



City of Salem Public Works Department
**2023-2024 UTILITY
COSA UPDATE &
RATE PROPOSAL**

**TASK FORCE
ORIENTATION**

Water/Wastewater Task Force
April 25, 2022

WELCOME!

- Introductions
- Setting the Stage
- Salem's Utility
- Financial Planning History
- Financial Planning, Rate Setting and Cost of Service Analysis
- Upcoming Policy Issues
- Meeting and Public Outreach Schedules



INTRODUCTIONS

Task Force Members

Staff

Guests

Task Force Members

- Kevin Cameron, Marion County Commissioner
- Bruce Carnine, Suburban East Salem Water District
- Chris Hoy, Chair, City Councilor/Ward 6
- Ryan Mann, At-Large
- Scott McClure, City of Turner
- Trevor Phillips, City Councilor/Ward 4
- Chris Sarles, SEDCOR
- Virginia Stapleton, City Councilor/Ward 1
- Laura Tesler, At-Large
- Jordan Truitt, Salem Area Chamber of Commerce
- Micki Varney, City Councilor/Ward 8
- Tim Wood, City of Keizer

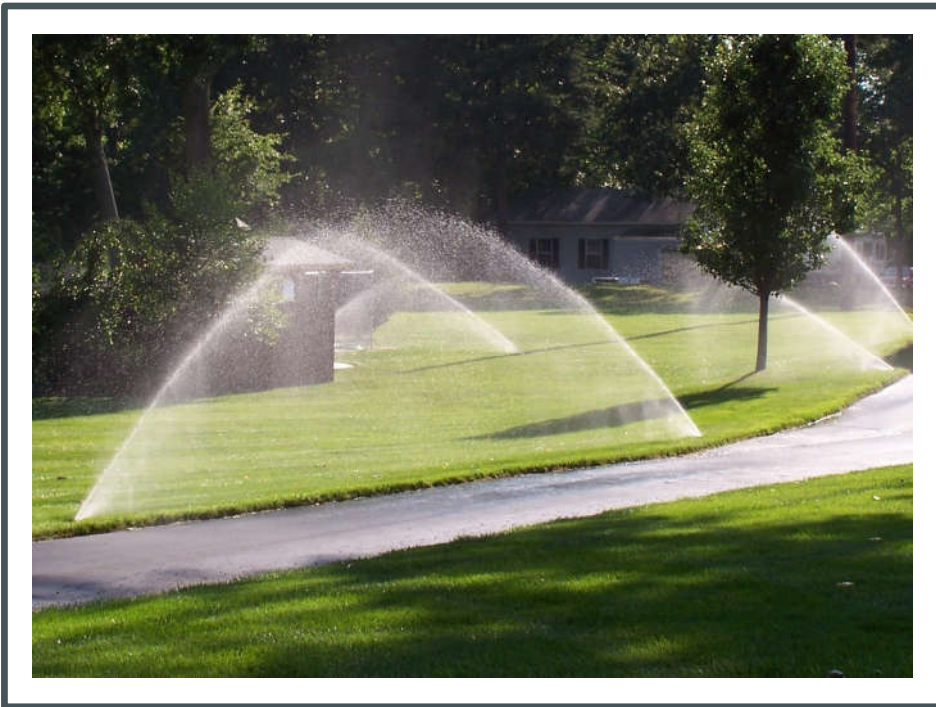


SETTING THE STAGE

Water/Wastewater Task Force



OUR CUSTOMERS...



- Take utility services for granted ... as they should!
- Do not understand that drinking water is a manufactured and transported product
- Know that wastewater *magically* disappears
- Want stormwater to not be a nuisance and creeks to be pristine

OUR UTILITY...



- Provides operations, maintenance, engineering, and ancillary services required to manage a large, multi-faceted utility
- Has fixed operating, maintenance and debt service costs—regardless of consumption
- Has large and continuing capital needs required to address the age of the infrastructure and community growth needs
- Is impacted by cost inflation that is often higher than the CPI
- Is a large enterprise that is run as a business and therefore requires financial stability

THE WATER/WASTEWATER TASK FORCE...



- Is comprised of Salem City Councilors; officials from Keizer, Turner, Suburban East Salem Water District and Marion County; and representatives from large utility customers, businesses, and the community at-large
- Is advisory to the Public Works Director, but its recommendation is forwarded to the City Council
- Meets biennially to review the utility financial plan, rate proposal and other policy matters related to the financial operation and welfare of the utility

WHY ARE WE HERE?



- Council Policy C-14

A financial plan and rate proposal shall be prepared and presented to Council biennially in even numbered years. A comprehensive Cost of Service Analysis (COSA) update shall be prepared every four (4) years beginning with the Fiscal Year 2018-19 rate proposal.

- Rates and financial policies are reviewed by the Task Force prior to going to Council
- Council holds public hearing to review and adopt the new utility rates
- Rate changes are implemented in the following two Januarys
- Typically, no changes to rates or utility financial policies are proposed between rate setting cycles

WHAT'S DIFFERENT THIS TIME?



- We are completing our financial analysis and review work earlier than usual
- We will follow the same notification and public review practices as in prior years
- Early adoption by Council will not change the implementation schedule

