MEMORANDUM

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

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

Date: November 16, 2025

Subject: Preliminary Sewer Rate Adjustments for Long-term Financial Sustainability

Introduction

This memorandum presents preliminary findings from the analysis of the City of Boardman's sewer utility rates and financial forecasts for fiscal years (FY) 2026 through 2045. The projections incorporate revenue, expenditures, population growth estimates from Portland State University (PSU), expected inflation from the Cleveland Federal Reserve (averaging 2.3–2.8% annually), capital improvement plans (CIP), and debt service obligations. Comparative data from Cividata on residential (single-family, 3/4" meter equivalent, 0–12,000 gallons across 23 Oregon and Washington entities) rates is included in the attachment "SFR - Sewer 11-2025.pdf."

The primary objective is achieving long-term financial sustainability for the sewer fund, ensuring adequate funding for operations, maintenance, infrastructure replacement, and debt service (allocated to non-city customers). Key considerations include equitable rate structures, general obligation (GO) debt service impacts from the 2021 GO bonds, and alignment with industry best practices as advocated by the American Water Works Association (AWWA). Forecasts assume infrastructure replacement at inflation-adjusted costs, excluding GO-funded assets during their 20-year debt repayment period to avoid duplication. The minimum desired fund balance policy targets full cost recovery, including recapture of depreciation on existing infrastructure (non-debt scenario) or both existing and GO-funded infrastructure (debt scenario), equivalent to 25% of annual operating expenditures.

Financial Projections and Rate Adjustment Scenarios

The baseline 20-year financial forecast model (Base Forecast - no rate change) projects revenues from fees and services starting at approximately $955,000 in FY 2026, growing modestly to $1.22 million by FY 2045, driven by PSU population growth (Boardman from 5,749 in 2025 to 7,476 in 2045) and flat retail/wholesale charges. Expenditures rise due to inflation, additional staff (0.5 FTE in FY 2027), CIP needs (e.g., pipe replacements, lagoon upgrades), and

historical maintenance (~$25,000/year). Without adjustments, deficits emerge immediately, with net position turning negative in FY 2027 and reaching a significant shortfall by FY 2045.

The modified baseline (Base Forecast with Rate Chg; preferred scenario for core rate adjustments) incorporates escalating revenues to cover operations, maintenance, non-debt CIP, transfers, and reserves (90-day working capital, 10% contingency), with updated assumptions for full replacement costs of existing infrastructure. To achieve sustainability:

· 6% annual increases FY 2027–FY 2033 (effective July 1, 2026–July 1, 2032).

· 5% annual increases thereafter (FY 2034–2045).

These adjustments yield projected revenues growing from ~$1.05 million in FY 2027 to ~$3.15 million by FY 2045, aligning expenditures and yielding an ending fund balance of ~$12.67 million, $60,000 (~0.5%) below the $12.73 million policy target. For city rate payers, this implies moderate near-term hikes from a low base, preserving affordability. Not adjusting rates will exacerbate deficits, straining reserves and halting capital projects.

The debt-inclusive scenario (Base Forecast with Debt Serv) allocates the sewer portion (~23%) of GO bond debt service (~$271,000/year through FY 2041, including a one-year debt service reserve), funded by city property taxes but equitably recovered via surcharges on non-city customers. This model is provided to illustrate impacts and justify a 150% surcharge for non-city customers (e.g., to recover GO costs without burdening city residents). Depreciation for existing infrastructure is CPI-adjusted (U.S. CPI-U from 3.0% in 2023 to 2.7% in 2025); GO-funded assets are excluded from depreciation recovery during the debt term, with integration into rates post-FY 2041. To achieve sustainability—covering operations, CIP, debt service, and reserves (including replacement of existing and GO-funded infrastructure):

· 15% annual increases effective July 1, 2026–July 1, 2028 (FY 2027–FY 2029).

· 6.5% annual increases for four years effective July 1, 2029–July 1, 2032 (FY 2030–FY 2033).

· 3.5% increase effective July 1, 2033 (FY 2034).

· CPI-linked adjustments (~2.5–3%) effective July 1, 2034 onward (FY 2035–2045).

These adjustments yield projected revenues of ~$1.22 million in FY 2027, increasing to ~$4.42 million by FY 2045, with expenditures matched and a stable net position. The ending fund balance in FY 2045 is $14.903 million—$33,000 greater than the $14.87 million policy target. Implications for city rate payers include sharper near-term increases (15% annually for three years vs. preferred 6%), but non-city surcharges (e.g., 150% of city rates) justify the allocation, maintaining equity. Without these hikes, deficits would risk non-compliance and service disruptions.

These scenarios underscore vulnerability to deferred maintenance and debt; diversification (e.g., new connections via population growth) could buffer impacts. All models ensure resources match uses, with ~30% population-driven demand growth necessitating improvements.

Current non-residential rate structures (e.g., schools charged per enrolled student, commercial per employee) deviate from best practices (e.g., meter-based or flow-proportional). Additional analysis is required to determine the needed consumption rates for non-residential users to transition to a best-practice structure.

Comparative Analysis and Current Rate Positioning

Boardman's residential rates remain 45% below the $52.65 regional average fixed charge (3/4" meter equivalent, 0–12,000 gallons at 4,000 gallons/5.35 CCF usage), with a $28.88 flat rate vs. the average, a 55% gap. The chart in "SFR - Sewer 11-2025.pdf" confirms Boardman's position at the low end across 23 entities (e.g., Hermiston $41.89 - $84.97; Kennewick $73.58 flat).

