



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of January 12, 2026

Title/Subject

Resolution 2401- Master Fee Schedule & Utility Rate Adjustments

Summary

This resolution will update the city's Master Fee Schedule, including an increase to water and sewer rates by 2.34%, which translates to an average monthly total increase for water and sewer combined of \$2.72 for the median customer. This resolution also adjusts how industrial sewer customers' monthly bills are calculated.

Background

The City of Hermiston's policy is to annually adjust water and sewer utility rates by amounts which closely align to inflation. This process helps to provide customers with relatively stable and predictable rates while ensuring the long-term financial viability of these critical systems. The inflation index used is the *Engineering News-Record's* Construction Cost Index, which is a widely used index amongst the broader utility industry. The ENR CCI is similar to the more commonly known Consumer Price Index in that it simply measures the change in prices over time of "a basket of goods," but the ENR's CCI specifically limits its basket to things like "general construction labor, structural steel, lumber," etc..

Going in to 2021, City Council chose to begin implementing these annual inflation adjustments based on a 3-year average, rather than simply a year-over-year change, because due to pandemic-era supply-chain disruptions, inflation that year came in at 7.3%, compared to a more typical 2% to 3%. That choice technically 'robbed' the system by under-charging in the initial year(s) of the change, with the expectation that the system would get made whole on the back-end, as the average would eventually end up being higher than actual inflation as that significant inflation event worked its way through the average.

| | Total Cost | YOY % Change | 3Yr Avg |
|------|------------|--------------|---------|
| 2025 | 14118 | 3.57% | 2.34% |
| 2024 | 13632 | 0.87% | 3.00% |
| 2023 | 13514 | 2.57% | 5.16% |
| 2022 | 13175 | 5.56% | |
| 2021 | 12481 | 7.35% | |
| 2020 | 11626 | | |

By December 2024, inflation in the construction industry had been reduced to a historically low figure of just 0.87%, which helped bring the 3-year average down to 3.00% for the 2025 rate adjustment, and began the process of making the system whole. However, the ENR CCI inflation rate began trending upward throughout early 2025, but beginning in June, when most of the new Federal Taxes on imports came in to effect, this measure began to rise significantly. Now, in December 2025, construction industry inflation has shot up to 3.57%, with most of that growth occurring in the second half of the year.

Luckily, thanks to lower inflation from 2023 & 2024, that means that the 3-year average which will be used for rate adjustments will only be 2.34% for 2026. However, this of course means that the system will be in a position of 'under-charging' customers this year relative to the actual inflation taking place. Additionally, I would just caution that the trajectory of inflation in the construction industry is heading in the wrong direction, since a lot of the material needed, such as steel and lumber, is imported. Therefore, unless there is a major change in course on the recent major Federal Tax Increases on imports, I would not be surprised if actual inflation in construction continues to rise in 2026 to be back in the range of 5%+ this time next year.

Customer Impact

The actual dollar impact that this 2.34% change means will be different for every customer in town, since a customer's bill is heavily influenced by how much water and sewer capacity that they use. The enclosed example shows the change applied to the median customer, which is the customer who uses less water each month than half of customers, and uses more water each month than half of customers. When adding the change in the total water and sewer bill each month over the course of a year, and dividing that by 12 months, it comes out to an average of \$2.72 per month. That includes an increase of \$4.02 in August, based on the median water customer's consumption, but also includes six months of increases of less than \$2.20 per month.

Industrial sewer calculations

This resolution will also change the sampling methodology which is used for billing industrial sewer customers. Currently, the City only has one industrial sewer customer, a CBD Oil processing factory. Due to the content of their sewer discharge containing high readings of "Biological Oxygen Demand" (BOD), their discharge is sampled up to 10 times per month, and the BOD readings from those 10 samples are averaged to determine how much they should be charged for BOD that month.

Unfortunately, due to laboratory constraints and testing requirements, the sampling schedule has to be fairly consistent, and is therefore relatively easy to guess. Several 'random' samples performed by sewer staff this year resulted in BOD readings which were significantly higher than readings during the regular (predictable) sampling periods; making it fairly evident that BOD is intentionally being held back and released during non-sampling periods. However, the sewer treatment plant must have the treatment capacity in place to treat peak BOD events.

Therefore, it is recommended to change the billing policy to eliminate the averaging of samples, and instead structure industrial BOD billing to be off of the highest level sampled in any given month. It is estimated that this change, based off of sampling in 2025, could drive up the monthly bill to the individual industrial customer from approximately \$10,000 per month

to somewhere in the range of \$200,000 per month. Although this appears to be a 2,000% rate increase, it's important to understand that without this change assigning this cost to the user who is using the RWTP's BOD capacity, then the eventual cost of that capacity will fall on to all of the other users of the City's system.

Given the significant change, it is recommended that this rate be adopted with an effective date of 1/1/2027; which allows the industrial user a full year to examine options to more effectively treat for BOD themselves onsite, rather than burdening the other public sewer system users with the cost of maintaining infrastructure capable of treating this user's peak discharges.

Tie-In to Council Goals

Goal 3: "CITY FACILITIES: PUBLIC FACILITIES THAT MEET THE COMMUNITY NEEDS OF TODAY AND THE FUTURE."

Fiscal Information

This change will cost the median water/sewer utility customer an average of \$2.72 per month, and will generate approximately \$270,000 in additional annual revenue to allow the utility fund to keep pace with rising costs.

Alternatives and Recommendation

Alternatives

1. Approve Resolution 2401
2. Reject Resolution 2401
3. Table Resolution 2401

Recommended Action/Motion

Approve Resolution 2401

Submitted By:

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