (\$) | | \$4.18 | \$3.91 | \$4.12 | \$4.35 | \$4.59 | \$2.64 |

| Fund Balance | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Operating Reserve | | | | | | | |
| Beginning Balance | \$ 5,077,500 | \$ 3,457,870 | \$ 1,969,461 | \$ 717,394 | \$ 675,943 | \$ 752,665 | \$ 770,947 |
| plus: Net Cash Flow after Rate Increase | (219,630) | (288,410) | (170,782) | (41,451) | 130,936 | 411,335 | 685,886 |
| less: Transfer of Surplus to Capital Fund | (1,400,000) | (1,200,000) | (1,081,285) | - | (54,214) | (393,053) | (667,159) |
| Ending Balance | \$ 3,457,870 | \$ 1,969,461 | \$ 717,394 | \$ 675,943 | \$ 752,665 | \$ 770,947 | \$ 789,673 |
| <i>Actual Days of O&M</i> | 488 days | 253 days | 90 days | 83 days | 90 days | 90 days | 90 days |
| <i>Minimum Balance Requirement</i> | \$ 425,096 | \$ 466,922 | \$ 478,263 | \$ 489,878 | \$ 501,777 | \$ 513,965 | \$ 526,449 |
| <i>Maximum Balance Requirement</i> | \$ 637,644 | \$ 700,384 | \$ 717,394 | \$ 734,818 | \$ 752,665 | \$ 770,947 | \$ 789,673 |
| Capital Reserve | | | | | | | |
| Beginning Balance | \$ 324,000 | \$ 1,015,310 | \$ 1,748,401 | \$ 1,920,044 | \$ 1,347,727 | \$ 798,119 | \$ 654,961 |
| plus: System Reinvestment Funding | 575,204 | 612,179 | 635,328 | 668,081 | 694,816 | 722,505 | 749,195 |
| plus: Transfers from Operating Fund | 1,400,000 | 1,200,000 | 1,081,285 | - | 54,214 | 393,053 | 667,159 |
| plus: Capital Grants / Other Resources | 500,000 | - | - | - | - | - | - |
| plus: SDC Revenue | 58,700 | 59,080 | 59,462 | 59,847 | 60,234 | 60,623 | 61,015 |
| plus: Interest Earnings | 6,156 | 19,291 | 33,220 | 36,481 | 25,607 | 15,164 | 12,444 |
| Total Funding Sources | \$ 2,864,060 | \$ 2,905,860 | \$ 3,557,696 | \$ 2,684,453 | \$ 2,182,597 | \$ 1,989,465 | \$ 2,144,776 |
| less: Capital Expenditures | (1,848,750) | (1,157,459) | (1,637,651) | (1,336,726) | (1,384,478) | (1,334,504) | (1,053,813) |
| Ending Capital Fund Balance | \$ 1,015,310 | \$ 1,748,401 | \$ 1,920,044 | \$ 1,347,727 | \$ 798,119 | \$ 654,961 | \$ 1,090,962 |
| <i>Minimum Target Balance</i> | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 | \$ 1,000,000 |
| Combined Beginning Balance | \$ 5,401,500 | \$ 4,473,180 | \$ 3,717,862 | \$ 2,637,438 | \$ 2,023,670 | \$ 1,550,784 | \$ 1,425,908 |
| Combined Ending Balance | \$ 4,473,180 | \$ 3,717,862 | \$ 2,637,438 | \$ 2,023,670 | \$ 1,550,784 | \$ 1,425,908 | \$ 1,880,636 |
| <i>Ending Total Days of Operating Expenditures</i> | 631 days | 478 days | 331 days | 248 days | 185 days | 166 days | 214 days |
| <i>Combined Minimum Target Balance</i> | 1,425,096 | 1,466,922 | 1,478,263 | 1,489,878 | 1,501,777 | 1,513,965 | 1,526,449 |

COST-OF-SERVICE ANALYSIS

The wastewater cost-of-service analysis follows a similar methodology to the water utility in that there are the same three main steps in the process (noted below). The wastewater cost-of-service analysis differs from the water utility in matter of utility functions, customer classes, cost allocations, and methodologies for the functional allocation distributions.

- **Functional Cost Allocation.** Establishes a rational relationship between functions (activities) and costs. Each line item is allocated to each function based on how those expenses serve the system. For example, sludge disposal costs are attributed all to the treatment function, while the salaries and benefits for an FTE likely support multiple functions. The functions are:
 - Shared Flow.** Costs associated with transmitting flow through mains shared by the City and Sublimity).
 - Stayton-only Flow.** Costs associated with transmitting flow through mains used only by City customers.
 - Existing Debt Service.** Costs associated with existing debt service shared by the City and Sublimity, and which are split by the City's existing contract with Sublimity.
 - Biochemical Oxygen Demand (BOD).** Costs associated with the treatment of BOD.
 - Total Suspend Solids (TSS).** Costs associated with the treatment of TSS.
 - Customer.** Fixed costs that do not vary with meter size or usage (e.g., utility billing).
- **Customer Class Distinctions.** Identifies the customer classes that will be evaluated as part of the study. It is appropriate to group customers that exhibit similar usage characteristics and service requirements. The rate study evaluated three customer classes: residential, non-residential, and Sublimity.
- **Cost Allocation.** Allocates the costs from the functional cost allocation to different customer classes based on their unique demands for each service as defined through the cost classification process. For example, the cost of serving the utility's customers is based on the number of customer accounts, while the cost of providing services to support the treatment and handling of biochemical oxygen demand (BOD) in the system is based on wastewater flow data weighted by that class's average BOD strength. Accounts, wastewater flow (thousands of gallons), BOD, and total suspended solids (TSS) (mg/L) statistics are developed to allocate the cost-of-service to customer classes. The results identify shifts in cost recovery by customer class from that experienced under the existing rate structure.

Functional Cost Allocation

The first step in the cost-of-service analysis is to define the functions or activities that are supported by the sewer utility. For this analysis, the functions of service include customer, flow, BOD, and TSS costs. In addition, to better isolate and understand the costs of providing service to Sublimity, flow costs were split between shared flow costs (e.g., related to assets which serve both the City and Sublimity), and Stayton flow costs (e.g., related to assets which serve only City customers). Debt service costs were also divided between Stayton and Sublimity based on the existing contract between the two cities.

It is important to carefully distinguish the share of the flow costs allocable to Sublimity, as Sublimity is a distinct customer with rates determined by a contract, and which only connects to Stayton's collection system at a single point. When assigning the line-item expenses to the functions of service, certain items were assigned as "shared flow." Those items are assumed to benefit both Stayton and Sublimity proportional to their estimated flows measured at the treatment plant, including any inflow and infiltration (I&I). Other line-items were assigned as "Stayton flow" and were assumed to be expenses related only to Stayton collection infrastructure. Finally, some collection related items required a more detailed allocation which was completed based on original cost records for the sewer collection main infrastructure.

Functional Cost Allocation Factors

- **Treatment Plant-in-Service.** Allocated as 50.00 percent shared flow, 25.00 percent BOD, and 25.00 TSS based on discussions with City staff and similar sewer utility rate studies completed by FCS GROUP.
- **Sewer Main Infrastructure.** The second largest asset recorded by original cost within the City's plant-in-service is a consolidated record of existing sewer pipes. City staff estimated the historical cost of sewer mains within this record by main size and by the share of total linear feet of sewer main located along the Mill Creek sewer line (collects flows from both Stayton and Sublimity) and all other lines (collects flows from Stayton only). Allocated as 21.27 percent shared flow and 78.73 percent Stayton flow.
- **Mill Creek Sewer.** Original cost for 2016 capital investments to the Mill Creek sewer line and related facilities. Allocated as 100.00 percent shared flow.
- **All Other Collection Assets.** All other collection assets are allocated 100.00 percent as Stayton flow.
- **Mill Creek Lift Station.** Original cost for 2016 capital upgrades to Mill Creek lift station. Allocated as 100.00 percent shared flow.
- **All Other Pumping Assets.** All other pumping assets are allocated 100.00 percent as Stayton flow.
- **Transfer to the General Fund.** The transfer to the general fund includes many indirect costs related to the operation of the utility. The City provided a breakdown of that transfer showing that 9.97 percent of the transfer was related to customer billing costs. The remainder of the transfer was assigned "as all other," meaning that the remainder of the costs were assumed to benefit the utility based on the distribution of all other costs to the functions of service. The transfer to the general fund is the largest single line item in the budget.
- **Salaries.** The City was able to provide a list of salaries by position which provides guidance to allocate each position to a function of service. This calculation results in a 49.49 percent allocation to shared flow, 5.29 percent allocation to Stayton flow, and a 22.61 percent allocation each to both BOD and TSS.