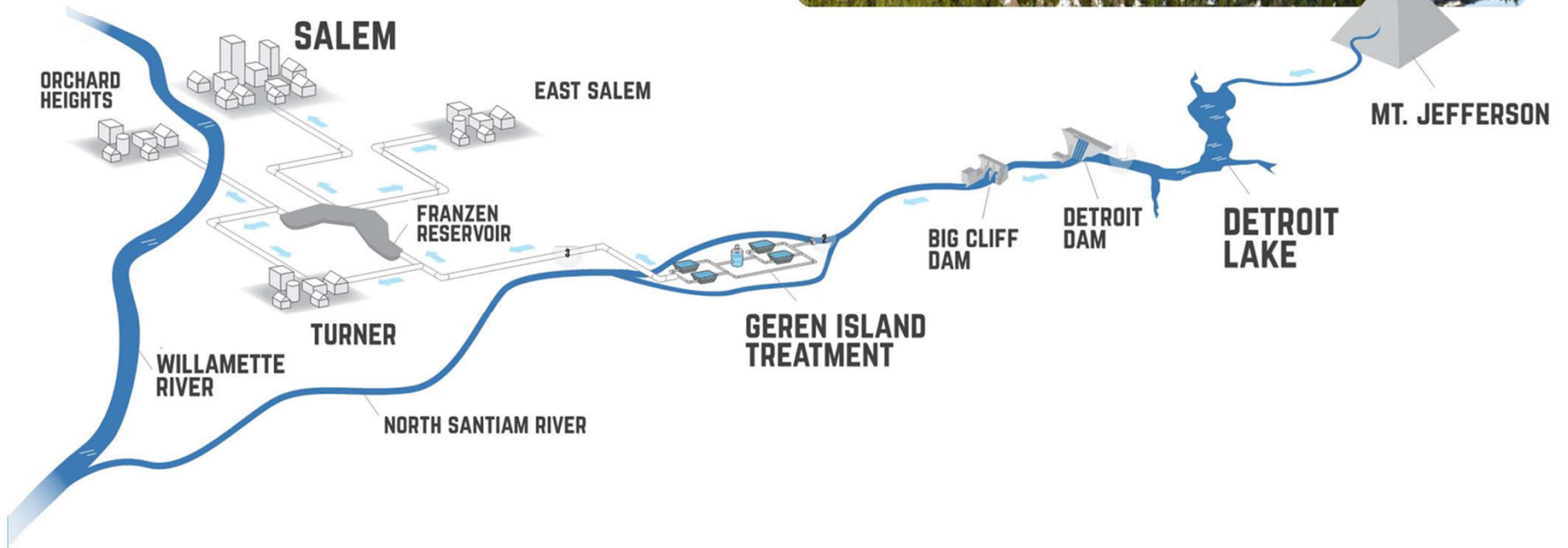


SALEM'S UTILITY

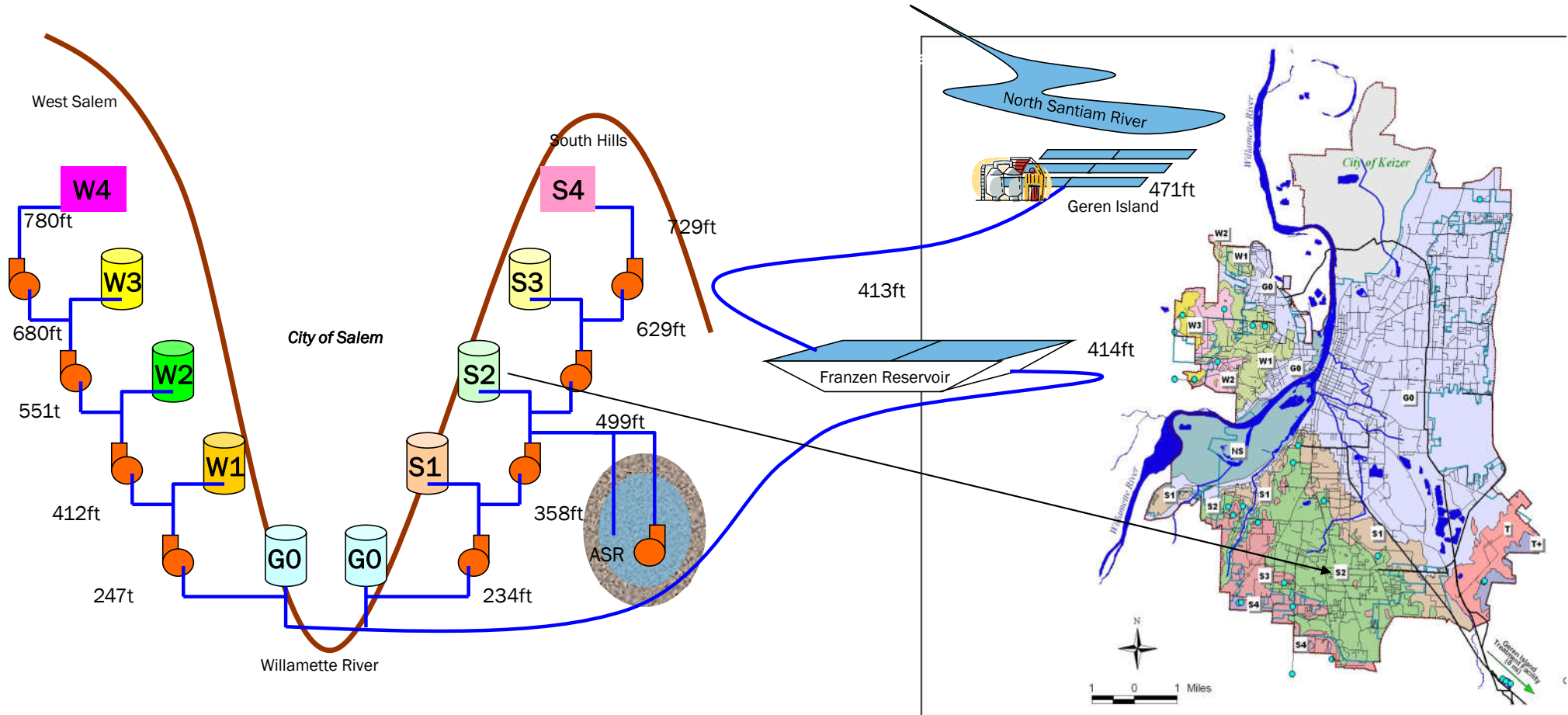
Water/Wastewater Task Force

Water, Sanitary Sewer, Wastewater Treatment, Stormwater, Ancillary Services

WATER SYSTEM OVERVIEW



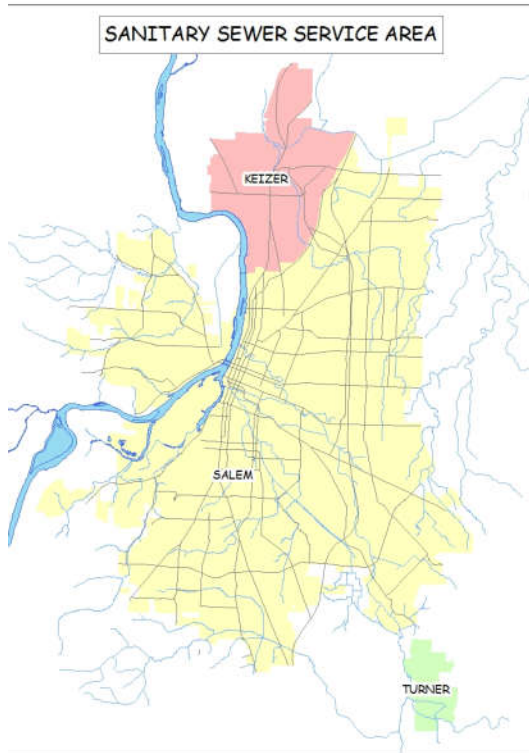
WATER SYSTEM PRESSURE ZONE SCHEMATIC AND MAP





WATER SYSTEM INFRASTRUCTURE

- Average Water demand 36 MGD
 - Peak day 49 MGD
- Service population ~200,000
 - Includes Salem, Turner and unincorporated areas of Marion and Polk Counties
- Geren Island Water Treatment Plant (max production 120 MGD)
- Franzen Reservoir (95 MG)
- 765 miles of water mains
- 18 in-town reservoirs
- 21 pump stations
- 4 aquifer storage and recovery wells



