

MEMORANDUM

To: Brandon Hammond, City Manager
Marta Barajas, Finance Director
Mike Lees, City Engineer

From: Andy Parks, CPA
President, GEL Oregon, Inc.

Date: October 4, 2025

Subject: Preliminary Water Rate Adjustments - City and Outside City Customers

Introduction

This memorandum presents preliminary findings from an analysis of the City of Boardman's water utility rates and financial forecasts for fiscal years (FY) 2026 through 2045. The analysis draws from the attached financial forecasts. These projections incorporate revenue, expenditures, population growth estimates from Portland State University (PSU), expected inflation from the Cleveland Federal Reserve, capital improvement plans (CIP), and debt service obligations. Additionally, comparative data from Cividata on the attached reports; water costs for single family residential 0 – 21,000 gallons across 26 entities in Oregon and Washington and commercial 2" meter for 0 – 24,000 gallons informs the recommendations.

The primary objective of the financial and rate analysis is to achieve long-term financial sustainability for the water fund, ensuring adequate funding for operations, maintenance, infrastructure replacement, and debt service (from outside-city customers). Key considerations include equitable rate structures for city and outside-city customers, incorporation of general obligation (GO) debt service impacts, and alignment with industry best practices. The forecasts assume infrastructure replacement at inflation-adjusted costs, excluding GO-funded assets during their 20-year debt repayment period (to avoid cost duplication).

Financial Projections and Rate Adjustment Scenarios

A Baseline 20-year financial forecast model was created. The forecasting model was utilized to analyze minimum rate adjustments needed to recover projected costs for personnel, materials and services, historical maintenance capital expenditures (approximately \$30,000/year) and transfers and retain adequate fund balance for operating working capital (90-days), a 10% contingency for expenditures, and accumulation of reserves for capital replacement (limited to



existing capital investment prior to \$14.9 million investment from GO debt proceeds). Additionally, the Baseline 20-year model was modified to include the water fund's allocation of GO Bond debt service to determine the minimum rate impacts for outside city customers that do not pay GO debt service.

The Baseline forecast, without rate adjustments, projects revenues from fees and services starting at approximately \$1.16 million in FY 2026 and growing modestly to \$1.40 million by FY 2045, driven by population growth (from PSU estimates: Boardman's population rising from 5,749 in 2025 to 7,477 in 2045) and wholesale charges. Expenditures, including operations, maintenance, and capital outlays, are projected to increase due to inflation (Cleveland Fed expected inflation averaging around 2.3-2.8% annually over the period) including the addition of two personnel (.5 full-time equivalent positions in FY 2027 and FY 2037) during the 20-year period, and CIP needs, such as pipe replacements and pump station upgrades. Without rate increases, the fund shows persistent deficits, with net position (ending fund balance) turning negative in FY 2028, with a negative balance of more than \$16 million as of June 30, 2045, indicating unsustainability.

The modified Baseline model incorporates needed rate hikes to cover GO debt service (principal and interest on the 2021 GO bond allocated to the water fund of approximately \$914,000 per year with full payoff in FY 2045). This debt, funded by city taxpayers via property taxes, is not directly recovered from rates for city customers but must be equitably allocated to non-city customers. The forecasts include annual depreciation for existing infrastructure, adjusted by CPI (from the "CPI" sheet, showing U.S. CPI-U increases from 3.0% in 2023 to 2.7% in 2025), ensuring replacement costs are built into long-term planning. GO-funded assets are excluded from depreciation recovery during the debt term; however, at the end of the 20-year period (FY 2042), capital replacement costs for these assets should be integrated into rates to avoid future funding gaps.

Preliminary findings indicate two main scenarios for rate adjustments to achieve sustainability:

1. **Excluding Debt Service in Rates (City Customers Only):** To fund operations, maintenance, and non-debt CIP, rates require annual increases of 10% for the first three years (FY 2026-2028), followed by 5% increases for years 4-13 (FY 2029-2038), and then CPI-linked adjustments (approximately 2.5-3%) for years 14-20 (FY 2039-2045). This results in projected revenues growing from \$1.89 million in FY 2026 to \$5.20 million in FY 2045, covering expenditures and maintaining a stable net position.
2. **Including Debt Service in Rates (Non-City Customers):** For equitable treatment of customers not paying GO debt via taxes, rates incorporate debt service costs. This necessitates a sharper initial adjustment: 65% increase in year 1 (FY 2026), 10% in years 2-3 (FY 2027-2028), 5% in years 4-13 (FY 2029-2038), and CPI thereafter. The net effect is non-city rates at 150% of city rates, consistent with practices in comparable

municipalities where outside customers bear additional costs for not contributing to tax-funded infrastructure.

