

City of Salem Public Works Department
**2021-2022 UTILITY
RATE PROPOSAL**

Water/Wastewater Task Force
August 12, 2020

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WELCOME

Meeting Agenda

- Introductions
- Conducting Task Force meetings in times of Covid-19
- Staff presentation topics
 - Setting the stage
 - Salem's Utility
 - Rate setting process
 - Schedule



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INTRODUCTIONS

Task Force Members

Staff

Guests

Task Force Members

- Brad Nanke, Chair, City Councilor/Ward 3
- Sam Brentano, Marion County
- Bruce Carnine, Suburban East Salem Water District
- Chris Hoy, City Councilor/Ward 6
- Cara Kaser, City Councilor/Ward 1
- Jim Lewis, City Councilor/Ward 8
- Ryan Mann, At-Large
- Chris Sarles, SEDCOR
- David Sawyer, City of Turner
- Laura Tesler, At-Large
- Jordan Truitt, Salem Area Chamber of Commerce
- Tim Wood, City of Keizer

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CONDUCTING MEETINGS IN TIMES OF COVID-19

- PowerPoint for ease of information presentation and to keep us on track
- We will pause often for questions from Task Force members
- Guest comments in writing only
- No rate proposal tonight
- Proposal and recommendations on August 18



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SETTING THE STAGE

Water/Wastewater Task Force



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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
- Assume that conserving water will save them money ... it does not

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OUR UTILITY...



- Provides water, wastewater, stormwater, engineering, and ancillary services required to operate and manage a large multi-faceted utility
- Has fixed operating and maintenance costs—regardless of consumption
- Has large and continuing capital needs that 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

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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

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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 in the fall to review and adopt the Task Force recommendation
- Rate changes are implemented in the following two Januarys
- Typically no changes to rates or utility financial policies are proposed between rate setting cycles

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WHAT'S DIFFERENT THIS TIME?



- Only a rate proposal will be presented to the Task Force on August 18
- No policy or cost of service changes will be proposed for this biennium