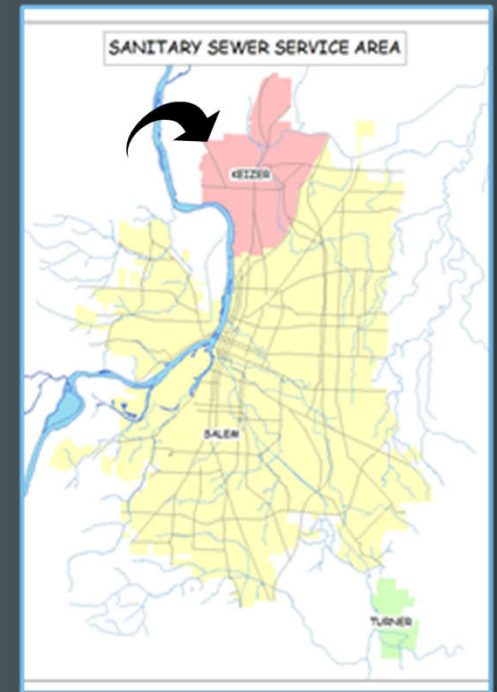
SANITARY SEWER INFRASTRUCTURE

- Basins 48
- Miles of Pipeline 786
- Manholes 16,250
- Clean Outs 1,946
- Sewage Pump Stations 29
- Service Population 241,413
 - Includes Salem, Keizer, Turner, and areas of unincorporated Marion County



WILLOW LAKE WATER POLLUTION CONTROL FACILITY

- Service area includes Salem, Keizer, Turner, and areas of unincorporated Marion County
- Trucked waste
 - Septage station
 - Other wastes
- Capacity
 - 155 MGD Wet Weather Max
 - 35 MGD Design Dry Weather
 - 35.6 MGD Daily Average



RIVER ROAD WET WEATHER TREATMENT FACILITY



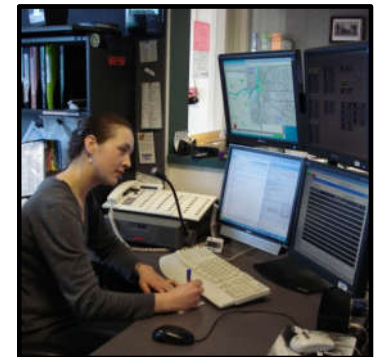


STORMWATER INFRASTRUCTURE

- 178,000 service population (Salem city limits only)
- 14 watershed sub-basins (117 square miles)
- 88 miles of streams
- 461 miles of stormwater drainage pipe
- 46 miles of roadside ditches
- 209 public detention basins
- 893 private detention basins
- 16,282 catch basins
- 2,628 cleanouts
- 6,344 manholes
- 713 culverts
- 3 fish ladders
- 1 fish screen

ADDITIONAL SERVICES PROVIDED BY THE UTILITY

- Administration
 - Financial Planning
 - Budgeting
 - Support Services
- Planning and Development
 - Infrastructure Planning
 - Development Permits
- Customer Service
 - Meter Reading
 - Billing
 - Assistance Programs
 - Inquiries
- Dispatch
 - 24/7/365
- Environment Stewardship
 - Creeks and Streams
 - North Santiam Watershed
- Engineering
 - Project Delivery
 - Survey
 - Inspection
- Laboratory Services
 - Willow Lake
- Environmental Services
 - Industrial Pre-Treatment
 - Spill Response
- Public Outreach
 - Education