Based on these functional cost allocation factors and as shown in **Exhibit 4.5**, the collection system is 44.69 percent allocable to shared flow, and 55.31 percent allocable to Stayton flow. Further, as shown in the same exhibit, the entire plant in service is 47.47 percent related to handling shared

flow, 26.37 percent related to handling just Stayton’s flows, 13.08 percent related to treating BOD, and 13.08 percent related to treating TSS.

Exhibit 4.5 – Sewer Plant in Service Analysis

| Plant in Service | Total Costs | FUNCTIONS OF WASTEWATER SERVICE | | | | | |
|--|---------------|---------------------------------|---------------|--------------|--------------|--------------|---------------|
| | | CUSTOMER | SHARED FLOW | STAYTON FLOW | BOD | TSS | AS ALL OTHERS |
| Treatment | \$ 14,887,362 | 0.00% | 50.00% | 0.00% | 25.00% | 25.00% | 0.00% |
| Collection | | | | | | | |
| Sewer Main Infrastructure | 7,461,948 | 0.00% | 21.27% | 78.73% | 0.00% | 0.00% | 0.00% |
| Infrastructure-Mill Creek Sewer | 4,397,719 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| All Other Collection | 997,282 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% |
| Pumping | | | | | | | |
| Mill Creek Lift Station- # 3 (2016 Upgrades) | 78,452 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| All Other Pumping | 632,261 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% |
| General Plant | 2,934,868 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% |
| TOTAL (COLLECTION AND PUMPING ONLY) | \$ 13,567,662 | \$ - | \$ 6,063,490 | \$ 7,504,171 | \$ - | \$ - | \$ - |
| Allocation Percentages | 100.00% | 0.00% | 44.69% | 55.31% | 0.00% | 0.00% | 0.00% |
| TOTAL PLANT IN SERVICE | \$ 31,389,892 | \$ - | \$ 14,900,309 | \$ 8,278,156 | \$ 4,105,713 | \$ 4,105,713 | \$ - |
| Allocation Percentages | 100.00% | 0.00% | 47.47% | 26.37% | 13.08% | 13.08% | 0.00% |

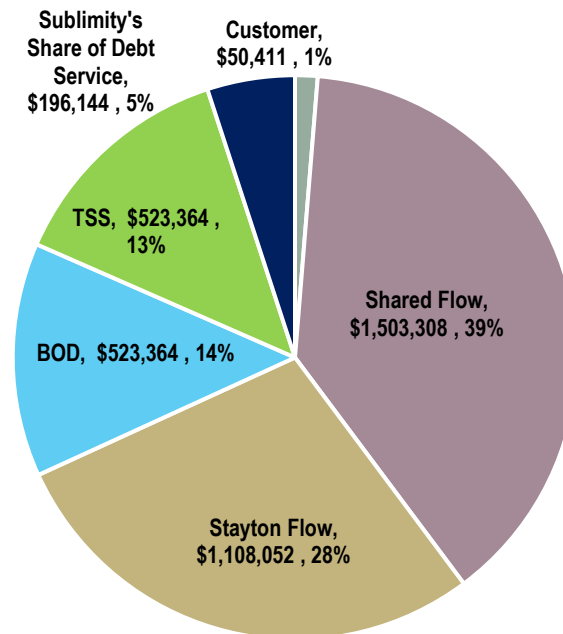
Cost Classification of Revenue Requirements

Following the selection of the functions of service, test year (FY 2024) revenue requirements for each accounting line-item were assigned to the functions of service. This process included assigning each budget line-item in the test year to the sewer functions. In some cases, the expenses within an accounting line item solely support one function of service. For example, Mill Creek sewer maintenance expenses are attributed all to the Shared Flow function.

- **Salaries and Benefits.** Allocated using the allocation factors described above. That is, all salaries and benefits were assigned 49.49 percent to shared flow, 5.29 percent to Stayton flow, and 22.61 percent each to both BOD and TSS.
- **Electricity, Natural gas, and Sludge Disposal.** Allocated as treatment.
- **Plant and System Operating Expenses, and System Reinvestment Funding.** Assigned as the plant-in-service allocation discussed above. Insurance, permitting, bond registrar fees, and the transfer to facilities maintenance were also assigned using the plant-in-service allocation.
- **Vehicle and Water Usage Costs.** Assigned as the weighted collection flow – that is, 44.69 percent allocated to shared flow, and 55.31 percent allocated to Stayton flow.
- **Mill Creek Sewer Maintenance.** Assigned 100 percent to shared flow.
- **Contract Services and Office Supplies.** Assigned “as all others,” that is, assigned based on the allocations of all other operating expenses.
- **Bill Supplies.** Assigned 100 percent to customer.
- **Transfer to General Fund.** As discussed above, allocated 9.97 percent to customers and 90.03 as all others.
- **Existing Debt Service.** Assigned based on the contract and as discussed earlier; that is, 24.03 percent to Sublimity, 75.97 percent to Stayton flow.

Exhibit 4.6 below summarizes the City’s costs of service by function for FY 2024. As shown, flow costs (Shared and Stayton only) are the largest category of costs at 67 percent, followed by BOD and TSS at 14 and 13 percent, respectively.

Exhibit 4.6 – Sewer Utility Cost Classification



Customer Class Distinctions

A class of service is a grouping of utility customers with similar usage characteristics who are served at similar costs. Classes of service can be defined based on several factors such as flow, strength, service requirements, geography, or other factors. A cost-of-service analysis determines the proportional recovery of costs from each class of service based on these unique demands. The classes of services evaluated as part of the sewer rate study are based on the City's existing rates and include:

- **Residential Class.** Single-family and multi-family homes in the City of Stayton.
- **Non-residential Class.** Any non-residential customer in the City of Stayton.
- **Sublimity.** Composed of a single customer – the City of Sublimity, whose flows are collected at a single point on the north side of the City of Stayton.

Cost Allocation

The next step of the cost-of-service is to assign functional costs to the customer classes. The sewer functions are allocated to the customer classes as follows:

- **Customer.** Based on the number of accounts.
- **Shared Flow.** Based on the estimated annual wastewater flow measured in thousands of gallons (kgal) at the plant from all classes, including inflow and infiltration (I&I).

Estimated total billed use for all customer classes is 336,552 kgals

- Estimated billed use for Stayton residential class is 200,162 kgals.

- Estimated billed use for Stayton non-residential class is 24,940 kgals.
- Estimated billed use for Sublimity is 111,450 kgals.

Estimated total flow at wastewater treatment plant, including I&I is 582,948 kgals

- Billed use (336,552 kgals) comprises 57.73 percent of treatment plant flows
- I&I (246,396 kgals) comprises 42.27 percent of treatment plant flows

It is assumed that the potential for I&I is a function of the total circumference of non-pressurized collection mains within the utility.

- 9.81 percent of I&I is allocated to the Mill Creek collection line (Shared Flow).
- 90.19 percent of I&I is allocated to Stayton Flow.

Based on these factors and assumptions, Shared Flow is allocated by customer class as:

- Sublimity customer class is allocated billed flow (111,450 kgals) plus proportionate share of I&I along the Mill Creek collection line based on billed use (9.81 percent multiplied 33.12 percent multiplied by 246,396 kgals). Total allocated shared flow to Sublimity is 119,453 kgals.
- Stayton residential and non-residential customer classes allocated billed flow plus all remaining I&I.
 - Stayton residential customer class is allocated billed flow (200,162 kgals) plus proportionate share of I&I based on billed use. Total allocated shared flow is 412,142 kgals.
 - Stayton non-residential customer class is allocated billed flow (24,940 kgals) plus proportionate share of I&I based on billed use. Total allocated shared flow is 51,353 kgals.
- **Stayton Flow.** Based on the estimated annual wastewater flow measured in kgals at the plant from Stayton’s Residential and Non-residential classes, including I&I.
- **BOD Strength.** Sublimity allocation based on actual samplings. All remaining strength-related costs allocated to Stayton residential and non-residential classes based on total flow at the plant (including I&I) weighted by the BOD strength measured in milligrams per liter.²
- **TSS Strength.** Sublimity allocation based on actual samplings. All remaining strength-related costs allocated to Stayton residential and non-residential classes based on total flow at the plant (including I&I) weighted by the TSS strength measured in milligrams per liter.
- **Debt Service.** Debt service costs were allocated to Sublimity based on the existing contract

² BOD and TSS strength data were sourced from the City’s monthly discharge reports, which document average BOD and TSS flow in pounds. FCS GROUP estimated the BOD and TSS strengths for Stayton’s Non-residential class based on industry average strengths for residential wastewater customers. Based on this analysis, as reviewed with City staff, it is assumed that the Stayton non-residential BOD was 1.83 times the Stayton residential strength and TSS was 1.83 times that of Stayton-residential strength.

terms. The share of debt service expenses allocated to Stayton classes are embedded in the “Stayton Flow” function of service.

