



Staff Report

For City Council Meeting - 7/5/2023

Subject - Visitors - Donovan Enterprises Inc - Steve Donovan - Water Rate Study

Synopsis: Back in December of 2022, City staff requested water reserve funds up to \$20,000 to enter into an agreement with a third-party to study Gearhart water rates. The City posted an RFP seeking qualified consultants to conduct the comprehensive water rate study with a goal of independently assessing and evaluating the City's existing water delivery cost structure, and providing a new 10-year plan with rates and guidelines while minimizing rates to the greatest degree possible. Only one bid was received and therefore awarded to Steve Donovan of Donovan Enterprises Inc. He is in attendance with a presentation for Council.

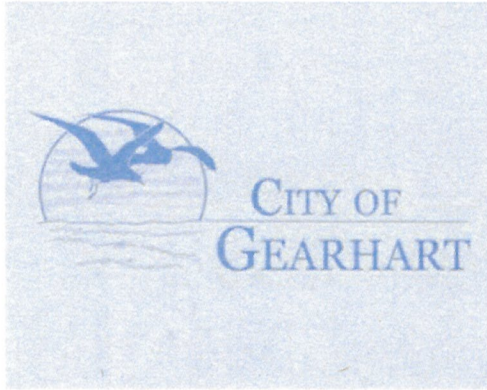
Recommendation: N/A

Legal Analysis: N/A

Financial Analysis: N/A

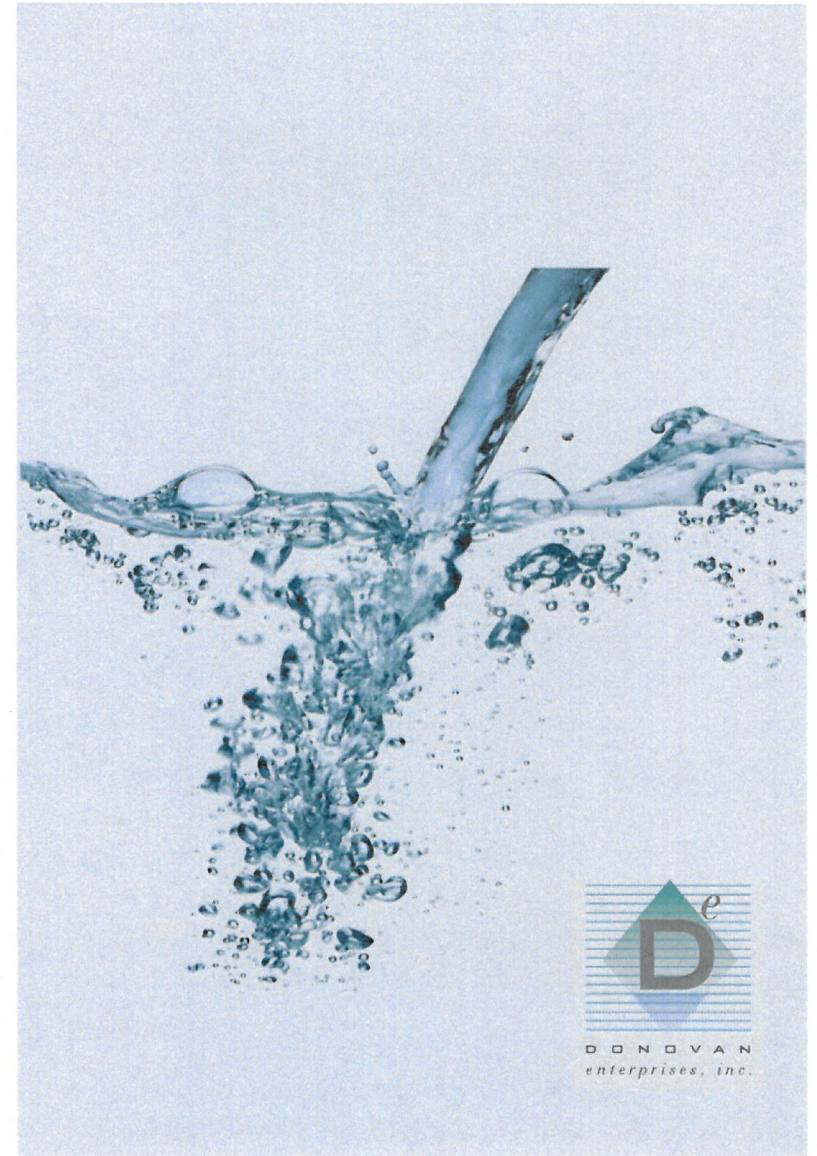
Respectfully Submitted,

Chad



Water Rates Presentation

July 5, 2023



AGENDA

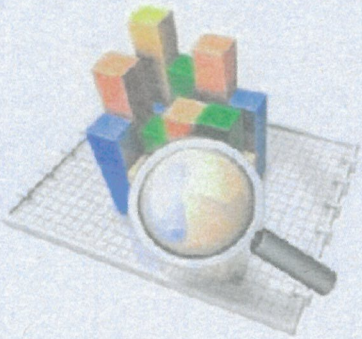
- ❖ Why we are here tonight