FINANCIAL PLANNING HISTORY

Water/Wastewater Task Force

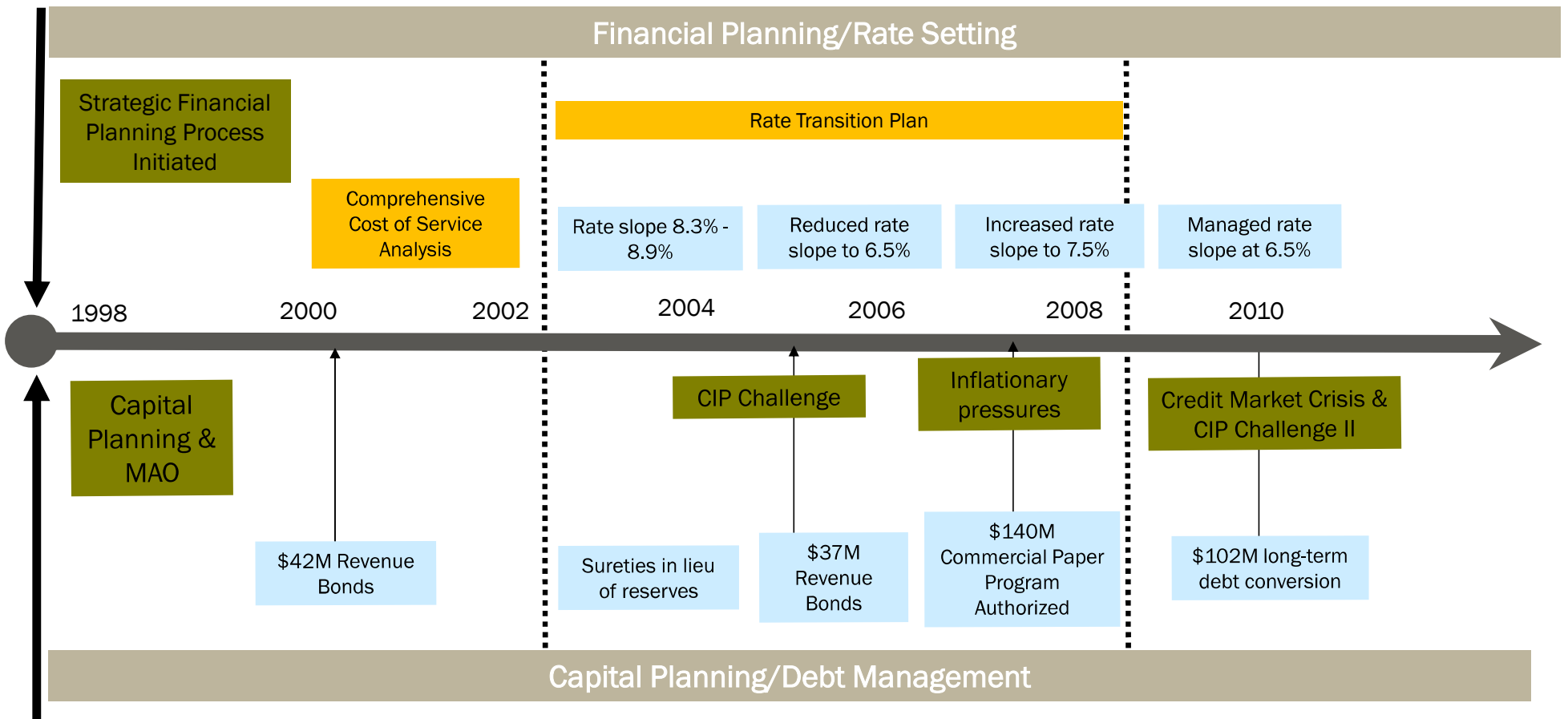


GENERAL FACTORS AFFECTING THE RATE PROPOSAL

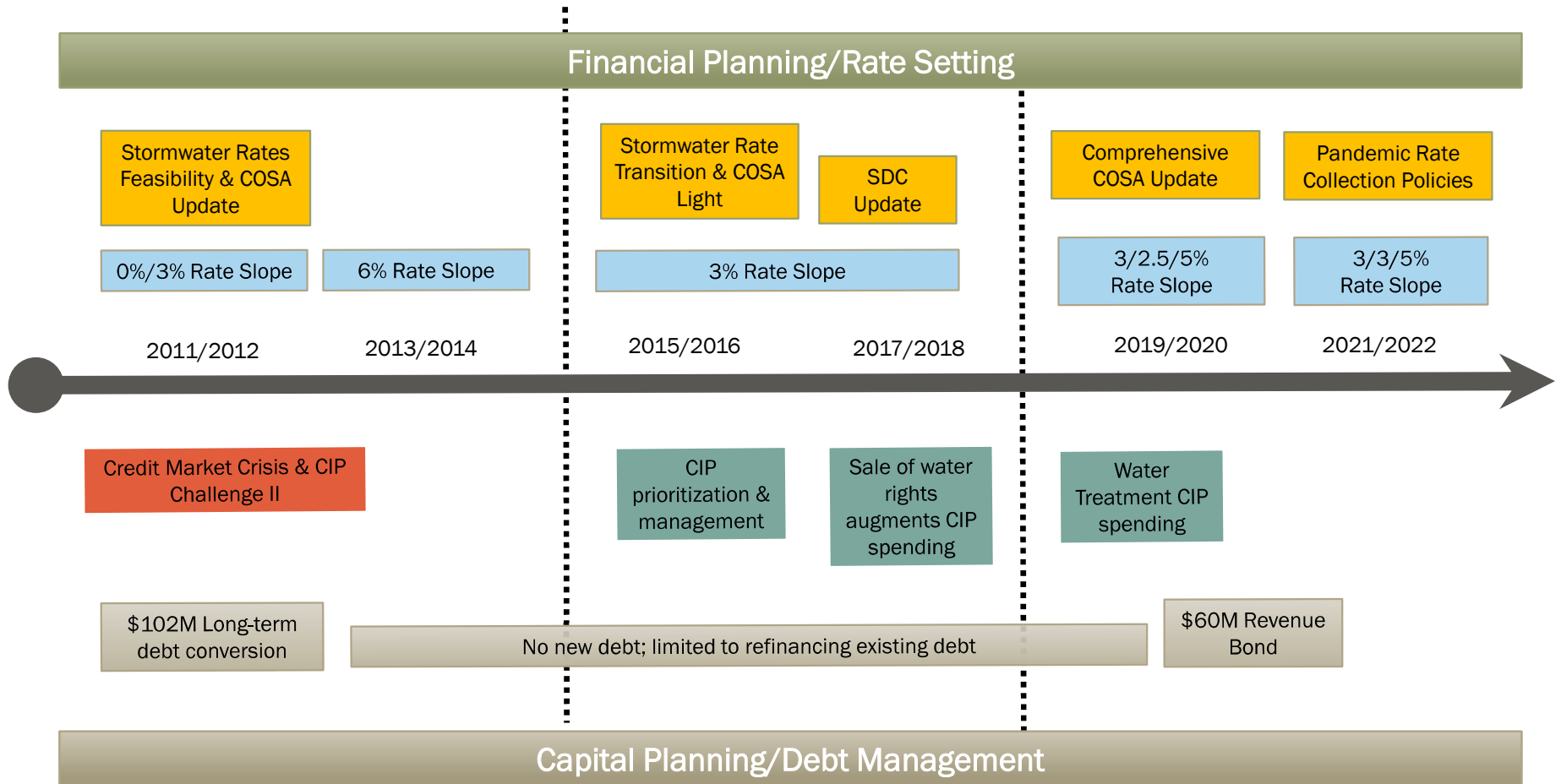
- Sustained capital investment is critical to the health of the utility and typically the main driver of the financial modeling and rate proposals
- Planned rate increases are critical to proper financial planning for the Utility and to our customers
- Approach has been small and consistent annual rate increases
- Proper management of operating expenses and capital investments
- Adopting less than necessary rates will result in higher rate increases in the future



HISTORY OF FINANCIAL PLANNING & RATE SETTING (1998–2010)



HISTORY OF FINANCIAL PLANNING & RATE SETTING (2011–2022)