Exhibit 4.7 shows the allocation factors used to distribute the revenue requirement for each function of service to the sewer utility customer classes.

Exhibit 4.7 – Sewer Utility Customer Statistics by Class

| | Accounts | Shared Flow (kgal) | Stayton Flow (kgal) | BOD (mg/L) | TSS (mg/L) | Sublimity Debt Service |
|------------------------|----------|--------------------|---------------------|------------|------------|------------------------|
| Residential | 94.73% | 70.70% | 88.92% | 64.71% | 57.30% | 0.00% |
| Non-Residential | 5.24% | 8.81% | 11.08% | 14.78% | 20.55% | 0.00% |
| Sublimity | 0.03% | 20.49% | 0.00% | 20.51% | 22.15% | 100.00% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

Sewer Utility Cost-of-Service Results

The final step of the cost-of-service analysis is to compare the allocation of the test year revenue requirement with the rate revenue generated by each customer class at existing rates. This evaluation identifies general differences between the allocated cost to provide utility services to customer classes and the rate revenue collected. It also identifies proportional differences in the cost that the City incurs to provide services to different customer classes. The cost-of-service analysis provides an initial and reasonable basis for potential rate adjustments to align rates with the cost of providing service. This cost-rate relationship is a primary tool used by public utilities when developing changes to rates.

Exhibit 4.8 below provides a comparison of the current rate revenue distribution between customer classes and the distribution of revenues resulting from the cost-of-service analysis within the sewer utility. The rate increases in the far-right column indicate the theoretical rate adjustment needed to align each customer class’s existing rate revenue toward the cost of service.

Exhibit 4.8 – Sewer Utility Cost of Service Results

| Cost of Service Summary | Existing 2024 Revenue | COSA 2024 Revenue | \$ Difference | COSA Adjustment to Difference |
|-------------------------|-----------------------|---------------------|-------------------|-------------------------------|
| Residential | \$ 2,724,747 | \$ 2,734,424 | \$ 9,677 | 0.36% |
| Non-residential | 374,865 | 442,733 | 67,868 | 18.10% |
| Sublimity | 575,345 | 727,485 | 152,107 | 40.11% |
| Total | \$ 3,674,957 | \$ 3,904,642 | \$ 229,653 | 6.25% |

A cost-of-service analysis is a reasonable allocation of the test year revenue requirement to classes of service based on available financial and operational data, expectations of future demand for service, and the allocation methodologies described in the previous sections. Given the need for assumptions and these other factors, FCS GROUP recommends a reasonable range for class-specific results to be plus or minus 10.0 percent, including the system average overall increase.

As shown, the revenue collection from the Sublimity class is most out of line with its cost of service. This is likely due to the reimbursement structure of the existing contract with Sublimity, which was signed in 2007 and expired in 2010.³

The contract increases the flow rate assessed to Sublimity each year based on the increase to the Stayton residential rate. However, the flow assessment is only 65 percent of the revenue collected from Sublimity, with debt service payments making up the remaining 35 percent. Debt service payments paid by Sublimity do not increase with the annual flow rate adjustment. As a result, the effective overall rate increase from Sublimity has only been 65 percent of the adjustment to Stayton's residential class each year since 2007.

Also, based on discussions with City staff, recent capital improvements have been rate-funded rather than debt-funded, meaning that the cost of these capital improvements have not been accounted for in Sublimity's debt service payment to the City.

Finally, FCS GROUP cannot confirm that the original rate structure set up in the contract in 2007 collected the full cost of service to Sublimity, which means that any inequities that could have been present at that time have only been compounded by the practice of applying increases only to the flow rate.

A one-time adjustment of 40.11 percent to the billed flow rates would bring Sublimity in line with its cost of service.

Cost-of-Service Phase-In Strategy

The City is collaborating with Sublimity to determine future adjustments to the existing contract to help improve the alignment to the cost-of-service. These adjustments would take effect no earlier than July 1, 2024. Based on the changes to the Sublimity contract, the City's residential and non-residential class rates would be adjusted as well to better align with the study results.

Sewer Rates

The rate schedule in the following exhibit shows the existing (FY 2024) rates and the future rates projected through FY 2029. The projected rates for the residential and non-residential sewer customers are based on preliminary terms for an updated wholesale sewer contract with the City of Sublimity.⁴ The rate forecast for residential and non-residential sewer customers is also designed to align existing rates with the cost-of-service results by FY 2029.

³ The contract allows for automatic renewals on an annual basis.

⁴ Residential and non-residential sewer rates based on preliminary wholesale contract terms for annual compensation to the City of Stayton based on an allocated share of operations and maintenance costs, an allocation share of annual depreciation expense, and return on rate base equivalent to 4.50 percent.

Exhibit 4.9 – Sewer Rates

| | Previous | Existing 2024 | Proposed 2025 | Proposed 2026 | Proposed 2027 | Proposed 2028 | Proposed 2029 |
|----------------------------------|----------|------------------|------------------|------------------|------------------|------------------|------------------|
| Residential | | | | | | | |
| Base fee per dwelling unit | \$66.85 | \$71.03 | \$73.16 | \$75.35 | \$77.61 | \$79.94 | \$82.34 |
| Commercial and Industrial | | | | | | | |
| <u>Average Monthly Use</u> | | | | | | | |
| Up to 3,999 gallons | \$49.95 | \$53.07 | \$56.65 | \$60.48 | \$64.56 | \$68.92 | \$73.57 |
| 4,000 to 5,999 gallons | \$66.85 | \$71.03 | \$75.82 | \$80.94 | \$86.40 | \$92.24 | \$98.46 |
| 6,000 to 9,999 gallons | \$124.78 | \$132.58 | \$141.53 | \$151.08 | \$161.28 | \$172.17 | \$183.79 |
| Above 10,000 gallons | | | | | | | |
| Rate per 1,000 gallons | \$12.48 | \$13.26 | \$14.16 | \$15.11 | \$16.13 | \$17.22 | \$18.38 |

● STORMWATER UTILITY

The City owns and operates the stormwater utility, which provides stormwater management for an estimated 11,572,000 square feet of impervious surface area (ISF) for customers and 7,264,000 ISF for roads and sidewalks in the City's transportation system. The stormwater system consists of about 15 miles of pipe, 8 miles of open channel, 650 catch basins, 20 detention facilities, and 38 major outfalls. The following section details the revenue requirement analysis for the stormwater utility.

REVENUE REQUIREMENT

As previously mentioned, the main purpose of the revenue requirement analysis is to develop a funding plan ("revenue requirement") for the FY 2024 through FY 2029 study period. This section details the results of the sewer utility revenue requirement analysis.

Economic & Inflation Factors

The operating and maintenance expenditure forecast largely relies on the City's FY 2023 budget. The line items in the budget are then adjusted each future year by using one of the applicable factors discussed in **Section III**.

Fund Balances and Utility Revenues

Starting fund balances were based on the City's FY 2023 beginning fund balances carried forward to the beginning of FY 2024 after expected revenues and expenses. The total FY 2024 beginning fund balance for the stormwater utility was estimated to be \$600,000.

An important fiscal policy consideration is the minimum target level of the operating reserve. A general target for stormwater utilities is to keep anywhere from 60 to 90 days of operating expenses in reserve to accommodate short-term fluctuations in cash flow. As discussed in Section II, the minimum operating reserve target is set to 60 days of operating expenses.

In addition to the operating reserve, a capital reserve minimum balance was set to \$80,000 based on discussions with City staff.