 - ✓ Financial trends in the water fund
 - ✓ Current financial status of the water fund
 - ✓ Neighboring communities' water rates
- ❖ Recommended actions
 - ✓ Phased water rate increases
 - ✓ Five-year financial projections
- ❖ Next steps

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GEARHART CITY COUNCIL PRESENTATION



HISTORICAL COST TRENDS

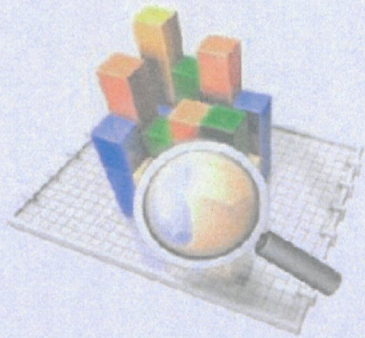


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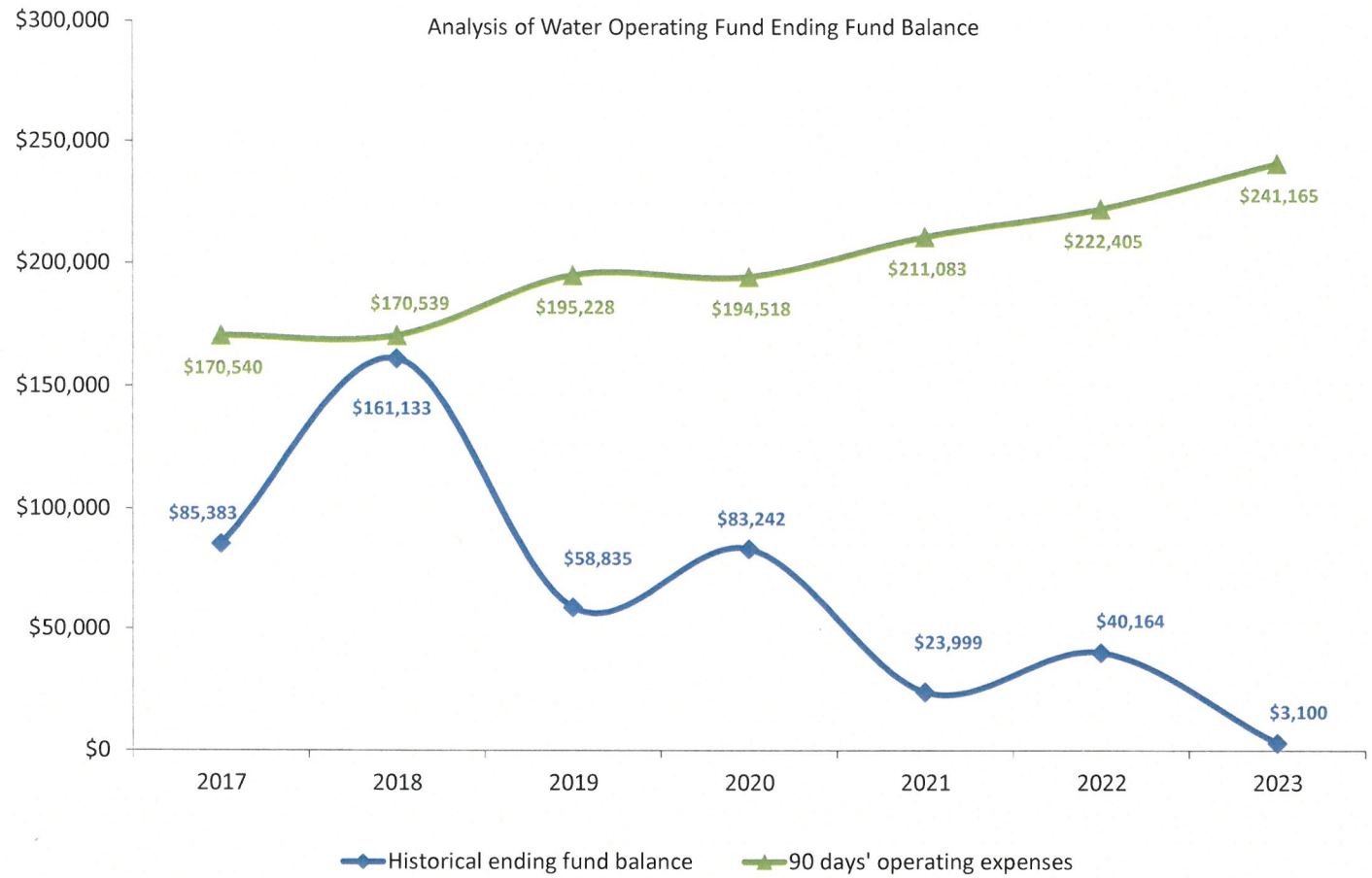
- **Fiscal 2017 to 2022 trends: Water Fund (30)**