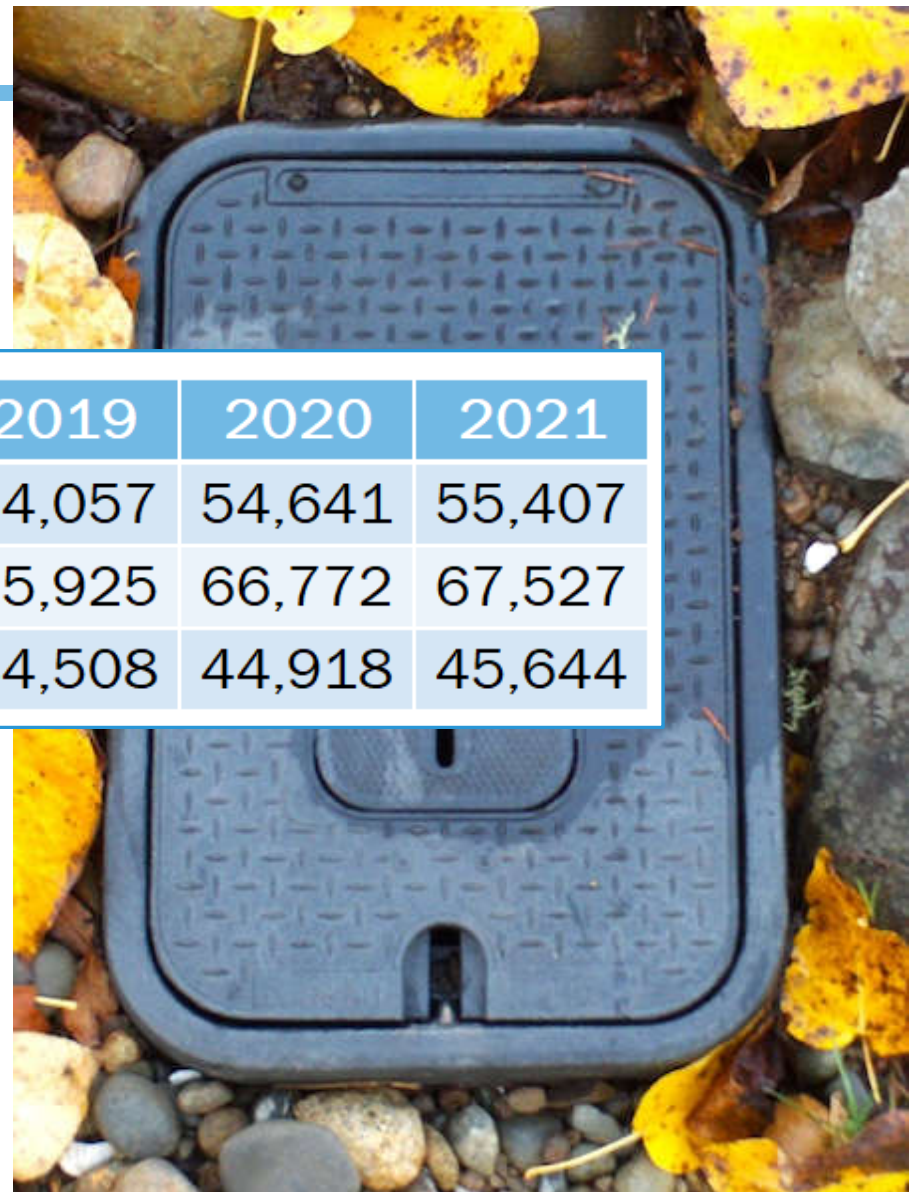
RESILIENCY FROM SMALL AND CONSISTENT ANNUAL RATE INCREASES

- Cyanotoxin response
 - Capital projects
 - Geren Island facilities and wells
 - ASR Facilities
 - Additional operating costs
- \$60 million revenue bond issue
- Covid-19 response
 - Deferred revenue due to no shut-off and rate abatement program (\$1,250,000)
 - Increased support to assistance program (\$500,000)
 - Anticipated ARPA utility funding (\$2,600,000)
- Operations Building



UTILITY ACCOUNTS

(All service areas)



	2016	2017	2018	2019	2020	2021
Water	52,723	52,895	53,579	54,057	54,641	55,407
Wastewater	63,319	63,547	65,229	65,925	66,772	67,527
Stormwater	43,323	43,627	44,048	44,508	44,918	45,644

- About 1 percent per year growth in customer accounts over the past five years

HISTORY OF REVENUE AND EXPENDITURES

(All figures in millions)

	2017	2018	2019	2020	2021	2022 Estimate
<i>Revenue Slope (%)</i> <i>(Water, Wastewater, Stormwater)</i>	2, 2.5, 3	3, 3, 3	3, 2.5, 5	3, 2.5, 5	3, 3, 5	3, 3, 5
Rate Revenue	\$ 84.4	\$ 88.2	\$ 91.4	\$ 92.1	\$ 97.8	\$ 101.6
Other Revenue	13.6	16.5	15.2	17.2	16.9	18.9
Total	\$ 98.0	\$104.6	\$106.6	\$109.3	\$114.7	\$ 120.5
Operations	\$ 62.7	\$ 66.9	\$ 66.9	\$ 70.0	\$ 71.6	\$ 76.7
Utility CIP	13.7	14.4	21.5	14.7	19.5	19.1
Debt	25.8	20.3	18.9	18.0	19.1	19.1
Total	\$102.2	\$101.6	\$107.3	\$102.6	\$110.1	\$ 114.8

Rate Revenue Change

3.1%

4.5%

3.6%

0.8%

6.2%

3.9%

CAPITAL PROJECT FUNDING (All figures in millions)

Adopted Budget and Proposed CIP: Rate Funded Capital Investment

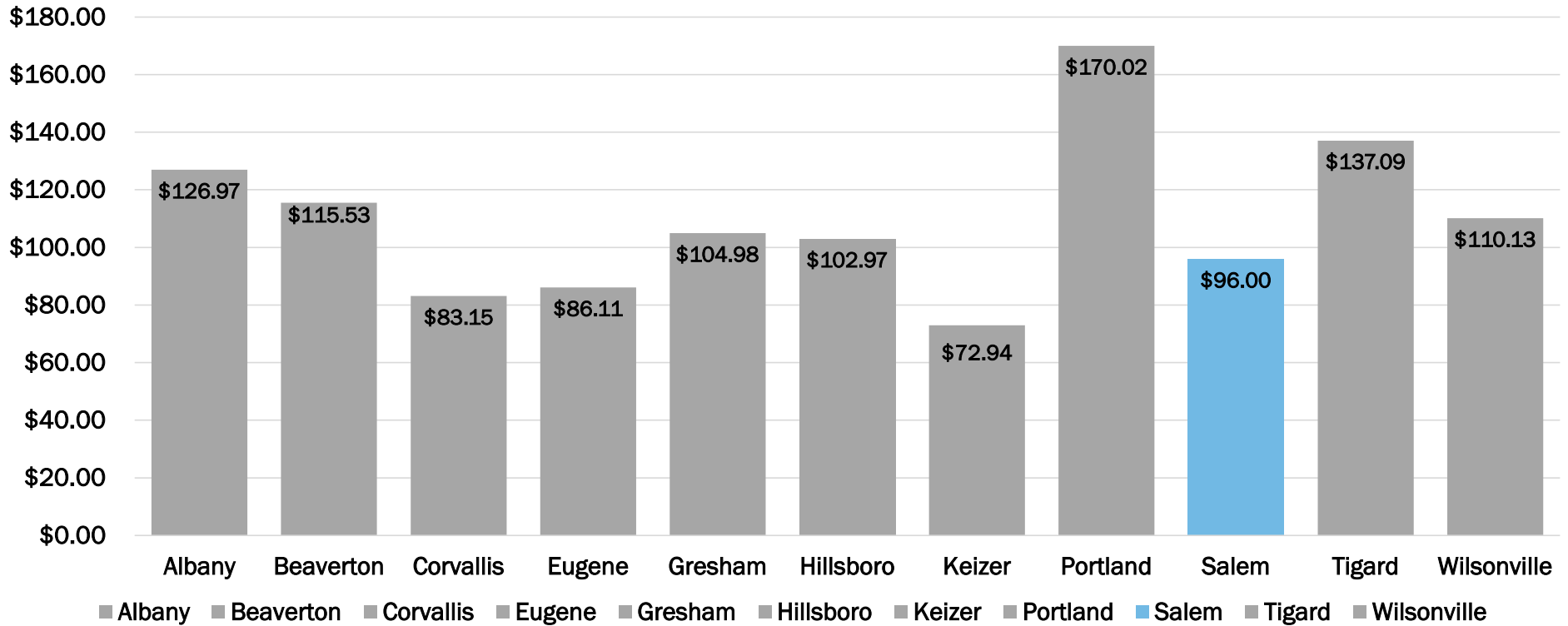
Category	2022 Budget	2023 CIP	2024 CIP	2025 CIP	2026 CIP	2027 CIP
Stormwater	\$ 1.0	\$ 1.2	\$ 4.3	\$ 1.3	\$ 4.7	\$ 1.5
Wastewater	3.2	1.8	10.5	18.5	13.7	19.1
Water	5.3	6.6	4.4	6.7	5.7	10.5
Ops Building	9.7	21.2	2.2	-	-	-
Total	\$ 19.1	\$ 30.8	\$ 21.4	\$ 26.5	\$ 24.1	\$ 31.1

Year 2022 based on budgeted utility rate funding transferred for capital improvements. Year 2023-2027 based on utility rate funding for projects in the FY 2023-27 Proposed CIP.