Utility Revenues

The stormwater rate structure consists of a simple fixed charge per dwelling unit for the residential customers and a fixed charge per equivalent service unit (ESU) for the non-residential customers based on each customer's measured ISF. An ESU is defined based on the average ISF for a single-family home in the city's boundaries, which is assumed to be 2,500 ISF. Without rate increases, the City is expecting to collect revenues in FY 2024 as listed below for the stormwater utility.

- **Rate Revenues.** A total of \$358,000. About \$164,000 will be collected from the single-family class, \$67,000 from the multi-family classes, and \$128,000 from the non-residential class.

- **Non-rate Revenues.** The only non-rate revenue considered for this analysis is the interest collected on the utility’s fund balance.

Operating Expenses

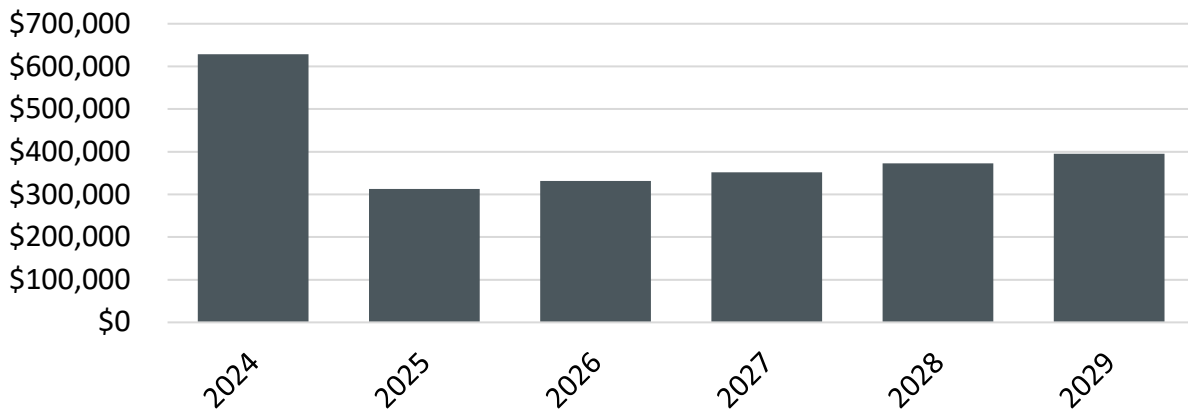
In FY 2024, stormwater utility operating expenses are forecasted at \$348,000 in cash operating expenses, which are expected to increase at an annualized average rate of 2.4 percent up to \$392,000 by FY 2029.

In addition, the stormwater utility has debt service related to two different obligations. The utility is paying off an interfund loan with debt service around \$23,000 per year through FY 2026. In addition, the utility is paying off a 2019 full faith and credit obligation with debt service averaging \$48,000 through FY 2039.

Capital Expenditures and Funding Strategy

A summary graph of the City’s sewer capital program is shown in **Exhibit 5.1** below. The total cost of the capital program, with escalation, will be \$2.4 million between 2024 and 2029, with an average year totaling \$399,000.

Exhibit 5.1 – Stormwater Utility Capital Program Summary



The 2024-2029 capital funding plan is summarized in **Exhibit 5.2** below. The stormwater utility is planning to set aside \$1.1 million in system reinvestment funding from its rate revenues during this period. When combined with other cash sources (such as SDCs, existing cash reserves, further rate-funded capital, and interest on its fund balance), the City is planning to dedicate \$2.4 million in cash funding to the capital plan, which full funds the capital plan without the use of new debt.

Exhibit 5.2 – Stormwater Utility Capital Funding Summary

| Capital Funding Summary | Total | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Capital Project Costs | \$ 2,391,743 | \$ 628,575 | \$ 312,606 | \$ 331,448 | \$ 351,427 | \$ 372,612 | \$ 395,074 |
| Funding Sources | | | | | | | |
| Cash | \$ 2,391,743 | \$ 628,575 | \$ 312,606 | \$ 331,448 | \$ 351,427 | \$ 372,612 | \$ 395,074 |
| Loan Proceeds | - | - | - | - | - | - | - |
| Total Capital Funding | \$ 2,391,743 | \$ 628,575 | \$ 312,606 | \$ 331,448 | \$ 351,427 | \$ 372,612 | \$ 395,074 |

Stormwater Revenue Requirement Summary

Exhibit 5.3 graphically represents the stormwater utility revenue requirement forecast. The stacked columns represent the costs and obligations of the utility such as operating expenses and rate-funded capital, while the lines represent utility revenues before and after future adjustments.

- **Solid black line:** Revenue at existing rates.
Stormwater utility revenue is expected to be roughly \$358,000 in FY 2024 and is expected to grow at about 0.65 percent per year with customer growth.
- **Dashed black line:** Revenues with rate increases.
Rate revenue must increase by 40 percent per year (above customer growth) for FY 2024 and FY 2025 year. After that, rate increases can drop to 3.00 percent per year.
- **Dark blue bar:** Operating expenses.
Operating expenses are based on the adopted FY 2023 budget and increase with the annual cost escalation assumptions previously discussed.
- **Green bar:** Existing debt service.
Annual debt service on the City's current stormwater loans starts at \$71,000 in FY 2024 and decrease to \$48,000 by FY 2029.
- **Purple bar:** Additions to reserves.
In order to meet the minimum fund balance target, set for the stormwater utility, a small share of the rate revenue must be held in the operating fund.
- **Gold bar:** Rate-funded Capital. (i.e., cash available for capital).
Rate funded capital starts at \$83,000 in FY 2024 and increases to \$376,000 by FY 2029.
- **Turquoise bar:** Rate-funded Capital. (i.e., cash available for capital).
Rate funded capital starts at \$83,000 in FY 2024 and increases to \$376,000 by FY 2029.

Exhibit 5.3 – Stormwater Utility Revenue Requirement

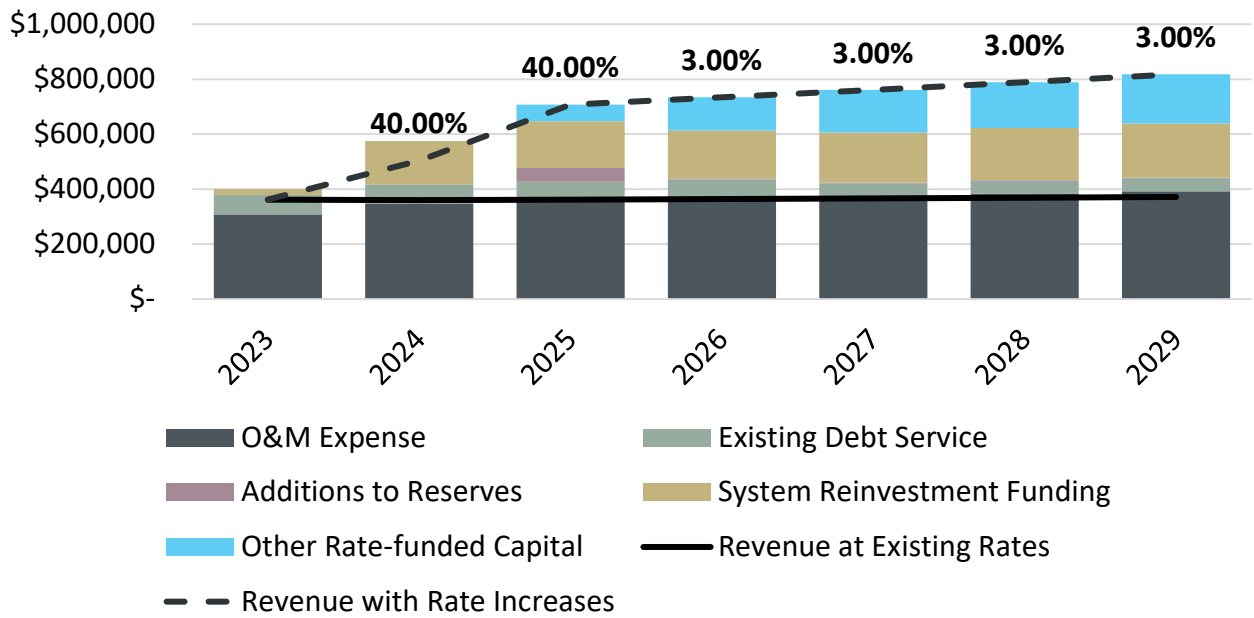


Exhibit 5.4 below provides the detailed summary tables of the revenue requirement analyses.

