STAFF REPORT

Meeting Type:	City Council
Meeting Date:	December 2, 2024
From:	Tyler Deems, City Manager
Subject:	PUBLIC HEARING – Resolution 2024-25: Amend Master Fee Schedule for Utility Rates

DECISION TO BE MADE:

Whether to adopt Resolution 2024-25, increasing Water, Wastewater, and Stormwater utility rates to support the necessary investment in utility infrastructure.

BACKGROUND / CONTEXT:

The City annually reviews and updates fees and charges to adjust for inflation for materials, operational expenses, and capital project funding. The current Master Fee Schedule can be found here. The last time utility rates were modified was in June 2023.

Sandy is in a historic period of public infrastructure investment. The City's water, wastewater, and stormwater systems require improvements and expansion to ensure adequate supply of water and the capacity to effectively treat wastewater, and handle and manage stormwater runoff. Years of under-investment coupled with rapid growth has put the City in a difficult position of needing significant rate increases to complete the essential and mandated improvements to our water and wastewater facilities.

Examples of the essential and mandated improvements include reinvestment in Alder Creek Treatment Plant, constructing a new transmission line to Portland's Bull Run Filtration Plant to ensure compliance with the bilateral compliance agreement regarding cryptosporidium, and significant work on both deferred maintenance and expansion of the wastewater treatment plant and related collection system as identified in the Consent Decree which was finalized on September 11, 2023.

The adjustments proposed in the rate models reflect the total capital construction costs, ongoing operations and maintenance expenses, and principal and interest payments for the related debt service associated with constructing the assets. It is important to note the rate increases being recommended align with the rate increases that were proposed, approved, and adopted in the BN 23-25 Budget.

Staff recognizes that past rate increases, as well as future projected rate increases are a significant impact to ratepayers' household budgets. Staff is actively seeking funding assistance from the State of Oregon and federal government. While we have been successful in receiving some grant funding on the wastewater side ($15.7 million to date), many other communities face similar challenges and there is not enough funding to allocate to all; as a result, large loans continue to be necessary. Unfortunately, the infrastructure improvements that are required are very expensive and need to take place immediately to ensure that the City can provide clean, safe drinking water and treat our

wastewater and discharge the treated effluent to meet state and federal requirements. Lenders require increases to the City's utility rates to ensure repayment. The City currently offers a Utility Assistance Program for low income rate payers and will continue to research and evaluate other programs.

KEY CONSIDERATIONS / ANALYSIS:

Water

There are currently several vital capital improvement projects underway related to the City's drinking water system. These improvements increase the production of our own water supply and reduce the amount of water the City needs to purchase from Portland, as well as increasing overall system resiliency. In addition to these investments, a new transmission line to Portland's Bull Run Filtration Plant needs to be constructed to ensure that the City has access to water to meet our summer demand. The City Council recently received a comprehensive program update on November 4, 2024.

The City's average daily demand is 1.33 million gallons per day (MGD) and the maximum demand in 2.59 MGD. While much of this work is needed to ensure reliable capacity, resiliency, and redundancy for our current demands, the projected water demand by 2050 increases to an average daily demand of 2.1 MGD and a maximum demand of 4.2 MGD. Failure to complete the necessary projects in a timely manner could result in water shortages and non-compliance fines.

To complete these immediate capital projects, the City needs to invest $70 million in the drinking water system, which is comprised of two major projects. To date, $24.5 million has been secured, with a remaining need of $45.5 million. Staff is actively working on identifying the best funding package to ensure that future rate increases remain as low as possible.

Alder Creek Treatment Plant

The Alder Creek Treatment Plant provides nearly 50% of the City's drinking water and has an overall capital improvement plan of nearly $21.9 million. The improvements being made will increase the production of the plant from 0.9 MGD to 2.4 MGD. The estimated completion of this work is spring 2027. Even with these investments, the City will be unable to meet our current and projected maximum demand for water.

Pipeline to Portland

The construction of a new transmission line to Portland Water Bureau's Bull Run Filtration Plant is necessary to ensure that the City has a redundant water supply in the event of any disruption to the Alder Creek Treatment Plant, as well as supplement the Alder Creek Treatment Plant supply to meet the maximum demand, both now and in the future. Access to Bull Run water, as well as the connection to Portland's Columbia wellfield, will also be critical for Sandy in the event of emergencies such as wildfire. This project is anticipated to cost $42.6 million and has an estimated completion date of September 2027 to ensure compliance with the bilateral compliance agreement.

Ongoing rate increases are projected over the next several years. These increases are required for a variety of reasons, including generating enough revenue to qualify for and satisfy loan requirements, hold required reserves as identified by loan requirements, and maintain adequate funding to maintain the newly constructed assets. The financial model is continually updated to ensure all data and factors are as realistic as possible. A summary of anticipated future increases is provided below:

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
36%	11.5%	11%	11%	11%	11%	11%	11%	11%	8.5%

The proposed rate increase of 36% is based on the City's most recent financial models, which includes loans that have already been issued for the various projects noted above. Residential customers would see an increase in their monthly bill of approximately $20.80 (for the average residential customer using 7 ccf). This proposed rate is already reflected in the existing budget and would go into effect with the utility bills received in January 2025.