HOW SALEM COMPARES

(AS OF APRIL 2022)

Average Monthly Residential Utility Bill - All Utilities



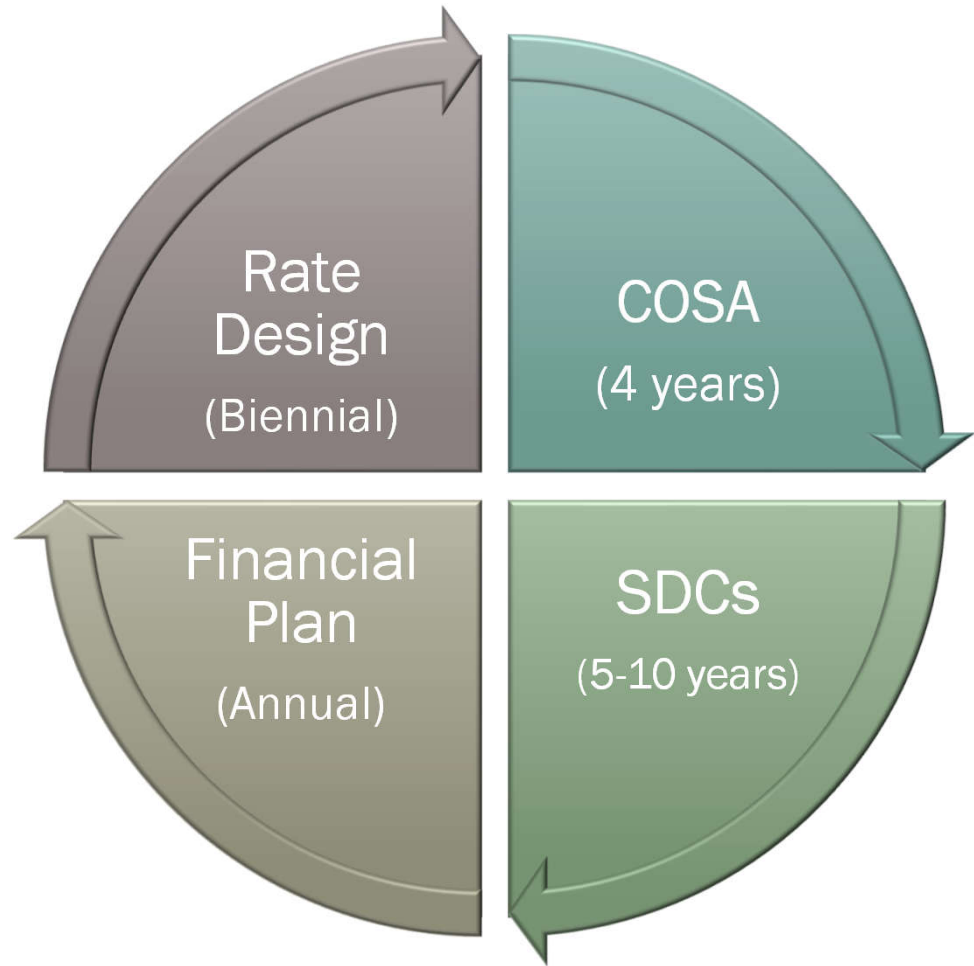


FINANCIAL PLANNING, RATE SETTING AND COST OF SERVICE ANALYSIS

Water/Wastewater Task Force



FINANCIAL PLANNING ELEMENTS



RATE SETTING OBJECTIVES

Revenue Adequacy

- Provide for needed capital and operations funding
- Sufficient revenues in times of declining consumption

Rate Stability

- Smoothing revenue slope
- Transitioning rate structure changes

Equity

- Based on cost of service
- Class-based rates
- Charging for each unit of water used

Defensible

- Follow industry standard practices
- Transparent use assumptions

Beneficial to Economy

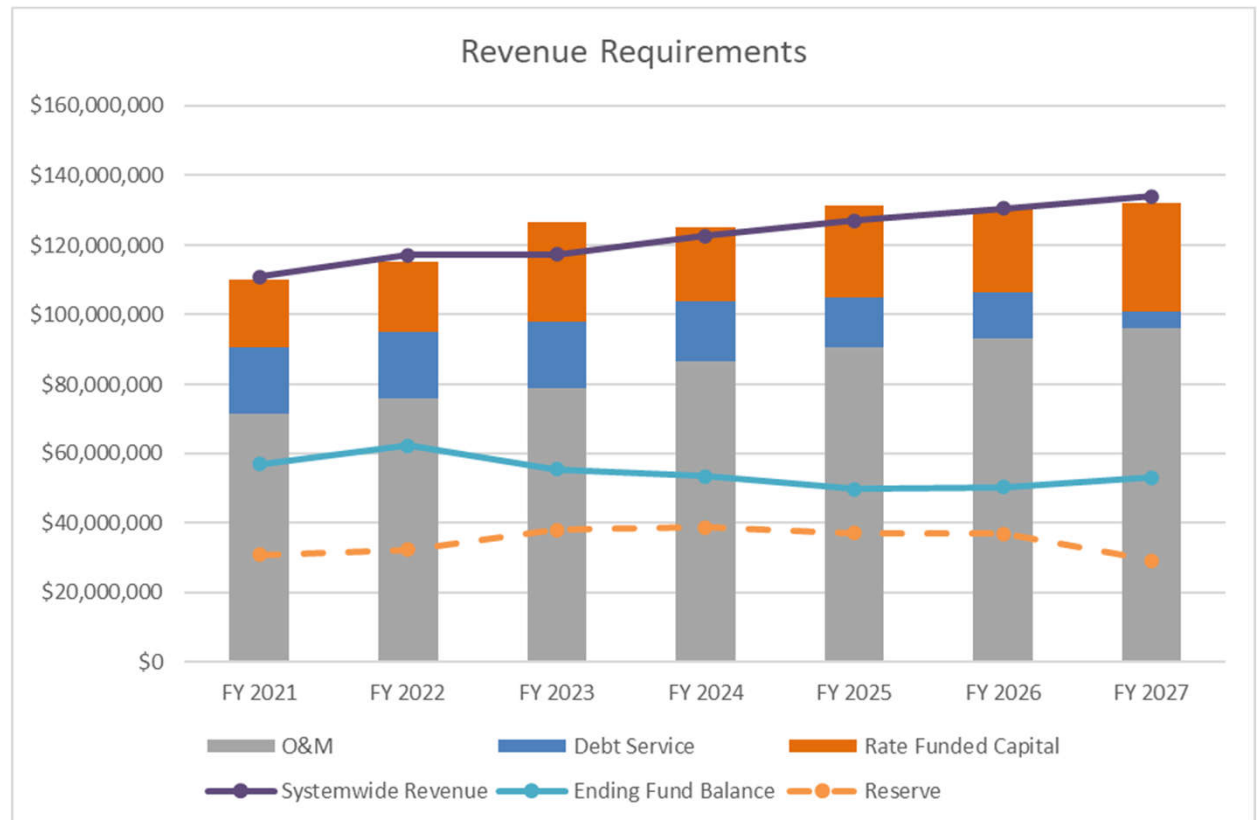
- Reflect community policy framework
- Incentives to industrial