Exhibit 5.4 – Stormwater Utility Revenue Requirement Detailed Tables

| Revenue Requirement | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues | | | | | | | |
| Rate Revenues Under Existing Rates | \$ 355,974 | \$ 358,277 | \$ 360,594 | \$ 362,927 | \$ 365,274 | \$ 367,637 | \$ 370,015 |
| Non-Rate Revenues | 6,211 | 2,068 | 706 | 1,668 | 1,709 | 1,751 | 1,793 |
| Total Revenues | \$ 362,185 | \$ 360,345 | \$ 361,300 | \$ 364,595 | \$ 366,983 | \$ 369,388 | \$ 371,809 |
| Expenses | | | | | | | |
| Cash Operating Expenses | \$ 308,300 | \$ 347,565 | \$ 356,051 | \$ 364,744 | \$ 373,650 | \$ 382,774 | \$ 392,120 |
| Existing Debt Service | 70,734 | 70,545 | 70,440 | 70,341 | 47,244 | 47,383 | 47,526 |
| New Debt Service | - | - | - | - | - | - | - |
| System Reinvestment Funding | 21,189 | 157,251 | 169,822 | 176,074 | 182,703 | 189,732 | 197,184 |
| Additions Required to Meet Reserves | - | - | - | - | - | - | - |
| Total Expenses | \$ 400,223 | \$ 575,362 | \$ 596,314 | \$ 611,160 | \$ 603,598 | \$ 619,889 | \$ 636,831 |
| Net Surplus (Deficiency) | \$ (38,038) | \$ (215,017) | \$ (235,014) | \$ (246,565) | \$ (236,615) | \$ (250,501) | \$ (265,022) |
| Additions to Meet Coverage | - | - | - | - | - | - | - |
| Total Surplus (Deficiency) | \$ (38,038) | \$ (215,017) | \$ (235,014) | \$ (246,565) | \$ (236,615) | \$ (250,501) | \$ (265,022) |
| Annual Rate Increase | | 40.00% | 40.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Cumulative Rate Increase | | 40.00% | 96.00% | 101.88% | 107.94% | 114.17% | 120.60% |
| Revenues After Rate Increases | \$ 355,974 | \$ 501,587 | \$ 706,765 | \$ 732,677 | \$ 759,539 | \$ 787,385 | \$ 816,253 |
| Additional Taxes from Rate Increase | - | - | - | - | - | - | - |
| Net Cash Flow After Rate Increase | \$ (38,038) | \$ (71,706) | \$ 111,157 | \$ 123,185 | \$ 157,649 | \$ 169,247 | \$ 181,216 |
| Coverage After Rate Increase: Bonded Debt | n/a | n/a | n/a | n/a | n/a | n/a | n/a |
| Coverage After Rate Increase: Total Debt | 2.08 | 3.59 | 6.28 | 6.56 | 10.18 | 10.59 | 11.01 |
| Sample Residential Bill (One ESU) | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| Annual Increase (\$) | | \$2.58 | \$3.61 | \$0.38 | \$0.39 | \$0.40 | \$0.41 |

| Fund Balance | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Operating Reserve | | | | | | | |
| Beginning Balance | \$ 326,900 | \$ 108,862 | \$ 37,156 | \$ 87,793 | \$ 89,937 | \$ 92,133 | \$ 94,383 |
| plus: Net Cash Flow after Rate Increase | (38,038) | (71,706) | 111,157 | 123,185 | 157,649 | 169,247 | 181,216 |
| less: Transfer of Surplus to Capital Fund | (180,000) | - | (60,519) | (121,041) | (155,454) | (166,997) | (178,911) |
| Ending Balance | \$ 108,862 | \$ 37,156 | \$ 87,793 | \$ 89,937 | \$ 92,133 | \$ 94,383 | \$ 96,687 |
| <i>Actual Days of O&M</i> | <i>129 days</i> | <i>39 days</i> | <i>90 days</i> | <i>90 days</i> | <i>90 days</i> | <i>90 days</i> | <i>90 days</i> |
| <i>Minimum Balance Requirement</i> | <i>\$ 50,679</i> | <i>\$ 57,134</i> | <i>\$ 58,529</i> | <i>\$ 59,958</i> | <i>\$ 61,422</i> | <i>\$ 62,922</i> | <i>\$ 64,458</i> |
| <i>Maximum Balance Requirement</i> | <i>\$ 76,019</i> | <i>\$ 85,701</i> | <i>\$ 87,793</i> | <i>\$ 89,937</i> | <i>\$ 92,133</i> | <i>\$ 94,383</i> | <i>\$ 96,687</i> |
| Capital Reserve | | | | | | | |
| Beginning Balance | \$ 297,400 | \$ 490,902 | \$ 117,072 | \$ 125,769 | \$ 183,136 | \$ 263,234 | \$ 342,823 |
| plus: System Reinvestment Funding | 21,189 | 157,251 | 169,822 | 176,074 | 182,703 | 189,732 | 197,184 |
| plus: Transfers from Operating Fund | 180,000 | - | 60,519 | 121,041 | 155,454 | 166,997 | 178,911 |
| plus: Capital Grants / Other Resources | - | - | - | - | - | - | - |
| plus: SDC Revenue | 87,600 | 88,167 | 88,737 | 89,311 | 89,889 | 90,470 | 91,055 |
| plus: Interest Earnings | 5,651 | 9,327 | 2,224 | 2,390 | 3,480 | 5,001 | 6,514 |
| Total Funding Sources | \$ 591,840 | \$ 745,647 | \$ 438,374 | \$ 514,585 | \$ 614,661 | \$ 715,435 | \$ 816,487 |
| less: Capital Expenditures | (100,938) | (628,575) | (312,606) | (331,448) | (351,427) | (372,612) | (395,074) |
| Ending Capital Fund Balance | \$ 490,902 | \$ 117,072 | \$ 125,769 | \$ 183,136 | \$ 263,234 | \$ 342,823 | \$ 421,413 |
| <i>Minimum Target Balance</i> | <i>\$ 80,000</i> | <i>\$ 80,000</i> | <i>\$ 80,000</i> | <i>\$ 80,000</i> | <i>\$ 80,000</i> | <i>\$ 80,000</i> | <i>\$ 80,000</i> |
| Combined Beginning Balance | \$ 624,300 | \$ 599,764 | \$ 154,227 | \$ 213,562 | \$ 273,073 | \$ 355,367 | \$ 437,205 |
| Combined Ending Balance | \$ 599,764 | \$ 154,227 | \$ 213,562 | \$ 273,073 | \$ 355,367 | \$ 437,205 | \$ 518,100 |
| <i>Ending Total Days of Operating Expenditures</i> | <i>710 days</i> | <i>162 days</i> | <i>219 days</i> | <i>273 days</i> | <i>347 days</i> | <i>417 days</i> | <i>482 days</i> |
| <i>Combined Minimum Target Balance</i> | <i>130,679</i> | <i>137,134</i> | <i>138,529</i> | <i>139,958</i> | <i>141,422</i> | <i>142,922</i> | <i>144,458</i> |

Stormwater Rates

The rate schedule in the exhibit below shows the existing (FY 2024) stormwater rates and the future rates projected through FY 2029. These rates are shown with ATB adjustments – that is, it is assumed that there will be no changes to the rate structure and rates will simply be increased by the overall revenue needs as discussed in the revenue requirement section.

Exhibit 5.5 – Stormwater Rates with ATB Adjustments

| Across-the-Board Rate Schedule | Previous 2023 | Existing 2024 | ATB 2025 | ATB 2026 | ATB 2027 | ATB 2028 | ATB 2029 |
|--|------------------|------------------|---------------|--------------|--------------|--------------|--------------|
| Annual System-Wide Rate Increase | | 40.00% | 40.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Monthly Fee | | | | | | | |
| Single Family Dwelling | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| Mobile Home Park (per unit) | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| Apartment (per unit) | \$3.87 | \$5.42 | \$7.59 | \$7.81 | \$8.05 | \$8.29 | \$8.54 |
| Assisted Living Center (per unit) | \$3.87 | \$5.42 | \$7.59 | \$7.81 | \$8.05 | \$8.29 | \$8.54 |
| All Others - Per ESU* | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| <i>*one ESU = 2,500 square feet of impervious surface area</i> | | | | | | | |

● SUMMARY

This section provides an overall summary of the rate study process and results for the water, sewer, and stormwater utilities.

