MEMORANDUM

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

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

Date: November 11, 2025

Subject: Updated Preliminary Water Rate Adjustments - Incorporating Port Wholesale Scenarios for City and Outside City Customers

Introduction

This updated memorandum presents revised preliminary findings from the analysis of the City of Boardman's water utility rates and financial forecasts for fiscal years (FY) 2026 through 2045. It builds on the initial analysis dated October 4, 2025, and incorporates sensitivity scenarios requested by the City regarding the Port of Morrow's wholesale water purchases, which currently represent approximately 62% of the City's total water volume. These updates draw from the attached financial forecasts in "Water Fund Forecasts - FY 2025-FY 2046 v2.0.xlsx" (Scenario A: Port discontinues purchases) and "Water Fund Forecasts - FY 2025-FY 2046 v3.0.xlsx" (Scenario B: Port continues purchases with capped increases).

The projections continue to 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, 0–21,000 gallons across 26 Oregon and Washington entities) and commercial (2” meter, 0–24,000 gallons across 22 entities) rates remains as previously detailed in the attachments.

The primary objective remains achieving long-term financial sustainability for the water fund, ensuring adequate funding for operations, maintenance, infrastructure replacement, and debt service (allocated to outside-city customers). Key considerations include equitable rate structures, general obligation (GO) debt service impacts from the 2021 GO bond, and alignment with industry best practices. Forecasts assume infrastructure replacement at inflation-adjusted costs, excluding GO-funded assets during their 20-year debt repayment period to avoid duplication. For Scenario A, utilities expenditures have been conservatively reduced by 50% to reflect the loss of Port-related volume, acknowledging that not all utility costs scale linearly with sales volume.

Financial Projections and Rate Adjustment Scenarios

The baseline 20-year financial forecast model (without Port sensitivities) projects revenues from fees and services starting at approximately $1.16 million in FY 2026, growing to $1.40 million by FY 2045, driven by PSU population growth (Boardman from 5,749 in 2025 to 7,477 in 2045) and wholesale charges. Expenditures rise due to inflation, personnel additions (0.5 FTE in FY 2027 and FY 2037), CIP needs (e.g., pipe replacements, pump station upgrades), and historical maintenance (~$30,000/year). Without adjustments, deficits emerge, with net position turning negative in FY 2028 and reaching -$16 million by FY 2045.

The modified baseline incorporates GO bond debt service (~$914,000/year allocated to the water fund, fully paid by FY 2045), funded by city property taxes and equitably allocated to outside-city customers via rates. 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 2042 to prevent gaps.

In addition to the original scenarios (excluding/including debt service in rates), the following Port-specific sensitivities have been modeled:

Scenario A: Port Continues as a Customer (v2.0 Model)

This scenario assumes the Port remains a customer, with wholesale revenues persisting (subject to existing agreement terms). No expenditure adjustments are applied, as volume continues.

To achieve sustainability—covering operations, maintenance, non-debt CIP, transfers, and reserves (90-day working capital, 10% contingency, pre-GO capital replacement limited to existing investments)—rates require:

- 12% annual increases for five years (FY 2026–2030).
- 5.25% annual increases for eight years (FY 2031–2038).
- CPI-linked adjustments (~2.5–3%) thereafter (FY 2039–2045).

These adjustments yield projected revenues growing from ~$1.52 million in FY 2026 to ~$5.10 million by FY 2045, aligning expenditures and yielding an ending fund balance of ~$7.13 million—$46,000 (~0.67%) below the $7.18 million policy target. For city rate payers, this implies moderate near-term hikes (12% vs. original 10%), with steady growth thereafter, preserving affordability relative to Boardman's below-average positioning while maintaining outside-city rates at 150% of city rates (incorporating GO debt). Failure to adjust would result in deficits of ~$18 million by FY 2045, straining reserves.