Simplicity

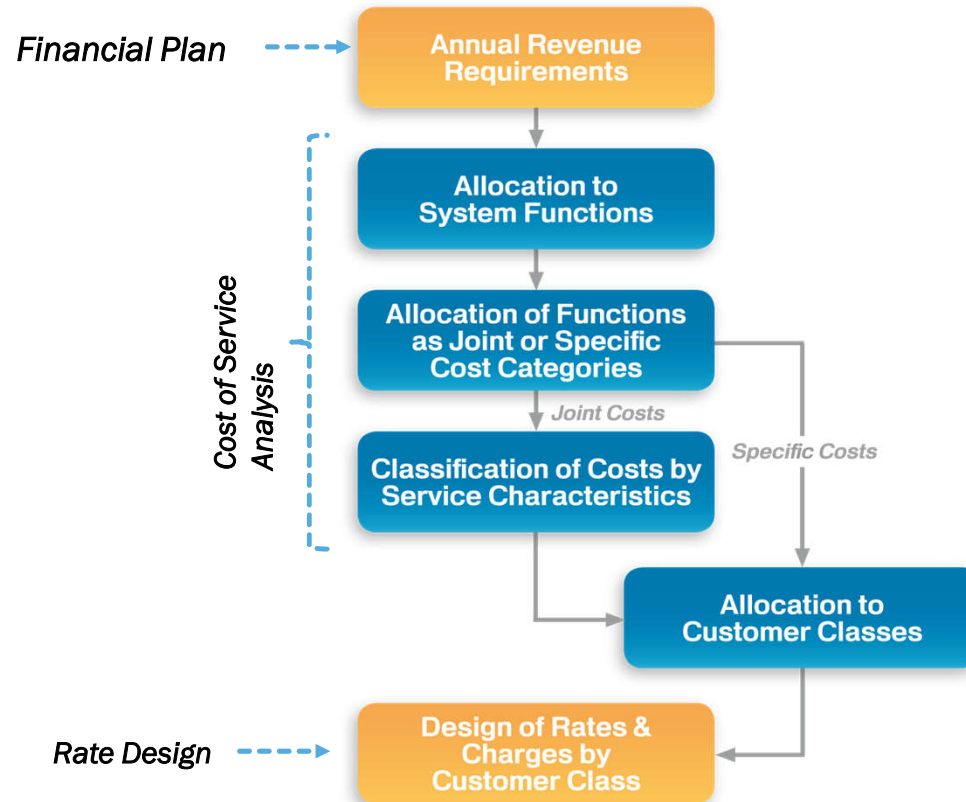
- Reflects industry-standard levels of precision
- Data easy to collect and monitor

FINANCIAL PLANNING

- Operating cost escalations
- Revenues
 - Consumption
 - Account growth
 - Other revenues
- Expenditures
 - Operation and maintenance
 - Debt service
 - Capital construction
- Fund balance
 - Debt reserves
 - Operating and rate stabilization reserves
 - Unrestricted fund balance



COST OF SERVICE PROCESS



UTILITY RATE COMPONENTS

- Base Charges
 - Invariant with volume of water used or wastewater discharged
 - Water charges vary by meter size
- Volume Charges
 - Vary by customer class and wholesale or retail area
 - Assessed based on amount of water used (winter average for wastewater)
- Stormwater Impervious Area Charges
 - 3 Tiers for residential
 - Based on measured area for all others

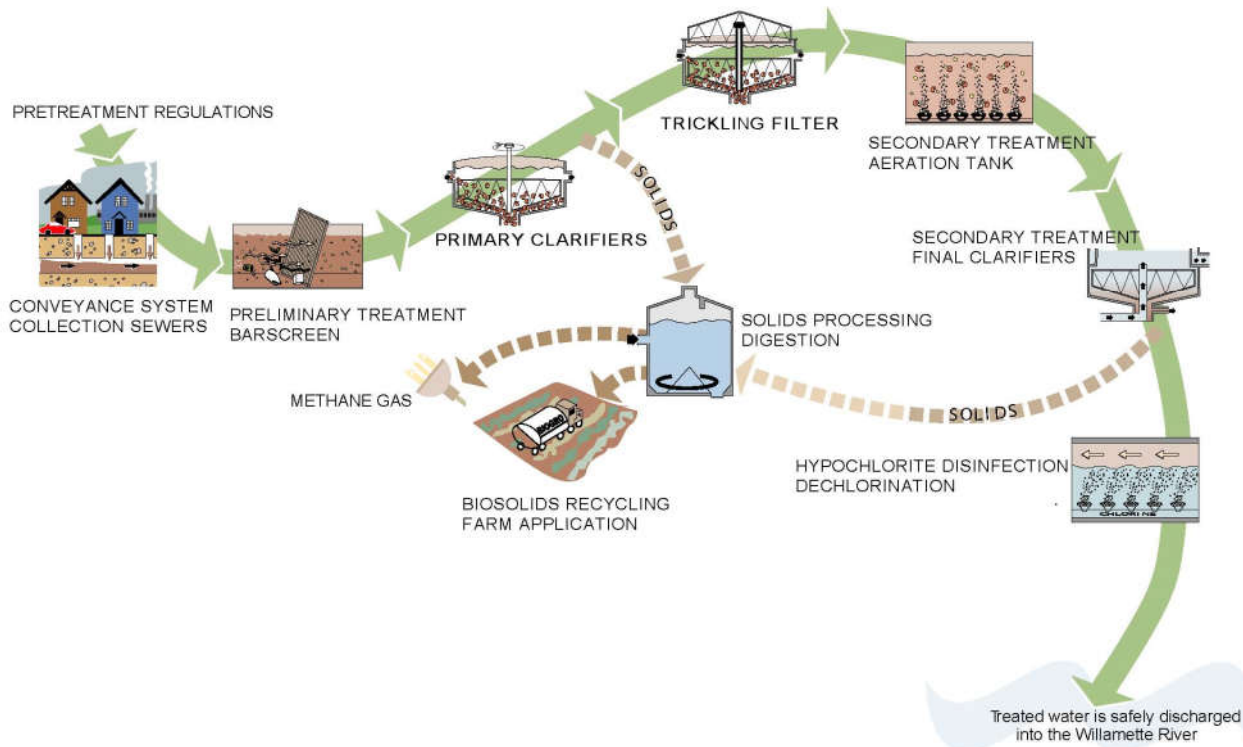


Utility Bill Estimator

Account Class: Residential
 Wastewater Volume: 6
 Stormwater Area: 2,800
 Water Meter Size: 5/8"
 Consumption Units: 8

