



City of Halsey
CITY COUNCIL WORK SESSION
Tuesday, October 26th, 2021 – 5:30 P.M.
Halsey City Hall
100 W. Halsey Street, Halsey Oregon 97348
(541) 369-2522 / TTY: 1-800-735-2900

AGENDA

- A. MEETING CALLED TO ORDER
- B. ROLL CALL
- C. RCAC RATE STUDY MODEL

Jeremy Piersol from RCAC will explain how the rate study tool works, what it estimates and why, and present some preliminary options to Council.

- D. ADJOURNMENT

MEETING LOCATION AND FORMAT

The Halsey City Council will meet in person in the Halsey Council Chambers. Members of the public are welcome to attend, and audio participation will be available for remote attendance via telephone or Zoom. Disposable face coverings and hand sanitizer will be available for any who want them. Currently, the Oregon Health Authority requires masks or face coverings inside, for everyone over the age of 5.

Please do not attend in person if you have any symptoms of Covid-19, such as fever or chills, cough, shortness of breath or difficulty breathing, fatigue, muscle aches, headache, sore throat, congestion or runny nose, nausea, vomiting or diarrhea.

Please use the following phone number:

1-253-215-8782

Meeting ID: 343 141 9714

Please contact city staff in advance for an invitation link to be emailed to you if you prefer to log in via computer or another device. An audio recording of the meeting will be posted on the website within 48 hours of the meeting.

All City Council meetings are recorded. Audio recordings of past meetings are available at www.cityofhalsey.com. The location of this meeting is accessible to the disabled. If you have a disability that requires accommodation, please notify the City Hall office at least 48 hours in advance of the meeting: cityrecorder@cityofhalsey.com | 541-369-2522

Council Rate Study Work Session		
Council Action:	NONE	October 26, 2021

Issue Statement: Jeremy Piersol from RCAC will present preliminary results of a water rate study for Halsey, share information on how the rate model works, and answer questions for Council.

Summary:

This rate study is only for the water utility.

RCAC last did a (partial) water rate study for Halsey in 2014. Rosanna Noval made a presentation to Council of the resulting report.

The rate study this year has been much more thorough. Jeremy asked for budgets, audits, meter, usage, and household data, the current rate structure, debt, water system equipment inventory, and the water master plan.

The rate tool itself is being offered to Council along with a preliminary report. This is an opportunity for Councilors to ask questions and understand the data and reasoning behind the model.

To a certain extent, some variables could be changed prior to the final report to Council, so Council will also get to participate in the process.

Just as in 2014, the RCAC rate study is information and a recommendation. Council is not bound to raise rates as they appear in the report.

8/17/21

Halsey, OR Proposed Drinking Water Rate Alternatives

Introduction

The city of Halsey OR is conducting a review of its drinking water rates after receiving a loan from the State Revolving Fund (SRF). With its new annual payment now due, this rate study analyzed the necessary revenue needed for Halsey to meet its needs but also to adequately contribute to reserves for asset replacement. The following document looks at two scenarios with different approaches to gathering sufficient revenue. The first approach generates more revenue through usage rate increases to minimize base increases. The second approach does increase usage rates; however, more emphasis is placed on increases to the base rates.

Current Rate Structure

Base Rate

Service Connection Size	Residential	Commercial
All Sizes	\$44.00	\$44.00

Use Rate (per 1,000 gallons)

Tier Break (gal)	Residential		Tier Break (gal)	Commercial
0-3,000	\$0.00		0-4,000	\$0.00
3,001-7,000	\$1.25		4,001-7,000	\$2.00
7,001-15,000	\$1.75		7,001-15,000	\$2.00
15,001+	\$2.25		15,001+	\$2.00

Alternative 1: Changes to Base and Tier Rates

In Alternative 1, Halsey would increase both the base and usage rates each year. The changes to the base rates are increased annually with a smaller rate of increase each year until revenue targets are met. After that, Halsey would need to continue to adjust rates to account for inflation each year.

Growth Factor of Rates

	Year 2	Year 3	Year 4	Year 5
Base	8.00%	6.00%	4.00%	2.00%
Usage	8.00%	6.00%	4.00%	2.00%

Base Rate

Draft Base Rates

Classes: Residential, Commercial

Meter Size	Year 1	Year 2	Year 3	Year 4	Year 5
All Sizes	50.00	54.00	57.24	59.53	60.72

Use Rate (per 1,000 gallons)

Tier Break (gal)	Residential	Tier Break (gal)	Commercial
0-3,000	\$0.00	0-4,000	\$0.00
3,001-7,000	\$2.00	4,001-7,000	\$3.00
7,001-15,000	\$2.50	7,001-15,000	\$3.00
15,001+	\$3.00	15,001+	\$3.00

The tables above show the planned rate increases for Alternative 1. In year 1 after increases, the base rate increases from \$44.00/month to \$50/month before ultimately reaching over \$60/month in year 5. The tier breaks remain the same as current levels; however, the usage rate increases for both residential and commercial customers.