- ✓ Personal Services (labor) costs have increased by an average rate of 7.47% per year; approximately \$20k per year.
- ✓ Materials and Services costs have increased by an average rate of 5.8% per year; approximately \$28k per year. Purchased water costs have increased by an average are of 6.61% per year.
- ✓ The City spends about \$40k per year on ongoing capital improvements (meter replacements, water billing program, field equipment).
- ✓ No rate increases since 2013.

HISTORICAL COST TRENDS



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GEARHART CITY COUNCIL PRESENTATION

WATER UTILITY



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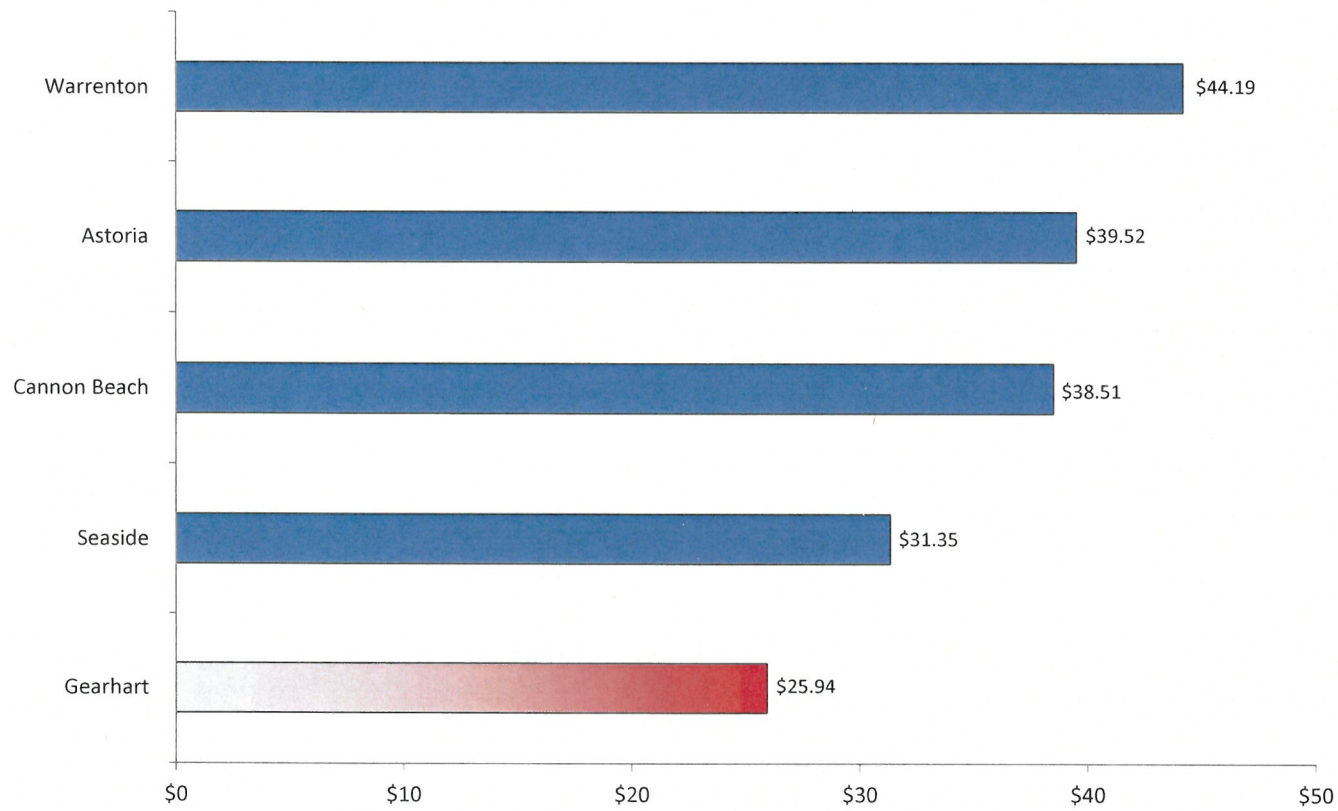
- We are estimating the water fund will end this fiscal year with \$3k in cash. Without a cash infusion or rate immediate increases the fund will go negative in a matter of months based on historical trends.
- In order to inject this fund with liquidity, the Council authorized a transfer of \$341k from the water reserve fund effective on July 1, 2023. Money reserved for future capital improvements will be used to pay operating expenses.
- We are estimating the water reserve fund will end this fiscal year with a cash balance of \$1.3 million. After the July 1st transfer to the water fund, this balance will drop to ~\$950k.
- To be sustainable, the water utility needs phased rate increases.

NEIGHBORING COMMUNITIES' WATER RATES

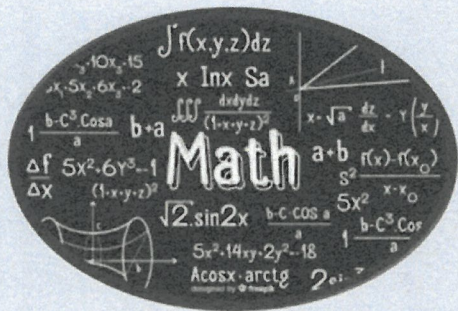


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Neighboring Communities' Water Bills for 6 Ccf of Water per Month - June, 2023



