



City of Cannon Beach

Utility Rate Study

FINAL REPORT

March 20, 2024

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Section I. INTRODUCTION

UTILITY BACKGROUND

The City of Cannon Beach (City) is located in Clatsop County Oregon, and manages water, wastewater, and storm drain services to just under 2,000 residents and businesses.

According to the City’s website, “The mission of the Water Division is to produce and distribute drinking water that complies with all state and federal environmental and health standards. The division is responsible for the operation and maintenance of the City’s water system which includes three underground springs, a water filtration plant, two booster pump stations, distribution piping system, and three water reservoirs with a combined volume of 2.63 million gallons, and all metered services.”

The City’s Wastewater Division “provides wastewater treatment and conveyance services to the City of Cannon Beach in a manner that preserves water quality and the beneficial uses of Ecola Creek and protects the public health and welfare. The Wastewater Division manages the City’s wastewater treatment facilities and provides pump station operations and maintenance for the local collection system. These facilities include 12.4 acres in facultative lagoons, 2 acres of an aerated lagoon, 16 acres of wetland treatment; nine pump stations, an analysis laboratory, and over 13 miles of transmission sewers.”

The City bills and collects rates from water, wastewater, and storm drain customers within its service area to provide resources needed to reach and maintain the division goals previously outlined.

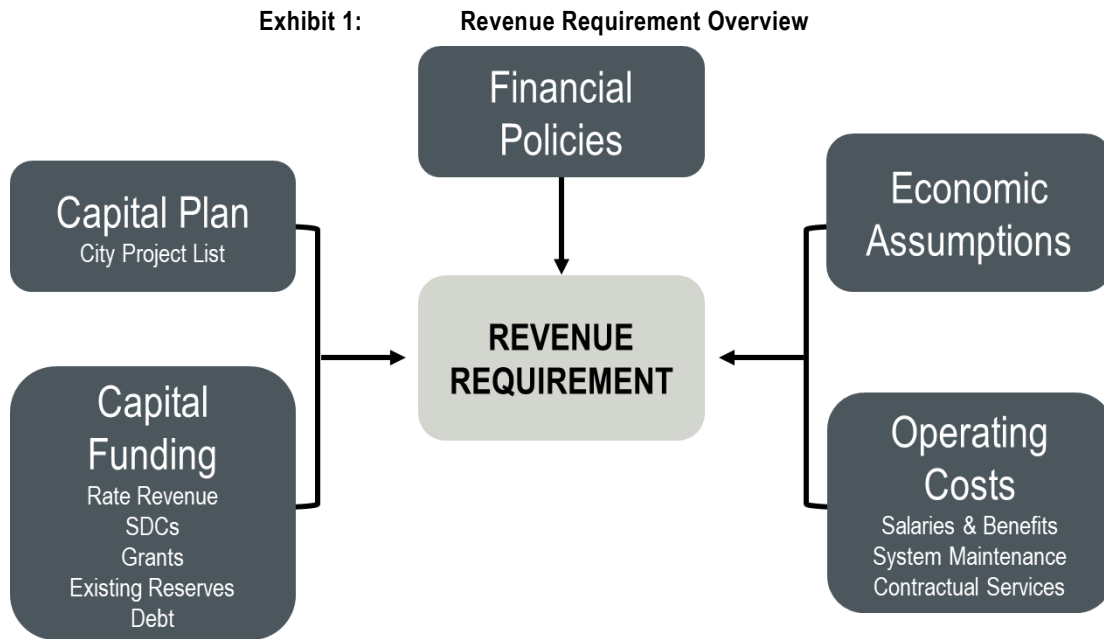
The key analyses completed as part of the rate study include:

- **Revenue Requirement.** This analysis identifies the total revenue requirement to fully fund each utility on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements, and fiscal policy objectives.
- **Water Rate Design.** This analysis includes the development of water rate structure adjustments that generate sufficient revenue to meet the system’s revenue requirement forecast and address the City’s pricing objectives.

RATE STUDY

The primary purpose of this rate study is to develop funding plans (revenue requirements) for the City’s water, wastewater, and storm drain utilities for a 10-year study period from fiscal year (FY) 2022-23 through FY 2031-32, which aligns with the City’s capital improvement program (CIP). A revenue requirement identifies the total revenue needed to fully fund a utility on a standalone basis considering operating and maintenance (O&M) expenditures, fiscal policy achievement, and the capital project needs of the utility.