5-year Budget Projection for Alternative 1

Results of the new rates	2022	2023	2024	2025	2026	5 Years
TOTAL EXPENSES	\$296,303	\$300,710	\$305,214	\$309,817	\$309,658	\$1,521,700
TOTAL REVENUE	\$257,970	\$278,373	\$294,707	\$306,316	\$313,178	\$1,450,544
NET LOSS OR GAIN: (Short/Over to Reserves)	-\$38,333	-\$22,336	-\$10,507	-\$3,500	\$3,520	-\$71,157
NET CASH FLOW (Contribution to Reserves)	\$123	\$16,119	\$27,949	\$34,956	\$37,113	\$116,260
Affordability assuming MHI of \$50238 for residential meters.	1.42%	1.53%	1.62%	1.69%	1.73%	

The increases will balance the budget in year 1 with increasing contributions to reserves each year until reserve target contributions have been met. This is a phased-in rate increase over several years, so revenue margins will be close when balancing budgets in year 1. Some past projects in the DW system, such as meter replacement, are set to be completed and thus require less funds than previous years. This is expected to provide more of a buffer in budget projections.

Alternative 2: Changes to Base Rate, Small Tier increase

In Alternative 2, the city would raise rates to \$52/month instead of the \$50/month in Alternative 1. The effect of this increase is to generate more Year 1 revenue from base rates. Revenue projections are similar to Alternative 1 because usage rates are not increased as much in this scenario.

Growth Factor of Rates

	Year 2	Year 3	Year 4	Year 5
Base	10.00%	5.00%	2.00%	2.00%
Usage	10.00%	5.00%	2.00%	2.00%

The table above marks the growth in base and usage rates after the initial increase is implemented. The tables below show the actual planned monthly base rate by class and diameter size over the 5-year period.

Base Rate

Draft Base Rates

Classes: Residential, Commercial

Meter Size	Year 1	Year 2	Year 3	Year 4	Year 5
All Sizes	52.00	57.20	60.06	61.26	62.49

Use Rate (per 1,000 gallons)

Tier Break (gal)	Residential		Tier Break (gal)	Commercial
0-3,000	\$0.00		0-4,000	\$0.00
3,001-7,000	\$1.50		4,001-7,000	\$2.50
7,001-15,000	\$2.00		7,001-15,000	\$2.50
15,001+	\$2.50		15,001+	\$2.50

As mentioned above, this alternative implements larger base increases up front, resulting in a 5th year base rate of \$62.49. Tier breaks remain the same as are currently in place. Usage rates see a \$0.25/1,000 gallon increase across the board, which keeps them closer to current usage rates.

5-year Budget Projection for Alternative 2

Results of the new rates	2022	2023	2024	2025	2026	5 Years
TOTAL EXPENSES	\$296,303	\$300,710	\$305,214	\$309,817	\$309,658	\$1,521,700
TOTAL REVENUE	\$258,195	\$283,533	\$297,437	\$303,406	\$310,063	\$1,452,634
NET LOSS OR GAIN: (Short/Over to Reserves)	-\$38,108	-\$17,177	-\$7,776	-\$6,411	\$405	-\$69,067
NET CASH FLOW (Contribution to Reserves)	\$348	\$21,279	\$30,680	\$32,045	\$33,998	\$118,350
Affordability assuming MHI of \$50238 for residential meters.	1.42%	1.56%	1.64%	1.67%	1.71%	

Like Alternative 1, budget margins are projected to be slim; however, reductions in expenses due to capital projects finishing should add more of a buffer in year 1. In each subsequent year, contributions to reserves increase until meeting the target reserve contribution rate in 2026.

Conclusion

The above analysis offers two different approaches to addressing Halsey's revenue needs. Alternative 1 provides an approach that is more focused on usage rate increases than Alternative 2. Both approaches raise base rates with phased increases over a 5-year period that result in balanced budgets and fully funded reserves. Alternative 1 projects a 5th year base rate of \$60.72/month vs \$62.79/month in Alternative 2, which results in a better base rate affordability for customers. Each approach will achieve the same goal for Halsey. It just depends on what alternative approach will be best suited for the system.