To further contextualize Boardman's positioning under the preferred non-debt scenario, consider the projected impact of the recommended 6% annual increases for FY 2027–FY 2029. Starting from the current $28.88 flat rate (per Resolution 16-2019, effective July 1, 2019), three successive 6% adjustments would raise the rate to approximately $34.41 by FY 2029. Assuming peer municipalities adjust rates in line with CPI (averaging ~2.3% annually per Cleveland Fed projections, or ~7% cumulatively over the three-year period), the regional average of $52.65 would rise to ~$56.34. At $34.41, Boardman's rate would remain ~61% of this adjusted average—still undervalued relative to comparators, reinforcing the need for phased increases from a low base to achieve sustainability without exceeding affordability thresholds.

For non-residential customers, the base rate should align with the residential flat base (e.g., $28.88 currently, rising to $34.41 post-adjustments), with volumetric consumption charges added to reflect usage. Based on Cividata results for commercial accounts (2-inch meter, 0–24,000 gallons across comparable entities), the average base charge is $46.52, and the average consumption rate is $0.0051746 per gallon ($5.1746 per 1,000 gallons). Given Boardman's current residential rates are 45% of market (rising to ~50% post-6% adjustments), commercial rates could be guided to ~50% of these averages: a base of ~$23.26 (aligned to residential for equity) plus ~$2.59 per 1,000 gallons.

This positions Boardman competitively while promoting cost-of-service alignment; full implementation requires additional analysis to calibrate exact consumption rates by customer class. Per analysis of the city’s residential accounts winter usage averages approximately 5,880 gallons per month during the November - March months. On an annual basis this is approximately 25% of water used by residential customers, with the remaining 75% used for irrigation and non-inside uses.

Total residential consumption reflects 11.3% of overall water sales, with residential customers generating approximately 18.4% of sewer revenue. The estimated equivalent dwelling unit is costing approximately $4.35 per 1,000 gallons ($28.88 less $2.80 admin cost - net $26.08 per 6,000 gallons). Given the City's current rate structure for non-residential customers additional analysis is necessary to provide professional guidance to ensure that converting non-residential accounts from their present rate schedule to a metered size capacity base charge plus consumption @ $4.35 would generate sufficient revenue to provide the necessary total annual revenue as included in the forecasts.

Non-residential structures currently amplify potential inequities; best-practice reforms (e.g., uniform EDU-based or volumetric billing) would better reflect cost causation. The flat structure limits conservation incentives, and the attached Resolution 16-2019 (effective July 1, 2019) sets inside-city limits at $28.88 per sewer unit charge and outside at $42.00, with $2.00/gallon dumping fees—well below peers. The debt scenario adds 15–25% to hikes net of originals but supports the 150% non-city surcharge from a low base.

Recommendations and Best Practices

To address these findings and align with AWWA guidelines:

- **Rate Structure Reforms:** Adopt the non-debt scenario for core city rate adjustments, using the debt model to justify a 150% surcharge for non-city customers (recovering GO costs equitably). Transition non-residential billing to AWWA-recommended best practices, which emphasize cost-of-service principles for equitable cost allocation based on usage patterns, fixed vs. variable expenses, and customer classes (e.g., residential, commercial, industrial). Per AWWA's policy on Financing, Accounting, and Rates, structures should ensure full recovery of operation/maintenance, capital costs, working capital, and reserves while distributing costs fairly among classes—avoiding proxies like students/employees that ignore actual flow.

  Set commercial base rates equal to residential flats, with volumetric add-ons calibrated via additional analysis (e.g., ~$2.59/1,000 gallons at 50% of Cividata average to match post-adjustment positioning). Introduce fixed base charges scaled by meter size (e.g., higher for larger meters to cover fixed infrastructure costs) combined with volumetric elements (e.g., uniform or increasing-block rates per 1,000 gallons) to promote conservation and revenue stability.

  For small utilities like Boardman (<10,000 population), AWWA Manual M54 advises higher base charges (50–70% of total revenue) for fixed-cost recovery, with modest volumetric tiers to incentivize efficiency without complexity. Increasing blocks (e.g., lower rates for essential use up to 4,000 gallons, higher for excess) support conservation objectives, while caps on residential sewer billing (tied to indoor water use) enhance affordability. Target 150% non-city ratio to recover GO debt equitably, with annual customer notifications on financial health as per AWWA standards.

- **Phased Implementation**: Implement 6% increases (FY 2027–FY 2033), 5% thereafter for city rates; apply 150% non-city surcharge per debt model. Annual monitoring for variances in population, inflation, or CIP.
- **Risk Mitigation:** Post-FY 2041, integrate GO asset replacements fully into rates. Maintain separate utility accounts per AWWA to prevent diversions.
- **Equity and Communication:** Highlight comparatives and low base in hearings to justify hikes. Emphasize city taxpayers' GO burden for non-city equity; explore assistance for vulnerable households, aligning with AWWA's call for alternative structures in affordability-constrained cases.

These recommendations fortify the utility against infrastructure and debt pressures, ensuring resilience per AWWA's self-sustaining enterprise model. I am available for discussions, model refinements, or additional sensitivities.