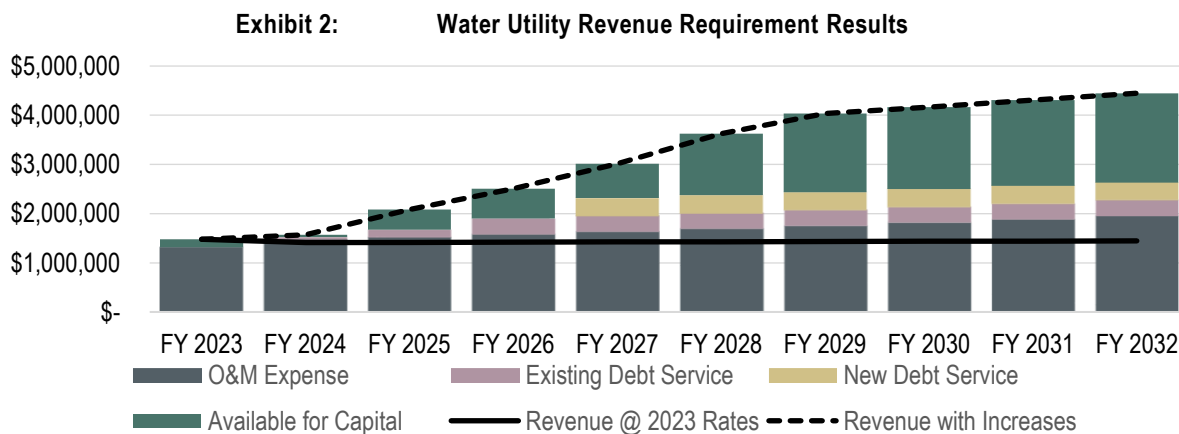
Exhibit 1 describes the general methodology of the revenue requirement analysis.



SUMMARY OF STUDY RESULTS

Water Rates

The following water rate scenario was presented to the Cannon Beach City Council on September 19, 2023. **Exhibit 2** shows the utility requires annual 20 percent rate increases through FY 2027-28 to cover upcoming O&M expenses, as well as new and existing debt planned to cover future CIP projects.

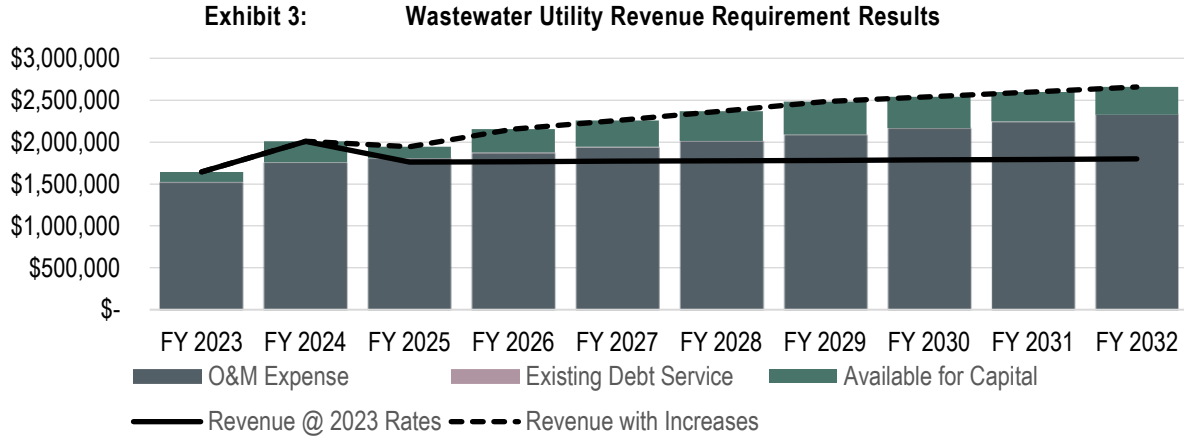


Water Rate Revenue Forecast	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Annual Rate Revenue Increase		23.00%	20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Monthly SFR Bill at 400 cf	\$25.67	\$31.57	\$37.89	\$45.47	\$54.56	\$65.47	\$72.67	\$74.85	\$77.10	\$79.41
Change From Prior Year		+\$5.90	+\$6.31	+\$7.58	+\$9.09	+\$10.91	+\$7.20	+\$2.18	+\$2.25	+\$2.31
Revenue Bond Issuances					\$5.025 M					

*Note that FY 2024 implements a January 1st rate, whereas all other years implement on July 1st.

