CITY OF AMITY

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AMITY OREGON
Established Eighteen Forty-Eight

To: The Mayor and Members of the City Council
Origin: Michael Thomas, City Administrator
Date: August 20, 2019
Subject: Computation of New Utility Rates for Water Service

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1. USDA/Rural Development (USDA/RD) and the City of Amity entered into a loan agreement to repair, renovate, and replace parts of the Amity water system. As a condition of the loan the City must show the ability to repay its obligations. To do so, USDA/RD requires the City to set rates at an acceptable level. USDA/RD left it to the City to determine the appropriate rate increase (or decrease).
2. The City passed a resolution to raise rates at the beginning of 2019 and passed a 3.9% increase to the base rate. The City also authorized future rate increases beginning in January 2020, in anticipation of the USDA/RD loan. The City's contract engineers and contract water consultant did preliminary studies and calculations to determine what possible rate increases may be in response to the USDA/RD loan. The general estimate was that the city would raise the overall rates into the $70 range, by raising the base rate $7-$10 per year and until reaching a $21-30 increase. However, these were estimates based on the expected USDA/RD loan and grant amounts.
3. The City actually received $1,635,000 in loan money, which is a lower loan amount than expected. (The loan was offset by a higher grant amount.) This loan comes with a monthly payment obligation of $67,918 beginning at project completion. The City expects to complete the project within three years, although USDA/RD allows for five years.
4. USDA/RD also requires that current account holders remain connected to Amity provided water and that all new construction also connects to Amity water. USDA/RD recommends either ordinances that mandate this, but also suggests penalties for users who disconnect from City provided water service.
5. To determine the required rate increase, the City is using the following baselines and making the following assumptions.
    a. The loan payback would begin in three years, as that is more conservative.
    b. The calculations are based on account holders inside City Limits. Rate increases should be comparable for out of City Limits users as well
    c. The City is using the Seattle, Tacoma, and Bellevue Consumer Price Index (STB-CPI) for inflation rates, as stated in ordinance. The STB-CPI is currently 2.5% (.025), as stated by the Bureau of Labor Statistics.
    d. The City's Operations and Maintenance (O&M) Budget is currently set at

$369,194 and will increase to $397,582 in three years, based on the 2.5% inflation/STB-CPI rate.

e. The City will not be able to reduce labor costs to lower the future O&M budget to $331,000, as mentioned during a March 2019 City Council Meeting.

f. The City has 676 water accounts at this time, based on account data as of July 2019. This does not include the expectation that approximately 40 new water accounts will be added as new housing units enter the market and are occupied.

g. The City's current base water rate is $38.56, per ordinance.

h. The City will use the same math formulas as Keller Associates' April 17, 2019 presentation regarding water rates.

i. Using Keller Associate's April 17, 2019 data, the City will also claim the average account holder's water use is $16.28 per month or $4.07 per 1,000 gallons at 4,000 gallons / month.

6. Calculations:

Future water system costs to the City:

(Future O&M – Current O&M) + Loan payments = Annual increase in three years
($397,582 – $369,194) + $67,918 = $96,306

(Annual Increase / 12) / Accounts = Monthly Increase per account in three years
($96,306 / 12) /676 = $11.87 or $12 per month

Total per month / years to go = rate hike per year

$12 / 3 = ***$4 per year rate increase***

STB-CPI upon Base Rate:

[(1 + inflation rate)^total years] * Present Rate = Future Rate
[(1 + .025)^3] * $38.56 = $41.52

$41.52 is a $0.964 or approximately ***$1 per year*** increase

Targeted new base rate in 3 years:

Future base rate + required increase = Goal increase in three years
$41.52 + $11.87 = $53.39

Expected base rate increases across time using $5:

Year 1 (Current Rate + Increase + Inflation) or ($38.56 + $4 + $1) = $43.56
Year 2 (Year 1 + Increase + Inflation) or ($43.56 + $4 + $1) = $48.56
Year 3 (Year 2 + Increase + Inflation) or ($48.56 + $4 + $1) = $53.56
Expected new base rate in 3 years = ***$53.56***

$53.56 > $53.39 target. Therefore, a $5 per year increase is appropriate.

Expected average monthly water bill in 3 years:

$53.56 + $16.28 = $69.67 per month

7. In conclusion, the City will need to raise the base rate every year, for at least the next three years, by $1 to meet inflation. To meet the expected increase in O&M and to cover its loan obligations, the City will need a base rate that is $12 higher in three years. To offset the shock of a singular rate increase of $15, the City is better off raising rates incrementally. ***Therefore, the City needs to raise its monthly base water rate by $5 each year for the next 3 years beginning January 1, 2020.***

   In three years, the average water user will see their water charge at $69.67 per month; based on Keller Associates' determination that the average rate payer consumes 4,000 gallons per month. (At this time, the City does not need to raise rates on the consumption.) This compares with Keller Associates' own initial estimate of water charge of $69.97 per month and a consultant's estimate of a water charge of $72.91, both of which assumed a higher loan amount from USDA/RD.

   In three years, the City may determine to raise rates further based solely on an inflationary basis. If the expected new housing brings in new accounts, the additional revenue ensures the City's ability to meet USDA/RD requirements going forward, without further immediate rate increases to meet its loan obligations.