Scenario B: Port Discontinues Wholesale Purchases Effective FY 2027 (v3.0 Model)

This scenario assumes the Port sources water elsewhere starting FY 2027, eliminating ~62% of wholesale volume and related revenues (~$720,000 in FY 2027 onward). Population-driven retail demand growth partially mitigates the loss, but the fund faces acute revenue shortfalls without aggressive adjustments.

To achieve sustainability, rates require:

- 50% increase effective July 1, 2026 (FY 2027).
- 35% increase effective July 1, 2027 (FY 2028).
- 15% increase effective July 1, 2028 (FY 2029).
- 4.75% annual increases for the following 9 years (FY 2030–2038).
- CPI-linked adjustments (~2.35%) thereafter (FY 2039–2045).

These adjustments yield projected revenues of ~$1.1 million in FY 2027, increasing to ~$3.41 million by FY 2045, with expenditures matched and a stable net position. The ending fund balance in FY 2045 meets the $7.18 million policy target within 1.2%. Implications for city rate payers include sharper near-term increases (50%/35%/15% vs. original 10%), accelerating affordability pressures amid Boardman's below-average positioning, but preserving equity by maintaining outside-city rates at 150% of city rates (incorporating GO debt). Without these hikes, deficits would exceed $20 million by FY 2045, risking service disruptions.

These Port scenarios underscore vulnerability to wholesale dependency; diversification (e.g., new retail connections via population growth and service to customers within the Port boundary) could buffer impacts. All models ensure resources match uses, with ~30% population-driven demand growth necessitating expansions.

Comparative Analysis and Current Rate Positioning

Boardman's residential rates remain 43% below the $30.34 regional average fixed charge (3/4" meter, 0–21,000 gallons), with a $17.33 flat rate (including 7,000 gallons) vs. $43.15 average at that usage—a 149% gap. Consumption ($0.47/1,000 gallons) trails the $2.54 average by $2.07. Charts in "SFR - Boardman 0-21,000 gallons.pdf" confirm Boardman's position at the low end.

Commercial rates (2" meter, 0–24,000 gallons) are similarly undervalued: $21.53 base vs. $108.77 average ($87.24 gap), and $0.84/1,000 gallons vs. $2.48 (195% lower). Costs stay flat to 8,000 gallons, then rise modestly (e.g., $34.97 at 24,000), per "Comm 2” meter, 0-24,000 gallons - Boardman.pdf." Boardman's tax-funded debt structure is unique, justifying outside-city surcharges. Port scenarios amplify the need for alignment, adding 20–50% to hikes net of originals.

Recommendations and Best Practices To address these findings:

- **Rate Structure Reforms:**
  - Scale fixed charges by meter capacity (e.g., from 3/4" base),
  - Eliminate included water for conservation and cost-of-service alignment, and
  - Boost fixed/consumption charges.
  - Target 150% outside-city ratio.

- **Phased Implementation:**
  For the base case, retain 10% increases (FY 2027–2029), 5% (FY 2030–2039), CPI thereafter. For Scenario A, adopt 12% (FY 2027–2031), 5.25% (FY 2032–2039), CPI thereafter; for B, 50% (FY 2027), 35% (FY 2028), 15% (FY 2029), annual 4.75% increases (FY 2030–2038), CPI thereafter. Annual monitoring for variances in Port behavior, population, or inflation.

- **Risk Mitigation:** Explore Port contract renegotiation or wholesale diversification. Post-FY 2041, integrate GO funded asset replacements into rates.

- **Equity and Communication:** Highlight Port risks in hearings, using comparatives to justify hikes from a low base. Emphasize city taxpayers' GO burden for outside-city equity.

These updates fortify the utility against wholesale uncertainties, ensuring resilience. I am available for discussions, model refinements, or additional sensitivities.

Attachments:

- SFR - Boardman 0-21,000 gallons.pdf
- Comm 2” meter, 0-24,000 gallons - Boardman.pdf
- Water Fund Forecasts – FY 2026-FY 2045 v1.2.xlsx
- Water Fund Forecasts - FY 2026-FY 2045 v2.0.xlsx
- Water Fund Forecasts - FY 2026-FY 2045 v3.0.xlsx