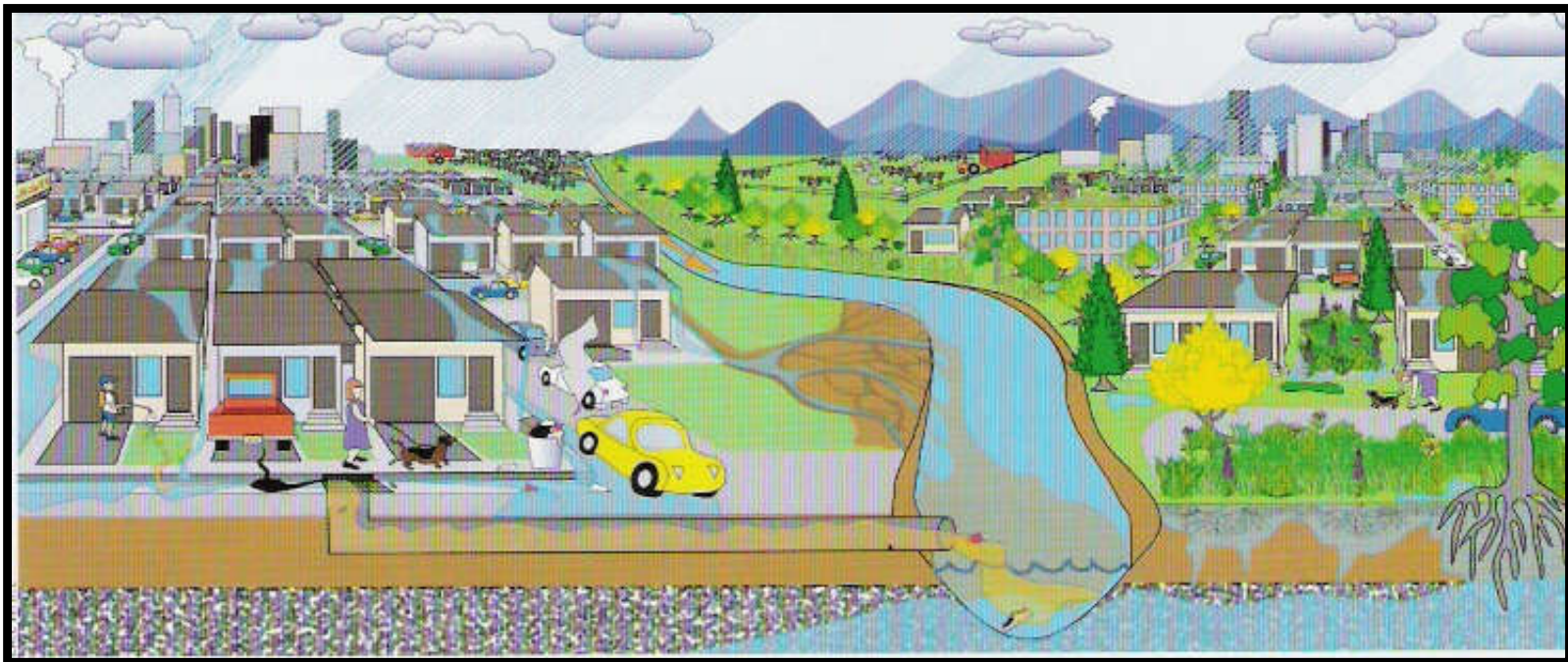
Bill Estimates	2022
Water	
Volume	\$21.60
Base Fee	\$12.07
Wastewater	
Volume	\$22.92
Base Fee	\$15.92
Stormwater	
Impervious Area	\$6.70
Base Fee	\$12.22
Backflow	
Franchise Fee	\$4.57
Total	\$96.00

Willow Lake Water Pollution Control Facility Process



**WASTEWATER
SYSTEM COST
DRIVERS
FLOWS AND
POLLUTANT
LOADS**

Rain is natural, stormwater is not



COST OF SERVICE POLICY FRAMEWORK

Surcharges	Discounts	Fixed Rates	Volume Rates	Customer Classes	Special Fees
<ul style="list-style-type: none">• No pumping or other surcharges based on distance or elevation• 7.5 percent surcharge for unincorporated service areas	<ul style="list-style-type: none">• Low-income customer program• Other rate reductions reflect class-specific service considerations (e.g, industrial water rate).	<ul style="list-style-type: none">• Enhance revenue stability through incremental increases in water fixed charges• 75 percent of wet weather charges in base charge for wastewater	<ul style="list-style-type: none">• Reflect service characteristics by class• Uniform volume structure for water• Apply to winter average for non-measured wastewater customers	<ul style="list-style-type: none">• Retain Existing Customer Classifications• SF Residential• Multi-family• Commercial• Industrial• Institutional• Public• Irrigation	<ul style="list-style-type: none">• Customers with backflow assemblies pay for cost of program• Industrial customers pay for cost of special permits• Non-rate fees established for hauled waste



UPCOMING POLICY ISSUES

Water/Wastewater Task Force



UTILITY RATE POLICY CONSIDERATIONS

Policy issues to be incorporated into the 2022 utility rate proposal:

- Revenue slope by system (water, wastewater, stormwater)
 - 2018 COS update anticipated stormwater at 5 percent in 2023
 - Results of analysis will inform the proposal for each system
- Percentage of water revenue recovered through fixed rates
 - 2018 goal was to increase from 20% to 25% by 2020
 - 2022 estimate is 25% of water revenue is from fixed rates
 - 2023 and 2024 rate options will be presented
- Transition of wholesale rates
 - 2018 planned a four-year transition
 - Paused in 2020 due to pandemic
 - Results of analysis will inform the proposal for each service area

ACTION AND INFORMATION ITEMS: NON-RATE

- Typical Residential Bill – Comparison with Other Cities
- Pandemic Impact on Utility Rate Revenue – 12-month plan
- Emergency Utility Assistance Program
- Reinstatement Practices / Elimination of Disconnection Fee
- Non-Rate Waste Stream Fee Adjustments
 - Leachate
 - Septage
 - Domestic Sludge
- Backflow Fee Adjustment

ADDITIONAL ITEMS / POTENTIAL FUTURE MEETING

- Status report on major projects and capital needs
- Mixed Use Metering
- Accessory Dwelling Units
- Distressed Water Systems
- New Utility Billing System
- Future Policy issues



MEETING AND PUBLIC OUTREACH SCHEDULES

Water/Wastewater Task Force



TASK FORCE MEETING SCHEDULE

- April 25, 2022
 - Introduction and background
- May 12, 2022
 - Non-Rate Policy issues
- May 26, 2022
 - Cost of Service Results
 - Utility Rate Proposal
- June 9, 2022
 - Rate Proposal Discussion & Recommendation
- June 23, 2022 (If necessary)
 - Task Force Recommendation

PUBLIC OUTREACH, COUNCIL HEARING & NEW RATES IMPLEMENTATION

- July 2022
 - Rates information web site published
 - Post cards mailed to all utility customers
- July 11, 2022 (or July 25, 2022)
 - Council public hearing
- January 1, 2023 & January 1, 2024
 - New rates take effect
- February 1, 2023 & February 1, 2024
 - Customer bills reflect new rates



THANK YOU!
QUESTIONS?

Water/Wastewater Task Force
April 25, 2022