METHODOLOGY

The rate study process consists of three main elements: the revenue requirement, the cost-of-service analysis, and rate design.

- **Revenue requirement.** Based on the City's operating budgets for each utility as well as each utility's capital improvement plan, the total rate revenue requirements were projected for each year from FY 2024 through FY 2029. This rate requirement provided the necessary rate adjustment in each year to cover the full cost of each utility, including operating costs, debt service costs, rate funding for capital, and the funding needed to comply with fiscal policies.
- **Cost-of-service analysis.** Using industry best practices, each budget line item and other rate requirement elements were assigned to each utility's functions of service. Then, the cost of each function of service was allocated to customer classes based on their different service requirements. This resulted in overall adjustments for each class to bring them into line with their cost of service.

For water, those functions of service were base water demand, peak water demand, fire flow requirements, customer costs, and meter and services costs. The classes analyzed were single-family, multi-family, non-residential, City, irrigation, and fire lines.

For sewer, those functions included shared flow, Stayton-only flow, BOD treatment, TSS treatment, customer costs, and debt service costs (as allocated by the City's existing contract with Sublimity). The classes analyzed were residential, non-residential, and Sublimity.

A cost-of-service analysis was not completed for the stormwater utility.

- **Rate Design.** Using the overall revenue needs in each year from FY 2024 through FY 2029, and the estimated cost of service for each class, a rate schedule was designed for each utility through FY 2029. These rate schedules were intended to bring each class closer to its cost-of-service while ensuring revenue collection was sufficient to fund the requirements of each utility.

RATE STUDY RESULTS

The rate study results are summarized for each utility below.

- **Water Utility.** The water utility must increase revenue by 6.25 percent in FY 2024 and can then lower its annual increases to inflationary levels each year thereafter. The key pressures driving the rate increases focus on funding the capital requirements of the utility, both in terms of direct cash funding of the capital plan and for new debt service on expected full faith and credit obligation issuances. The cost-of-service analysis indicated that the City's governmental water

accounts (such as from their parks, sewer treatment plant, and other accounts) can pay more to recover their cost of service. In addition, the existing revenue collected from the irrigation class is under collecting relative to the cost of service. The rate schedule was designed to bring each class closer to its cost of service by FY 2029 by varying only the volume rate for each class and applying uniform increases to the fixed rates for each class of service.

- **Sewer Utility.** The sewer utility must increase revenue by 6.25 percent in FY 2024 and continue with 5.50 percent increases through FY 2028 before dropping to inflationary level increases in FY 2029. These increases are needed to pay for the cash-funding of the sewer utility's capital improvement plan and to replace revenues from Sublimity after debt service payments from existing debt begin to expire in FY 2028. The cost-of-service analysis revealed that revenues from Sublimity must increase by as much as 40 percent to bring Sublimity in line with its cost of service. The difference is likely related to the reimbursement structure within the existing contract between the cities as well as the number of years since the contract was last evaluated. The City is negotiating the rate increase strategy with Sublimity, so the rate schedule provided within this report reflects a planning level estimate based on preliminary terms outlined in a working draft of an updated wholesale sewer contract.
- **Stormwater Utility.** Overall, the stormwater utility requires rate revenue increases of 40 percent in FY 2024 and FY 2025, followed by inflationary level increases each year from FY 2026 to FY 2029. Unlike water and sewer, these increases are needed mostly to cover the operating costs and existing debt service as well as to meet the utility's system reinvestment target and to provide sufficient cash funding for capital through FY 2029. A cost-of-service analysis was not completed for the stormwater utility, and rate increases are expected to be applied across-the-board.

RATE SCHEDULES

Exhibit 6.1 details the recommended rates for the water utility through FY 2029. The City has already adopted the rates shown for FY 2024. To maintain the simplicity of the City's fixed rate schedule, the fixed rates were increased for all classes by the overall rate increases calculated in the previous section. The volume charges were differentiated by class to bring each class's revenue collection closer to its cost-of-service. The combined effect of the fixed and volume charge changes roughly tracks the phase-in schedule discussed in a previous section.

Exhibit 6.1 – Water Rates with Cost-of-Service Phase-in

| Rate Design Schedule | Previous | Existing | Proposed | Proposed | Proposed | Proposed | Proposed |
|--|----------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| System-wide Increase in Revenue | | 6.25% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Fixed Rates (All Classes) | | | | | | | |
| <u>Base Fee</u> | \$16.91 | \$17.96 | \$18.50 | \$19.06 | \$19.63 | \$20.22 | \$20.82 |
| <u>Meter Equivalent Charge</u> | | | | | | | |
| 3/4" | \$8.53 | \$9.06 | \$9.33 | \$9.61 | \$9.90 | \$10.20 | \$10.50 |
| 1" | \$21.37 | \$22.71 | \$23.39 | \$24.09 | \$24.81 | \$25.56 | \$26.32 |
| 1 1/4" | \$31.92 | \$33.91 | \$34.93 | \$35.98 | \$37.06 | \$38.17 | \$39.32 |
| 1 1/2" | \$42.62 | \$45.28 | \$46.64 | \$48.04 | \$49.48 | \$50.96 | \$52.49 |
| 2" | \$68.08 | \$72.34 | \$74.51 | \$76.74 | \$79.04 | \$81.41 | \$83.86 |
| 3" | \$127.73 | \$135.71 | \$139.78 | \$143.98 | \$148.30 | \$152.74 | \$157.33 |
| 4" | \$212.89 | \$226.19 | \$232.98 | \$239.97 | \$247.16 | \$254.58 | \$262.22 |
| 6" | \$425.64 | \$452.23 | \$465.80 | \$479.78 | \$494.17 | \$508.99 | \$524.26 |
| 8" | \$702.38 | \$746.26 | \$768.65 | \$791.71 | \$815.46 | \$839.92 | \$865.12 |
| 10" | \$979.12 | \$1,040.28 | \$1,071.49 | \$1,103.63 | \$1,136.74 | \$1,170.85 | \$1,205.97 |
| <u>Fire Standby Charge</u> | | | | | | | |
| Class 1 | \$6.23 | \$6.62 | \$6.82 | \$7.02 | \$7.23 | \$7.45 | \$7.67 |
| Class 2 | \$26.51 | \$28.17 | \$29.02 | \$29.89 | \$30.78 | \$31.71 | \$32.66 |
| Class 3 | \$178.50 | \$189.65 | \$195.34 | \$201.20 | \$207.23 | \$213.45 | \$219.85 |
| Class 4 | \$424.73 | \$451.26 | \$464.80 | \$478.74 | \$493.10 | \$507.90 | \$523.13 |
| Class 5 | \$830.65 | \$882.54 | \$909.01 | \$936.28 | \$964.37 | \$993.30 | \$1,023.10 |
| Volume Charges (by Class) | | | | | | | |
| Single-family | \$1.55 | \$1.65 | \$1.66 | \$1.66 | \$1.66 | \$1.66 | \$1.66 |
| Multi-Family | \$1.55 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 |
| City | \$1.55 | \$1.65 | \$1.95 | \$2.31 | \$2.73 | \$3.21 | \$3.77 |
| Non-Residential | \$1.55 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 | \$1.65 |
| Irrigation | \$1.55 | \$1.65 | \$2.14 | \$2.73 | \$3.41 | \$4.21 | \$5.15 |
| Fire Line | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |

The rate schedule in **Exhibit 6.2** below shows the preliminary rate schedule through FY 2029 for the sewer utility. The City has already adopted the rates shown for FY 2024. Projected rates from FY 2025 to FY 2029 are based on preliminary terms for an updated wholesale sewer contract with the City of Sublimity. Final sewer rates for the FY 2025 to FY 2029 time period will be adjusted as needed once the updated contract with the City of Sublimity is complete.

