



STAFF REPORT

Meeting Type: City Council Meeting
Meeting Date: April 15, 2024
From: Jennifer Coker, Public Works Director
Subject: Contract Approval: Revised Wholesale Water Agreement with City of Portland

DECISION TO BE MADE:

Whether to authorize the City Manager to execute a new 30-year wholesale water agreement with the Portland Water Bureau (PWB), to begin July 2026.

BACKGROUND / CONTEXT:

On October 6, 2008 the City Council voted to purchase drinking water from the City of Portland and subsequently signed the existing water wholesale agreement. By that time Sandy had outgrown its two existing water supplies at Alder Creek and Brownell Springs, and the City of Portland Bull Run source provided a critical third supply. Sandy cannot meet our water demands throughout the year with only Alder Creek and Brownell Springs.

The existing agreement expires in June of 2026 for all Portland wholesale customers except Sandy (which signed later). Sandy's agreement expires in May of 2028; however, because of the requirements for treatment of cryptosporidium in the bilateral compliance agreements both Portland and Sandy have signed with Oregon Health Authority, the agreement for Sandy receiving potable water from Portland will end on September 30, 2027.

Several of the larger wholesale customers (Tualatin Valley Water District, Rockwood, and City of Gresham) notified Portland of their intent not to renew their agreements and completely rely on newly developed water sources. Recognizing that the existing agreement in its current format may not work for the remaining wholesale customers, PWB and the wholesale customers began revising the agreement.

City of Sandy and our consultant, Jeff Fuchs of Consor Engineering, have been participating in monthly wholesale water agreement work sessions for the past 24 months, working with FCS Group, a financial consulting firm specializing in utility rate models, the Portland Water Bureau, and the wholesale water utility managers. Staff presented the agreement to the Council in at the [July 17, 2023 work session](#).

In November 2023 Sandy and the City of Tualatin collaborated in final negotiations with the PWB, as both cities were represented by Beery, Elsner, Hammond. Final negotiations are now completed along with legal review, and the final agreement is ready for the City to sign.

KEY CONSIDERATIONS / ANALYSIS:

Improved Resilience

Currently water provided by PWB to the wholesalers is unfiltered and disinfected with chlorine. When conditions such as drought, cryptosporidium positive sample results, wildfire, or high turbidity in Bull Run make the water unsafe for human consumption, PWB switches over the Columbia wellfield and provides groundwater for water supply until conditions resolve. Due to Sandy's location high up in the distribution system, we are currently unable to reap the benefits of switching to groundwater and thus frequently experience service interruptions.

However, with Sandy's connection point moving to the new Portland filtration plant, PWB water will become a fully reliable source for Sandy, especially with our new ability to connect to the Columbia Wellfield groundwater source. This is a key aspect to ensuring resilient water supply in the event of another wildfire or extended drought.

Minimum Purchase

One of the major changes with the new agreement is the removal of the requirement for a minimum purchase of water each month. Many wholesalers (Sandy included) technically did not need water all year long, and felt the agreement required them to purchase water that was not needed. The new agreement has no minimum purchase amount. Sandy's current minimum purchase is 500,000 gallons per day; our long-term strategy is to reduce our purchases to a minimum in wet season months and rely fully on our own water sources, which are more economical for the City.

Cost Pool Consolidation and Cost Sharing

The agreement currently has cost pools for west side customers, east side customers, and a cost pool for raw water (untreated water which includes the Bull Run reservoir assets). In exchange for the simplicity of managing one agreement for all customers, Portland agreed to assume 94% of the cost of the surplus system capacity from the departure of Gresham, Rockwood and TVWD, instead of placing the burden on the smaller pool of wholesale customers. The inclusion of the east side cost pool is favorable to Sandy, as it removes any requirement for us to pay for improvements that do not benefit the City and reduces our overall rate.

Favorable Language Clarifications

Throughout the contract, language has been refined to clarify intent, soften or modify sole discretion/determination language which favored PWB, and clarify arbitration and dispute resolution processes, which will provide a more equitable contract for the City.

Early Sign-on of the New Agreement

Sandy has the option to continue with the old agreement for an additional 15 months if it is economically attractive to the City. Reviewing the projections for fiscal year 26-27, it is cheaper for the City to switch over to the new agreement a year early in July of 2026, as the cost of water that year will be \$1.121 per CCF under the new agreement (unfiltered, potable water) compared to \$1.38 per CCF (unfiltered, potable water) under the current agreement, which is a 23% savings.

BUDGET IMPACT:

The cost of water for Sandy and all cities in the region is increasing due to historic reinvestments and necessary compliance with the Bilateral Compliance Agreement for cryptosporidium. Throughout 2022 the City considered options and adopted the most resilient and cost-effective alternative for the City in the Water System Master Plan, which included maximizing production at Alder Creek and building a pipeline and pump station to connect to the new Portland Filtration Plant, and purchasing filtered water.

Portland continues to provide five-year and ten-year rate projections, and water rates are projected to increase as the major expansion project of the filtration plant and pipelines start construction. The City of Sandy's current wholesale rate for FY24-25 is \$0.942 per CCF for unfiltered water. This increases to \$2.546 per CCF in FY 28-29 for filtered water with connection to the Columbia wellfield and to \$4.706 per CCF in FY33-34.

Sandy's rates from Portland continue to be the lowest of the wholesalers due to our proximity to the filtration plant and the terms of the agreement where we pay for infrastructure that serves us, as well as our ability to continue to provide water from our own sources.

The purchased water cost is not directly related to Sandy water utility fees. This purchased water is a line item in the water utility budget, and gets averaged into the cost of producing water from our own sources, operations, maintenance and debt service. The cost of the wholesale water agreement is anticipated in our future rate models.

RECOMMENDATION:

Staff recommends Council authorize the City Manager to execute new 30-Year Wholesale Water Agreement with Portland Water Bureau.

SUGGESTED MOTION LANGUAGE:

"I move to authorize the City Manager to execute the new Water Sales Agreement with the City of Portland, as included in the agenda packet."

LIST OF ATTACHMENTS / EXHIBITS:

- Final 30-year Water Sales Agreement
- Presentation Portland Wholesale Water Agreement
- Portland Water Bureau FY 2024-25 Rate and Budget Information
- Wholesale Water Purchase Agreement Timing Recommendation