RECOMMENDED ACTIONS



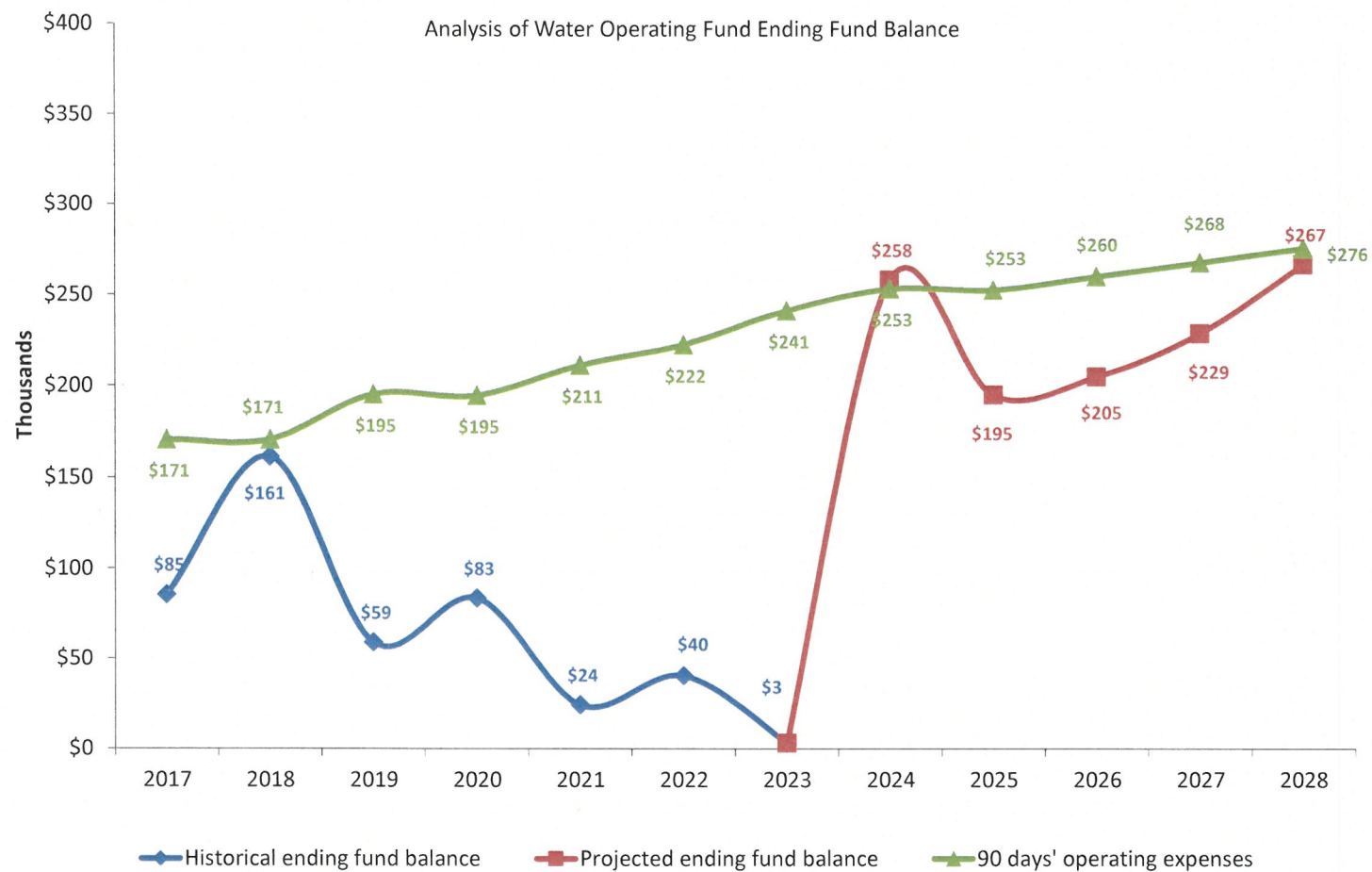
JULY 11, 2023

Issue/Policy Action	Recommendation
<ul style="list-style-type: none"> Rates 	<p>January 1, 2024 – 10% January 1, 2025 – 10% Every January 1 thereafter – 4%</p>
<ul style="list-style-type: none"> Transfers to the Water Reserve Fund 	<p>\$40,000 per year starting in Fiscal 2024-2025</p>
<ul style="list-style-type: none"> Transfers to the Public Works Equipment Reserve Fund 	<p>\$20,000 per year starting in Fiscal 2024-2025</p>
<ul style="list-style-type: none"> Assumed cost increases in the Water Fund 	<p>For fiscal 2023-2024 – 5% labor and M&S For the forecast - ~5% per year for labor and benefits; ~3% per year for materials and services</p>
<ul style="list-style-type: none"> Ending fund balance in the Water Fund 	<p>Work toward 90 days of operating expenses by the end of the five-year forecast</p>
<ul style="list-style-type: none"> Ending fund balance in the Water Reserve Fund 	<p>Work toward replenishing the \$341k transferred out on July 1, 2023</p>