Exhibit 6.2 – Sewer Rates with Adjustments

| | Previous | Existing 2024 | Proposed 2025 | Proposed 2026 | Proposed 2027 | Proposed 2028 | Proposed 2029 |
|----------------------------------|----------|------------------|------------------|------------------|------------------|------------------|------------------|
| Residential | | | | | | | |
| Base fee per dwelling unit | \$66.85 | \$71.03 | \$73.16 | \$75.35 | \$77.61 | \$79.94 | \$82.34 |
| Commercial and Industrial | | | | | | | |
| <u>Average Monthly Use</u> | | | | | | | |
| Up to 3,999 gallons | \$49.95 | \$53.07 | \$56.65 | \$60.48 | \$64.56 | \$68.92 | \$73.57 |
| 4,000 to 5,999 gallons | \$66.85 | \$71.03 | \$75.82 | \$80.94 | \$86.40 | \$92.24 | \$98.46 |
| 6,000 to 9,999 gallons | \$124.78 | \$132.58 | \$141.53 | \$151.08 | \$161.28 | \$172.17 | \$183.79 |
| Above 10,000 gallons | | | | | | | |
| Rate per 1,000 gallons | \$12.48 | \$13.26 | \$14.16 | \$15.11 | \$16.13 | \$17.22 | \$18.38 |

The rate schedule in **Exhibit 6.3** below shows the rate schedule through FY 2029 for the stormwater utility. The City has already adopted the rates shown for FY 2024. These rates are shown with ATB adjustments – that is, it is assumed that there will be no changes to the rate structure and rates will simply be increased by the overall revenue needs as discussed in the revenue requirement section.

Exhibit 6.3 – Stormwater Rates with ATB Adjustments

| Across-the-Board Rate Schedule | Previous 2023 | Existing 2024 | ATB 2025 | ATB 2026 | ATB 2027 | ATB 2028 | ATB 2029 |
|--|------------------|------------------|---------------|--------------|--------------|--------------|--------------|
| Annual System-Wide Rate Increase | | 40.00% | 40.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Monthly Fee | | | | | | | |
| Single Family Dwelling | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| Mobile Home Park (per unit) | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| Apartment (per unit) | \$3.87 | \$5.42 | \$7.59 | \$7.81 | \$8.05 | \$8.29 | \$8.54 |
| Assisted Living Center (per unit) | \$3.87 | \$5.42 | \$7.59 | \$7.81 | \$8.05 | \$8.29 | \$8.54 |
| All Others - Per ESU* | \$6.45 | \$9.03 | \$12.64 | \$13.02 | \$13.41 | \$13.81 | \$14.23 |
| <i>*one ESU = 2,500 square feet of impervious surface area</i> | | | | | | | |

Utility Rate Study: Wastewater Utility

City of Stayton, OR

Utility Rate Study: Wastewater Utility

Wholesale Cost Analysis

| Wholesale Cost-of-Service | Low Estimate | Mutually Agreed Upon Terms | High Estimate |
|--|---------------------|---------------------------------------|----------------------|
| Operating & Maintenance | \$ 492,637 | \$ 492,637 | \$ 492,637 |
| Annual Depreciation | 86,978 | 86,978 | 86,978 |
| Net Rate Base | \$ 3,268,550 | \$ 3,268,550 | \$ 3,268,550 |
| Multiplied by: Rate of Return | 3.32% | 5.50% | 7.13% |
| Return on Investment | \$ 108,358 | \$ 179,770 | \$ 233,185 |
| Total Wholesale Cost-of-Service | \$ 687,974 | \$ 759,385 | \$ 812,800 |
| Unit Cost (per kgal of billed flow) | \$ 6.17 | \$ 6.81 | \$ 7.29 |
| <i>info: kgals of billed flow</i> | 111,443 | 111,443 | 111,443 |

| | | | |
|--|----------|----------|----------|
| Ave. Single Family monthly wholesale sewer bill | \$ 24.69 | \$ 27.26 | \$ 29.17 |
|--|----------|----------|----------|

| Test Year | | 2024 | | | |
|----------------------------|-------------------------------|---|--------------|---------------------|--|
| Wholesale Element | Test Year Revenue Requirement | Allocated to Sublimity on the Basis of: | % Allocation | \$ Allocation | |
| Depreciation | | | | | |
| CUSTOMER | \$ - | Customer Accounts | 0.03% | \$ - | |
| SHARED FLOW | 254,249 | Weighted Billed Flow | 20.49% | 52,099 | |
| STAYTON FLOW | 147,133 | No Allocation | 0.00% | - | |
| BOD | 81,757 | BOD-Weighted Flow | 20.51% | 16,770 | |
| TSS | 81,757 | TSS-Weighted Flow | 22.15% | 18,109 | |
| DIRECT ASSIGN | - | No Allocation | 0.00% | - | |
| AS ALL OTHERS | - | No Allocation | 0.00% | - | |
| Total Depreciation | \$ 564,895 | | | \$ 86,978 | |
| Net Rate Base | | | | | |
| CUSTOMER | \$ - | Customer Accounts | 0.03% | \$ - | |
| SHARED FLOW | 10,254,558 | Weighted Billed Flow | 20.49% | 2,101,283 | |
| STAYTON FLOW | 4,777,830 | No Allocation | 0.00% | - | |
| BOD | 2,736,043 | BOD-Weighted Flow | 20.51% | 561,224 | |
| TSS | 2,736,043 | TSS-Weighted Flow | 22.15% | 606,042 | |
| DIRECT ASSIGN | - | No Allocation | 0.00% | - | |
| AS ALL OTHERS | - | No Allocation | 0.00% | - | |
| Total Net Rate Base | \$ 20,504,474 | | | \$ 3,268,550 | |

| Cost Allocation | Allocation to Sublimity |
|----------------------|-------------------------|
| Customer Accounts | 0.03% |
| No Allocation | 0.00% |
| Weighted Billed Flow | 20.49% |
| BOD-Weighted Flow | 20.51% |
| TSS-Weighted Flow | 22.15% |

| | | CUSTOMER | SHARED FLOW | STAYTON FLOW | BOD | TSS | DIRECT ASSIGN | AS ALL OTHERS | TOTAL | ALLOCATION BASIS |
|---|---------------|----------|---------------|--------------|--------------|--------------|---------------|---------------|---------------|----------------------------------|
| Annual Depreciation | | | | | | | | | | |
| Treatment | \$ 301,752 | 0.00% | 50.00% | 0.00% | 25.00% | 25.00% | 0.00% | 0.00% | 100.00% | As Treatment |
| Collection | | | | | | | | | | |
| Sewer Main Infrastructure | 99,493 | 0.00% | 21.27% | 78.73% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Shared Flow - Historical Cost |
| Infrastructure-Mill Creek Sewer (2006 Upgrades) | 58,636 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Shared Flow |
| All Other Collection | 48,710 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Stayton Flow |
| Pumping | | | | | | | | | | |
| Mill Creek Lift Station- # 3 (2016 Upgrades) | 3,923 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Shared Flow |
| All Other Pumping | 8,723 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Stayton Flow |
| General Plant | 43,658 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | 100.00% | As All Others |
| Total Annual Depreciation | \$ 564,895 | \$ - | \$ 234,599 | \$ 135,762 | \$ 75,438 | \$ 75,438 | \$ - | \$ 43,658 | \$ 564,895 | |
| Allocation of As All Others | | | 19,650 | 11,371 | 6,319 | 6,319 | - | - | | |
| Total Annual Depreciation | \$ 564,895 | \$ - | \$ 254,249 | \$ 147,133 | \$ 81,757 | \$ 81,757 | \$ - | | | |
| Net Rate Base | | | | | | | | | | |
| Treatment | \$ 10,443,462 | 0.00% | 50.00% | 0.00% | 25.00% | 25.00% | 0.00% | 0.00% | 100.00% | As Treatment |
| Collection | | | | | | | | | | |
| Sewer Main Infrastructure | 4,950,760 | 0.00% | 21.27% | 78.73% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Shared Flow - Historical Cost |
| Infrastructure-Mill Creek Sewer (2006 Upgrades) | 3,459,539 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Shared Flow |
| All Other Collection | 395,946 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Stayton Flow |
| Pumping | | | | | | | | | | |
| Mill Creek Lift Station- # 3 (2016 Upgrades) | 50,994 | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Shared Flow |
| All Other Pumping | 265,667 | 0.00% | 0.00% | 100.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | As Stayton Flow |
| General Plant | 938,106 | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100.00% | 100.00% | As All Others |
| Total Net Rate Base | \$ 20,504,474 | \$ - | \$ 9,785,399 | \$ 4,559,238 | \$ 2,610,866 | \$ 2,610,866 | \$ - | \$ 938,106 | \$ 20,504,474 | |
| Allocation of As All Others | | | 469,159 | 218,592 | 125,177 | 125,177 | - | - | | |
| Total Net Rate Base | \$ 20,504,474 | \$ - | \$ 10,254,558 | \$ 4,777,830 | \$ 2,736,043 | \$ 2,736,043 | \$ - | | | |