These adjustments ensure the water fund's resources (including retail charges, wholesale to the Port, and miscellaneous fees) match uses. Population growth drives additional demand, with Boardman's population projected to increase by about 30% over 20 years, necessitating capacity expansions.

Comparative Analysis and Current Rate Positioning

Residential Rates

Boardman's current residential rates are significantly below regional averages, as detailed in the attached "SFR - Boardman 0 - 21,000 gallons.pdf" report comparing 26 utilities (e.g., Bend, Hermiston, Kennewick) for single-family residential (SFR) costs with 3/4" meters and usage from 0-21,000 gallons. Boardman's fixed rate of \$17.33 (including 7,000 gallons) is 43% lower than the average of \$30.34. At 7,000 gallons (where additional charges begin in Boardman), Boardman's cost remains \$17.33, compared to the average \$43.15—a \$25.82 difference (149% higher average). Boardman's consumption rate of \$0.47 per 1,000 gallons is \$2.07 below the average of \$2.54.

The report's chart illustrates Boardman's flat cost line, establishing the minimum of the range of the 26 cities, except for the base cost where one municipality's fee structure is fully consumption based (Klamath Falls).

Commercial Rates

Similarly, Boardman's commercial rates for customers with 2" meters are well below averages, setting the minimum for the comparable utilities. See the "Comm 2 0-24,000 gallons - Boardman.pdf" report comparing 22 utilities for usage from 0-24,000 gallons. The smaller sample size (22 vs. 26 for residential) reflects that some smaller utilities do not specify rates for 2" metered commercial customers. Boardman's base rate of \$21.53 is \$87.24 less than the average of \$108.77. The average consumption rate across comparators is \$2.48 per 1,000 gallons, which is \$1.64 greater than Boardman's commercial rate of \$0.84 per 1,000 gallons (nearly 200% greater).

Boardman's costs remain flat at \$21.53 up to 8,000 gallons, then increase incrementally (e.g., \$34.97 at 24,000 gallons), underscoring its low positioning. The accompanying chart shows Boardman's cost curve substantially below the average and median lines, reinforcing the opportunity for rate adjustments to align with regional norms while maintaining competitiveness.

Notably, Boardman is unique among comparators in funding water debt via tax levies rather than rates, shifting the burden to property taxpayers. Incorporating debt into rates (as recommended for non-city customers) would add 55-75% to the rate increases needed (net of the 10% hikes in years 1-3 excluding debt), aligning with equity principles.

Recommendations and Best Practices

To implement these findings, I recommend the following:

- **Rate Structure Reforms:** Adjust fixed charges for larger meters to reflect capacity (e.g., scaling up from 3/4" base). Eliminate included water in the base rate to encourage conservation and align with cost-of-service principles. Increase both fixed and consumption charges to generate sufficient revenue, targeting the 150% ratio for non-city customers.
- **Phased Implementation:** Adopt the proposed increases to minimize shock while achieving sustainability. Monitor actual vs. projected revenues annually, adjusting for variances in population, inflation, or CIP.
- **Long-Term Planning:** Update model annually, and post-FY 2041, incorporate GO asset replacement into rates.
- **Equity and Communication:** Emphasize that non-city rates at 150% of City rates promote fairness, as city residents bear tax burdens. Engage stakeholders through public hearings to explain the rationale, using comparative data to demonstrate Boardman's low starting point.

These changes position the water utility for resilience amid growth and inflation. I am available to discuss details, refine models, or conduct further sensitivity analyses.

Attachments:

- SFR - Boardman 0-21000 gallons.pdf
- Comm 2" meter, 0-24,000 gallons - Boardman.pdf