FIVE YEAR PROJECTIONS



JULY 5, 2023

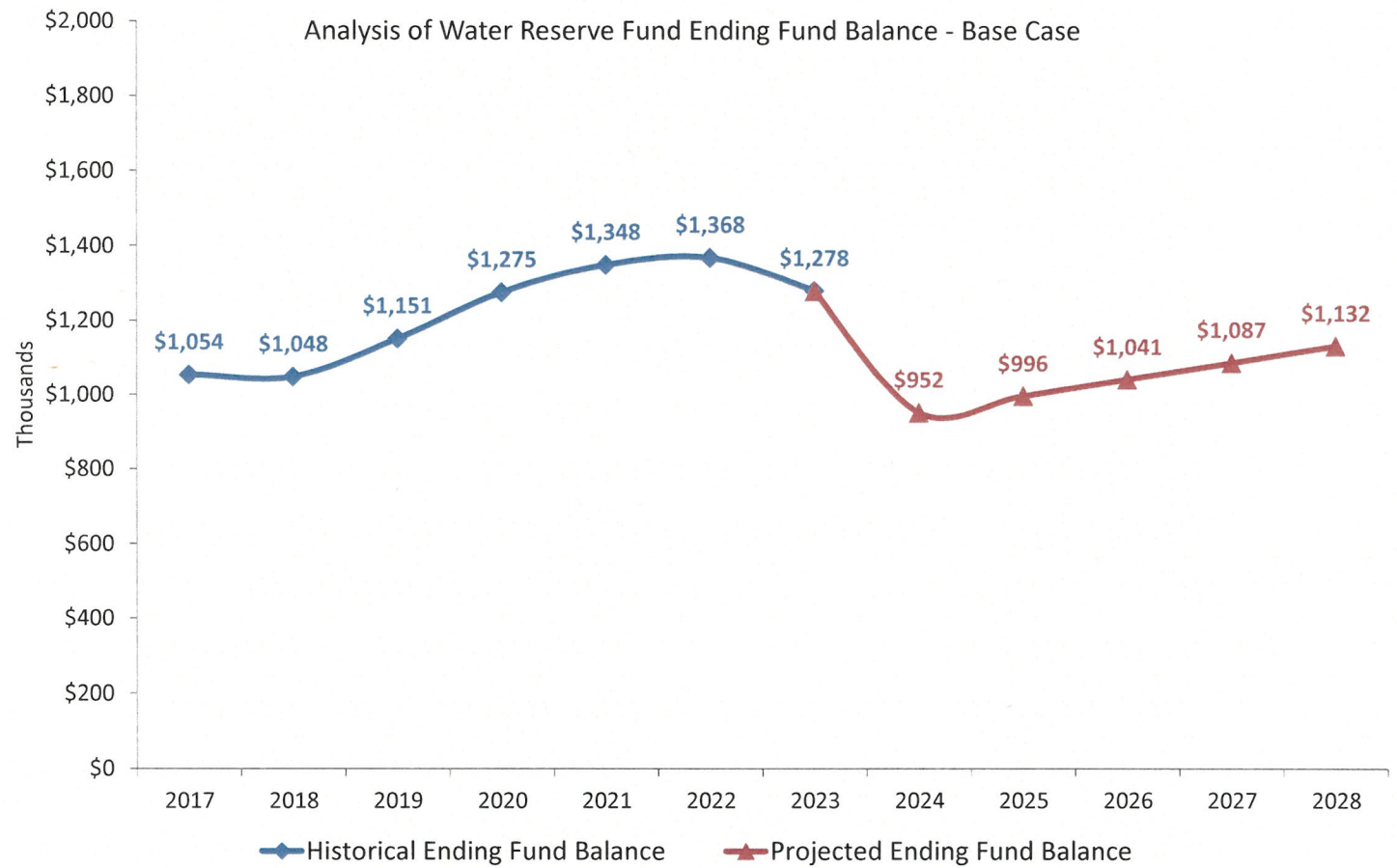


GEARHART CITY COUNCIL PRESENTATION

FIVE YEAR PROJECTIONS



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GEARHART CITY COUNCIL PRESENTATION

DISCUSSION