Wastewater

For many years the City has been making strides in improving our collection and wastewater treatment systems. With the finalization of the Consent Decree in 2023, the schedule of compliance deadlines has begun. To date, the City has invested over $31 million in the collection and treatment system, with millions more needed to complete the necessary improvements. The ongoing investments address permit compliance, increasing treatment plant and collection system capacity, and constructing new facilities to accommodate the recent and future growth of the community. The draft amendment of the City's Wastewater Facilities Plan, which identifies the possible solutions to the City's wastewater needs, will be presented to the Council on December 2nd.

The complexity and vast expense of these projects requires loans to be obtained. Several loan agreements have been executed with the help of the State of Oregon's Revolving Loan Fund and the Federal Water Infrastructure Finance and Innovation Act (WIFIA) program. Both offer extremely favorable interest rates and repayment terms, which have helped in keeping the rates as low as possible. While the City has been successful in receiving some grant funds, there is still a significant gap in the amount of funding needed.

Wastewater Facility Alternatives

The Facilities Plan Amendment identifies two possible paths forward. The first alternative is to expand the current treatment plant with a membrane bioreactor and construct a new effluent pipeline and outfall to the Sandy River. The second alternative is to construct a pipeline to pump our wastewater to a neighboring community for treatment and discharge.

One alternative that has previously been discussed was to continue to discharge into Tickle Creek with an expansion at the current treatment plant with a membrane bioreactor. However, this alternative is not viable given the current limitations of the Three Basin Rule. Additionally, dilution ratio requirements that are set by the Oregon Department of Environmental Quality, would not allow for the City to discharge the future wastewater flows into Tickle Creek (a separate issue unrelated to the Three Basin Rule). Tickle Creek is a tributary to the Clackamas River and has one of the strictest discharge requirements in the state. Ultimately, this alternative is not feasible long-term due given the environmental challenges, insufficient stream flows, and the unknown future treatment requirements that would further impact the City's ability to discharge.

Sandy River Outfall

This alternative requires expansion at the existing site with the construction of a MBR, pump station, and new outfall at the Sandy River. This would allow the City to get out of the Three Basin area, which would in turn mean that development could occur and the projected growth

that is built into the rate models to materialize. The Sandy River Outfall alternative would likely face significant opposition from environmental interests and a new permit would need to be secured to discharge into the river. The estimated cost for this alternative is $228 million.

Regional Treatment Facility

The regional treatment alternative would involve constructing a pump station and pipeline to City of Gresham where wastewater would be treated and discharged into the Columbia River. This alternative would get the City out of the wastewater treatment business and avoid future challenges with discharge requirements and any challenges with obtaining a new permit for discharge on the Sandy River. The estimated cost of this alternative is between $211 million to $245 million, depending on the connection fees (system development charges) that City of Gresham would charge.

It is clear from the summaries above that there is no simple or affordable solution to our wastewater treatment issues. Each of the three alternatives is costly and will require continued rate increases. The current rate model does not exceed the 2% of household income affordability threshold that is outlined in WIFIA guidance. However, staff will continue to advocate that Sandy's 13,000 residents should not bear the full cost of this project to the benefit of 300,000 residents downstream who get their drinking water from the Clackamas River, and will actively pursue additional funding from the state and federal government to mitigate continued rate increases as much as possible.

Ongoing rate increases are projected over the next several years. These increases are required for a variety of reasons, including generating enough revenue to qualify for and satisfy loan requirements, hold required reserves as identified by loan requirements, and maintain adequate funding to maintain the newly constructed assets. The financial model is continually updated to ensure all data and market factors are as realistic as possible. A summary of future increases is provided below:

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
16%	15%	14%	14%	14%	14%	10%	10%	10%	8.5%

The proposed rate increase of 16% is based on the City's most recent financial models, which includes the various loans mentioned above, $1 million EPA grant, and $14.7 million ARPA grant. Residential customers would see an increase in their monthly bill of approximately $13.53 (for the average residential customer using 7 ccf). This proposed rate is already reflected in the existing budget and would go into effect with the utility bills received in January 2025.

Stormwater

The City's stormwater utility is underfunded and does not have the adequate revenue to plan, construct effectively maintain the stormwater system. Staff will also begin working on the initial stages of a master plan for the utility in the near future. Last year, an emergency repair was needed to repair a pipeline under Tupper Park. The Wastewater Fund loaned the Stormwater Fund $400,000 to complete the repairs. To prevent future financial issues such as this, it's important that the stormwater rate be increased. The stormwater rate is currently $8.00 per equivalent residential unit (ERU) which is very low compared to other cities in Clackamas County. Staff is recommending increasing the fee to build cash reserves for future capital projects and continue to pay annual debt service obligations.

The proposed increased for the stormwater fee is $2.00, bringing the total fee to $10.00 per ERU. This proposed rate is already reflected in the existing budget and would go into effect with the utility bills received in January 2025.

BUDGET IMPACT:

No new impacts. The recommended rate increases are already accounted for in the BN 23-25 Budget.

RECOMMENDATION:

Hold a public hearing to received feedback on the proposed resolution to increase utility rates. Ultimately, Staff recommends adopting the utility rates as presented to ensure that the City remains on track to collect adequate revenue to complete the vital infrastructure in the utility systems.

SUGGESTED MOTION LANGUAGE:

“I move to adopt Resolution 2024-25.”

LIST OF ATTACHMENTS / EXHIBITS:

- Updated Presentation Slides
- Resolution 2024-25
    - Revised Fee Schedule