| Weighted Cost of Capital Analysis | | | | | |
|---|----|------------------------|------------------------|--|-------------------------|
| Financial Metrics from FY 2022 Annual Financial Report | | | | | |
| | | FY 2022 | | | |
| Net Non-Current Assets | \$ | 21,069,369 | | Statement of Net Position for Wastewater Utility, p9 | |
| Outstanding Long-Term Debt | | 9,147,672 | | Statement of Net Position for Wastewater Utility, p9 | |
| Interest Expense | | 257,385 | | Statement of Revenues, Expenses, and Changes in Net Position for Wastewater Utility, p10 | |
| Net Position | | 17,466,694 | | Statement of Net Position for Wastewater Utility, p9 | |
| Total Assets | | 27,664,663 | | Statement of Net Position for Wastewater Utility, p9 | |
| Utility Sales | | 3,366,935 | | Statement of Revenues, Expenses, and Changes in Net Position for Wastewater Utility, p10 | |
| Capital Structure Supported by | | | | | |
| | | 2022 | | | |
| Debt | \$ | 9,147,672 | | | |
| Equity | | 11,921,697 | | | |
| Total | | 21,069,369 | | | |
| As a Percent | | | | | |
| Debt | | 43.42% | | | |
| Equity | | 56.58% | | | |
| Total | | 100.00% | | | |
| Effective Cost of Debt | | | | | |
| | | 2022 | | | |
| Interest Expense | \$ | 257,385 | | | |
| Divided by: Outstanding Long-Term Debt | | 9,147,672 | | | |
| Effective Cost of Debt | | 2.81% | | | |
| Cost of Equity | | | | | |
| Risk Free Rate of Return | | 3.70% | | 2000-2023 rate of return on common treasury stock (20-year US Treasury Note); | |
| Plus: | | | | | |
| Risk Premium | | 6.00% | | Incremental return above risk-free rate | |
| Multiplied by: Water-related Industry Beta | | 0.15 | | Beta coefficient for water-related firms (Duff & Phelps) | |
| | | 0.90% | | | |
| Plus: | | | | | |
| Size Premium | | 5.85% | | | |
| Total Cost of Equity | | 10.45% | | | |
| Size Premium Calculation | | | | | |
| | | Value of Equity | Value of Assets | Sales | Weighted Average |
| Value | \$ | 17,466,694 | \$ 27,664,663 | \$ 3,366,935 | |
| Value (\$ in millions) | \$ | 17.47 | \$ 27.66 | \$ 3.37 | |
| Log | | 1.38 | 2.12 | 1.57 | |
| Y-Intercept | | 0.07 | 0.09 | 0.09 | |
| Slope Coefficient | | (0.01) | (0.01) | (0.01) | |
| Size Premium | | 5.51% | 5.54% | 6.50% | |
| Assumed Weighting | | 0.33 | 0.33 | 0.33 | |
| Weighted Size Premium | | 1.84% | 1.85% | 2.17% | 5.85% |
| Weighted Average Cost of Capital | | | | | |
| | | Cost | Weight | Weighted Cost | |
| Cost of Debt | | 2.81% | 43.42% | 1.2216% | |
| Cost of Equity | | 10.45% | 56.58% | 5.91% | |
| Total | | | | 7.13% | |

EXHIBIT B

Utility Basis Rate calculation for fiscal year 2024/2025

Allocated Operations and Maintenance Fee. For the test fiscal year 2023/2024, Stayton’s total operations and maintenance costs were \$2,840,455, of which \$492,637 were allocated to Sublimity. For the fiscal years 2024/2025 Sublimity’s allocated operations and maintenance fee is \$492,637.

Allocated Depreciation Fee. For test fiscal year 2023/2024, Stayton’s total annual depreciation was \$564,895, with Stayton and Sublimity mutually agreeing that \$86,978 should be allocated to Sublimity. For fiscal years 2024/2025, 2025/2026 and 2026/2027 this cost is fixed at \$86,978.

Return-on-investment fee. For test fiscal year 2023/2024, the Rate Base was \$3,268,550. The parties mutually agreed that the rate of return on the Rate Base shall be 5.50% in the first three (3) years of the Agreement. For fiscal years 2024/2025, 2025/2026 and 2026/2027, the return-on-investment fee is fixed at \$179,770.

Fiscal Year 2024/2025 Total Fees for Sublimity.

| | |
|---|------------------|
| Per 5.2: Allocated Operations and Maintenance Fee | \$492,637 |
| Per 5.3: Allocated Depreciation Fee: | \$86,978 |
| Per 5.4: Return-on-Investment Fee: | \$179,770 |
| Utility Basis Rate | \$759,385 |

For the first three (3) years of the Agreement, if Sublimity exercises its option to prepay the Allocated Depreciation Fee, the monthly payment shall consist only of the Allocated Operations and Maintenance Fee and Return-on-Investment Fee and shall be \$56,033.91 for the first fiscal year of the Agreement. If Sublimity does not exercise its option to prepare the Allocated Depreciation Fee, the monthly payment shall be \$63,282.08 for the first fiscal year of the Agreement.

Exhibit C

The Operations Agreement will contain obligations between the parties on at least the following three elements.

Element One: Inflow and infiltration. The parties recognize that both the Stayton Collection System and the Sublimity Collection System are significantly impacted by high levels of inflow and infiltration; each party has an independent obligation to reduce inflow and infiltration. The parties recognize that inflow and infiltration is detrimental to Stayton's ability to maintain capacity within the Wastewater Treatment Plant for future growth. Without reducing inflow and infiltration, Sublimity recognizes that Stayton will be unable to supply the capacity within the Wastewater Treatment Plant to support the planned growth within each community. The parties will agree on a long-term program to measure inflow and infiltration within each collection system and implement measures that will demonstrably reduce inflow and infiltration within each collection system. Measures for reduction of inflow and infiltration will include, but not be limited to, capital infrastructure improvements by each party to its respective collection system and user enforcement measures.

Element Two: Development within each City that increases flow to the Wastewater Treatment Plant. The parties recognize that Stayton carries a significant burden under this Agreement to maintain the Wastewater Treatment Plant for future growth within each community while maintaining compliance with the NPDES permit. The parties wish to share equitably in the Wastewater Treatment Plant capacity and agree that unchecked growth within either community will create a hardship on Stayton's maintenance and operation obligations. The parties recognize that future development within each community that will have an impact on the Wastewater Treatment Plant includes both new connections to either collection system or changes on a property that cause an increase in flows for an existing connection. The parties will agree on a program for timely communication of new development proposals and the equitable sharing of Wastewater Treatment Plant capacity as it relates to future growth within each community.

Element Three: Reducing the introduction of contaminants that harm reduce the effective operation of the Wastewater Treatment Plant. The parties recognize that certain contaminants that reach the Wastewater Treatment Plant can detrimentally impact the operation of the Wastewater Treatment Plant, up to and including causing failure of the Wastewater Treatment Plant and leading to violations of the NPDES permit. For purposes of the Operations Agreement, contaminants include the condition of wastewater flows outside acceptable ranges for measures of temperature, pH, BOD, and TSS. Without reducing such harmful contaminants, Sublimity recognizes that Stayton's ability to maintain operations of the Wastewater Treatment Plant is significantly harmed. The parties will agree on a program to measure and address contaminants introduced into each party's collection system. Such a program will consist of obligations on the parties to have ordinances against illegal dumping, monitor contaminants

introduced into each party's collection system, and mechanisms to enforce restrictions or penalize such parties that introduce such contaminants.

Element Four: The cities agree that both cities will charge separate systems development charge components for wastewater treatment and wastewater collection. A wastewater treatment systems development charge component methodology and rate will be created by Stayton, and once implemented by each city, will be imposed on all new development within both cities. The wastewater treatment component collected in Sublimity will be remitted in whole to Stayton to be spent on wastewater treatment capacity expanding projects. The wastewater collection component charged and collected by each city will be retained by the city charging the wastewater collection component. Sublimity's remittance to Stayton of a systems development charge wastewater treatment component is separate from Sublimity's obligations for payment of the Utility Basis Rate.