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SALEM'S UTILITY

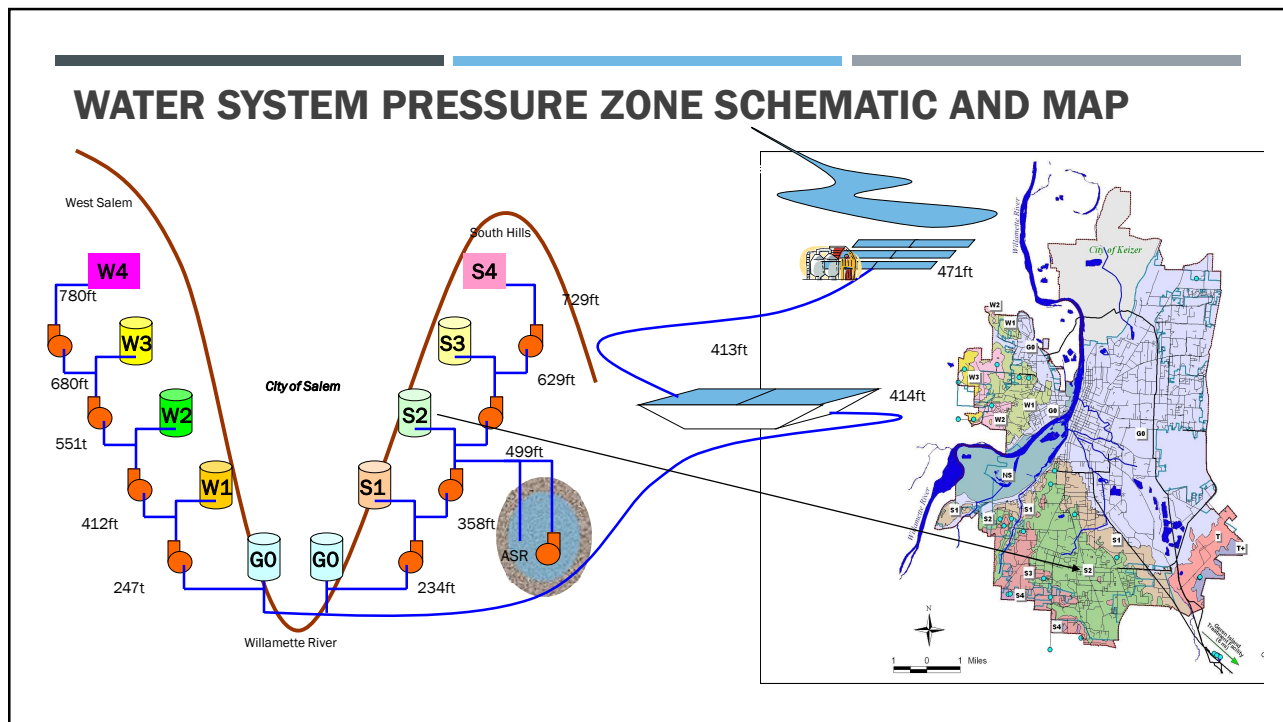
Water/Wastewater Task Force

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

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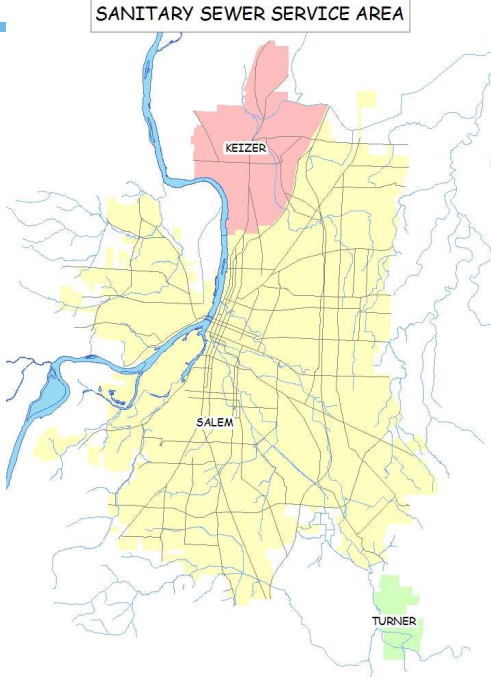
WATER SYSTEM INFRASTRUCTURE

- 790 square mile watershed
- 46 MGD peak water demand (5-year average)
 - 27 MGD average daily water demand (5-year average)
- 199,820 water service population
 - Including East Salem, Jan Ree, Turner and Orchard Heights
 - Keizer produces its own water but is interconnected with Salem
- 765 miles of water mains
- 18 reservoirs
- 21 pump stations
- 4 aquifer storage and recovery (ASR) wells

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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




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WILLOW LAKE WATER POLLUTION CONTROL FACILITY

- Service area
 - Salem
 - Keizer
 - Turner
 - East Salem Service District
- Trucked waste
 - Septage station
 - Other wastes
- Capacity
 - 155 MGD Wet Weather Max
 - 35 MGD Design Dry Weather
 - 35.6 MGD Daily Average



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RIVER ROAD WET WEATHER TREATMENT FACILITY



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STORMWATER INFRASTRUCTURE

- 167,402 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

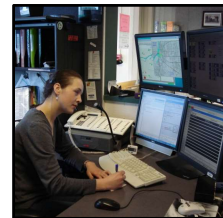
Salem Stormwater System



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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



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RATE SETTING PROCESS

Water/Wastewater Task Force



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GENERAL FACTORS AFFECTING THE RATE PROPOSAL

- Sustained capital investment is critical to the health of the utility
 - Main driver of the financial modeling and rate proposals
- Planned rate increases are critical to proper financial planning for the Utility
 - and 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



