



*City of Tualatin*

## CITY OF TUALATIN Staff Report

**TO:** Honorable Mayor and Members of the City Council

**THROUGH:** Sherilyn Lombos, City Manager

**FROM:** Rachel Sykes, Public Works Director  
Nic Westendorf, Deputy Public Works Director

**DATE:** March 25, 2024

---

### **SUBJECT:**

City of Portland Wholesale Water Contract – Approval to Execute

### **EXECUTIVE SUMMARY:**

Tualatin staff have been working for several years to negotiate the terms of a new, thirty-year agreement with the City of Portland to continue the purchase of drinking water to serve the City of Tualatin. At this time, staff are ready to present a final version of the proposed contract for City Council consideration and authorization for the City Manager to execute.

### **BACKGROUND AND PROCESS:**

The City of Tualatin has purchased water through wholesale water contracts with the City of Portland since 1979. The current contract, in place since 2006, is set to expire in June 2026. In 2015, the Tualatin City Council made the decision to continue purchasing water from the City of Portland and directed staff to negotiate a new contract. Staff have been working with Portland and other wholesale customers over the course of several years to review, discuss, and negotiate new and updated terms for a new 30 year wholesale water contract.

At the Council meeting on October 9<sup>th</sup>, 2023, staff presented an informational overview of the background and timeline of the water contract's development, the guiding principles that were developed as a foundation to the negotiation process, and key components of the draft contract provisions, answering questions and gathering feedback for final phases of contract negotiation.

Since the presentation in October, staff have been working on final negotiation of the contract's content with Portland Water Bureau staff, Portland's attorney, and other wholesale customers. In this phase of contract negotiation, staff continued to

collaborate with and seek input from technical experts to ensure we were informed and fully equipped to negotiate the best possible outcomes for Tualatin:

- Staff spent time strategizing and identifying key contract areas to prioritize for the final phase of negotiation with hired consultant Jeff Fuchs from Consor Engineering.
- Final review and guidance regarding the financial components and rate model within the proposed contract was gleaned from Harold Smith, hired consultant from Raftelis.
- The City's contracted legal counsel, Josh Soper (Beery, Elsner & Hammond) conducted a thorough legal review of contract language and components, which was included as part of final negotiations. Josh played an active role and participated in all communication, meetings, and negotiation sessions with Portland.

## **KEY OUTCOMES:**

The proposed final contract includes key outcomes to highlight:

***High Quality, Reliable, and Long Term Water Supply:*** provision of drinking water is one of the most important services that the City provides. Ensuring access to a long term, high quality water source is valuable for stability and certainty in this crucial aspect of City operations. A 30-year contract term ensures that Tualatin's access to water from the Bull Run Watershed and Columbia South Shore Well Field will remain in place for decades to come. A long term contract is beneficial for water system planning, allowing the City to make decisions on capital improvements, distribution strategy, private development decisions, and maintenance programs with knowledge that the City's water source and contract is unwavering.

***Stable and Predictable Rates:*** the proposed contract language establishes an industry vetted and fair rate model, based on American Water Works Association methodologies. Tualatin will only pay for water *actually* delivered, with elimination of a 'guaranteed minimum purchase quantity' that exists in the current contract. Tualatin will pay for our proportional share of capital, operational, and debt service costs associated with Portland's treatment and delivery of our water. Rates paid to Portland will be forecasted and shared years in advance, allowing Tualatin to plan accordingly in financial planning, ratemaking, and budgeting.

***Balance and Partnership:*** Tualatin has developed a strong working relationship with the City of Portland over the past decade, and foresee this relationship continuing into the future. But a long-term contract must withstand time and changes in staff, political shifts, and potential conflict. With this in mind, provisions have been included to memorialize some balancing of power in this contractual relationship, along with specific measures providing recourse for Tualatin, should the need for conflict resolution arise. Language outlining communication processes have been carefully crafted, discussed,

and agreed upon to ensure that Tualatin is able to voice our community's needs and interests in a legitimate way.

***Rooted in Fairness:*** a key guiding principle of contract development, agreed upon by Portland and all wholesalers, is fairness for both parties. Staff kept this in mind while working to negotiate the best terms possible for Tualatin. The final contract includes compromise on some items, but there are notable 'wins' for Tualatin. Namely, the inclusion of the large transmission main, known as the Washington County Supply Line, which is a significant ease of financial risk for the City. Additionally, the City avoided large rate spikes that were on the horizon due to three large wholesalers (Tualatin Valley Water District, Rockwood, Gresham) exiting the contract in 2026. A fair re-allocation of costs was negotiated between wholesalers and Portland.

### **FINANCIAL IMPLICATIONS:**

As discussed during the adoption of the Water Master Plan in summer of 2023, water rates in Tualatin are projected to increase 12% annually over the next six years.

Projected rate increases within the Water Master Plan are due to a combination of factors. An increase in infrastructure projects in the coming decade will take place across Tualatin, allowing the City to meet current and future demands, and ensure aging infrastructure is replaced. In addition, the City will see increasing costs from the City of Portland, as they take on some significant capital projects such as building a new filtration plant and installing treatment to lower lead levels found in water in customers' homes. A portion of these capital projects directly serve Tualatin, thus, a portion of project costs are factored into the City's rates using the agreed upon rate model within the proposed contract.

In sum, the rate projection process of the Water Master Plan took the financial components of the proposed Portland Wholesale contract into account; projected rate increases are not anticipated to change based on the proposed contract.

### **NEXT STEPS:**

Portland Water Bureau Director Gabe Solmer took the proposed contract to Portland's Mayor Ted Wheeler in late January, obtaining authorization to execute the proposed contract. Wholesale customers are now approaching their respective governing boards, seeking authorization to execute and obtain signature on the contract.

It is important to note that authorization of the proposed contract is preemptive, as the newly proposed contract will not take effect until July 2026, when the current contract expires. Between now and the contract's implementation in 2026, staff will work to analyze water distribution operations and agreements to ensure alignment with the new contract terms.

---

**ATTACHMENTS:**

- Proposed Final Contract Document
- Resolution 5760-24
- PowerPoint Presentation