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RESILIENCY FROM SMALL AND CONSISTENT ANNUAL RATE INCREASES

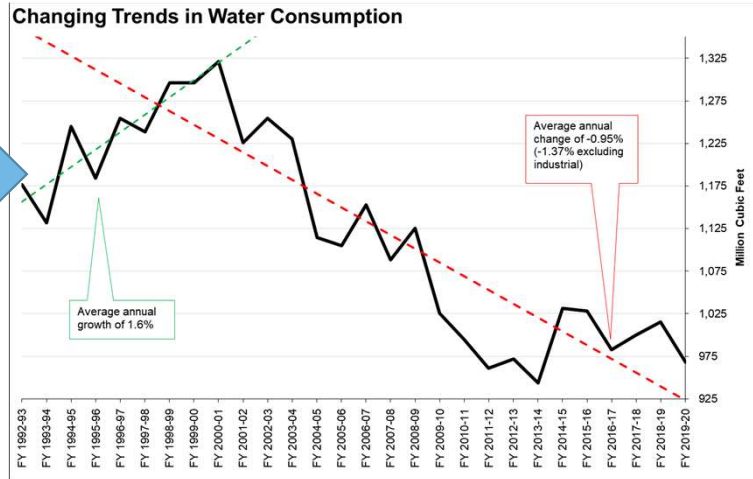
- Cyanotoxin response
 - Current additional operating costs
 - Capital projects
 - Geren Island facilities and wells
 - ASR Facilities
- \$60 million revenue bond issue
- Covid-19 response
 - Deferred revenue due to no shut-off and rate abatement program (\$750,000)
 - Increased support to assistance program (\$500,000)



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FINANCIAL PLANNING

- Cost of service assumptions
- Financial model input and assumptions
 - Operating cost escalations
 - Consumption and account growth
 - Revenues
 - Rate and non-rate
 - Expenditures
 - Operation and maintenance
 - Debt service
 - Capital construction
 - Fund balance
 - Debt reserves
 - Operating and rate stabilization reserves
 - Unrestricted fund balance



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UTILITY ACCOUNTS (All service areas)

Service	2015	2016	2017	2018	2019	2020
Water	52,107	52,723	52,895	53,579	54,057	54,641
Wastewater	62,649	63,319	63,547	65,229	65,925	66,772
Stormwater	42,879	43,323	43,627	44,048	44,508	44,918



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HISTORY OF REVENUE AND EXPENDITURES

(All figures in millions)

	2015	2016	2017	2018	2019	2020 Estimate
<i>Revenue Slope</i>	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Rate Revenue	\$ 80.4	\$ 81.9	\$ 84.4	\$ 88.2	\$ 91.4	\$ 92.9
Other Revenue	9.0	9.7	13.6	16.5	15.2	16.9
Total	\$ 89.4	\$ 91.5	\$ 98.0	\$ 104.6	\$ 106.6	\$ 109.8
Operations	\$ 55.9	\$ 56.7	\$ 62.7	\$ 66.9	\$ 66.9	\$ 69.4
Utility CIP	9.5	7.5	13.7	14.4	21.5	14.7
Debt	22.0	21.0	25.8	20.3	18.9	18.0
Total	\$ 87.4	\$ 85.2	\$ 102.2	\$ 101.6	\$ 107.3	\$ 102.0
Rate Revenue Change	4.6%	1.9%	3.1%	4.5%	3.6%	1.6%

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ASSET MANAGEMENT APPROACH TO CAPITAL FUNDING

- Total Asset Value:
\$3,380,000,000
- 1% of asset value:
\$33,800,000

*Assumes all infrastructure
lasts 100 years*

Fiscal Year	Rate-Funded Capital Construction Transfer
2012 - 2013	\$3,346,000
2013 - 2014	\$8,314,700
2014 - 2015	\$9,500,000
2015 - 2016	\$7,450,000
2016 - 2017	\$13,666,100
2017 - 2018	\$14,380,000
2018 - 2019	\$21,450,000
2019 - 2020	\$14,650,000

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CAPITAL PROJECT FUNDING (All figures in millions)

Adopted CIP: Rate Funded Capital Investment

Category	2021 Rate Funding	2022 CIP	2023 CIP	2024 CIP	2025 CIP
Stormwater	\$ 3.0	\$ 0.5	\$ 3.0	\$ 3.9	\$ 1.0
Wastewater	4.6	0.9	3.6	12.2	3.1
Water	8.2	0.7	10.2	12.2	7.8
Ops Building	3.7	15.0	5.0	-	-
Total	\$ 19.5	\$ 16.9	\$ 21.8	\$ 28.4	\$ 11.9

Year 2021 based on budgeted utility rate funding transferred for capital improvements. Year 2022-2025 based on utility rate funding for projects in the FY 2021-25 Adopted CIP.

Adjusted Capital Planning: Rate Funded Capital Investment

Category	2021 Budget	2022	2023	2024	2025
Stormwater	\$ 3.0	\$ 0.5	\$ 2.4	\$ 3.0	\$ 1.0
Wastewater	4.6	0.9	3.6	3.4	10.4
Water	8.2	3.7	7.7	12.3	10.1
Ops Building	3.7	11.8	8.1	-	-
Total	\$ 19.5	\$ 16.9	\$ 21.8	\$ 18.7	\$ 21.5

Year 2021 based on budgeted utility rate funding transferred for capital improvements. Year 2022-2025 based on adjustments to capital planning to maximize rate transfers.

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UTILITY ANNUAL DEBT SERVICE (All figures in millions)

Debt Issuance	2021	2022	2023	2024	2025	2026	2027	2028
2012 Refinance	\$ 5.8	\$ 5.8	\$ 5.8	\$ 4.0	\$ 1.1	\$ -	\$ -	\$ -
2017 Refinance	9.0	9.0	9.0	9.0	9.0	9.0	0.3	-
2020 Revenue Bond	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Annual Debt Service	\$ 19.1	\$ 19.1	\$ 19.1	\$ 17.3	\$ 14.4	\$ 13.3	\$ 4.6	\$ 4.3
Total Debt Outstanding	\$ 110.9	\$ 96.5	\$ 81.5	\$ 67.7	\$ 56.2	\$ 45.2	\$ 42.7	\$ 40.2
Debt Service / Rate Revenue	19.8%	19.4%	18.7%	16.4%	13.3%	11.9%	4.0%	3.7%

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DEBT SERVICE SAVINGS TO CAPITAL INVESTMENT (All figures in millions)

	2021	2022	2023	2024	2025	2026	2027	2028
Rate-Funded Capital*	\$ 19.5	\$ 16.9	\$ 21.8	\$ 18.7	\$ 21.5	\$ 23.0	\$ 25.0	\$ 30.0
Debt Service	19.1	19.1	19.1	17.3	14.4	13.3	4.6	4.3
Total	\$ 38.6	\$ 36.0	\$ 40.9	\$ 36.0	\$ 35.9	\$ 36.3	\$ 29.6	\$ 34.3

*FY 2021 and 2022 are based on utility projects in adopted CIP. FY 2023 to FY 2028 adjusted in financial modeling to maximize rate transfers for capital projects.

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MEETING AND PUBLIC OUTREACH SCHEDULES

Water/Wastewater Task Force



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TASK FORCE

- August 12, 2020
 - Introduction and background
- August 13, 2020
 - Mail out 2021/2022 financial plan rate proposal
- August 18, 2020
 - Review of financial plan and rate proposal
 - Make recommendation if ready to do so
- August 26, 2020 (If necessary)
 - Task Force recommendation

PUBLIC OUTREACH, COUNCIL HEARING & IMPLEMENTATION

- September 2020
 - Rates information web site published
 - Post cards mailed to all utility customers
- October 12, 2020
 - Council public hearing
- January 1, 2021 & January 1, 2022
 - New rates take effect
- February 1, 2021 & February 1, 2022
 - Customer bills reflect new rates