Wastewater Rates

The following wastewater rate scenario was also presented to the Cannon Beach City Council on September 19, 2023. **Exhibit 3** shows 10.5 percent annual rate increases through FY 2025-26 to cover existing O&M costs as well as existing debt service, and to fund capital with cash.

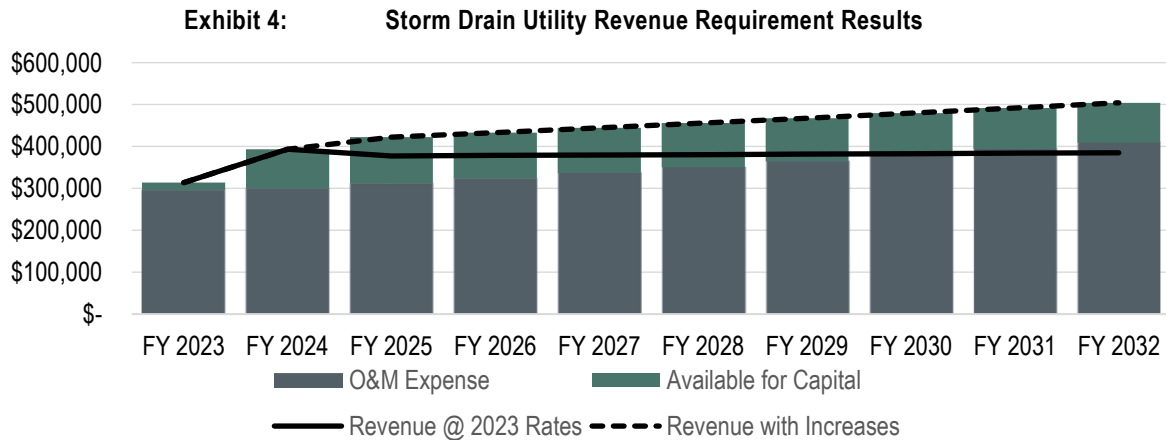


Wastewater Rate Revenue Forecast	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Annual Rate Revenue Increase		16.20%	10.50%	10.50%	4.50%	4.50%	4.50%	2.00%	2.00%	2.00%
Monthly SFR Bill at 400 cf	\$28.74	\$33.39	\$36.90	\$40.77	\$42.60	\$44.52	\$46.53	\$47.46	\$48.40	\$49.37
Change From Prior Year		+\$4.65	+\$3.51	+\$3.87	+\$1.83	+\$1.92	+\$2.00	+\$0.93	+\$0.95	+\$0.97

* Note that FY 2024 is already adopted

Storm Drain Rates

The following storm drain rate scenario was also presented to the Cannon Beach City Council on September 19, 2023. **Exhibit 4** shows the utility needs a 12 percent rate increase in FY 2024-25, and 2.5 percent increases thereafter to cover O&M expenses and cash for capital projects.



Storm Drain Rate Revenue Forecast	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Annual Rate Revenue Increase		30.00%	12.00%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Monthly Charge per Unit	\$9.22	\$11.99	\$13.43	\$13.73	\$14.04	\$14.36	\$14.68	\$15.01	\$15.35	\$15.69
Change From Prior Year		+\$2.77	+\$1.44	+\$0.30	+\$0.31	+\$0.32	+\$0.32	+\$0.33	+\$0.34	+\$0.35

* Note that FY 2024 is already adopted

Water Rate Design

The City expressed interest in exploring rate structure modifications including:

- Lowering the base rate for 3/4" customers. The idea of this rate alternative is to help customers that are small residential meters, and use below the 400 cubic foot threshold.
- Shifting revenue to the volumetric portion of the bill. This rate alternative is made to encourage conservation by rewarding those who use less water.

The proposed rate structure changes were developed and presented to Council on February 13th, 2024.

Section II. FISCAL POLICIES

The basic framework for evaluating utility revenue needs includes sound fiscal policies. Several policy topics are important to consider as part of managing the finances of the City, including operating reserves, capital reserves, debt related policies, and rate funded capital.

CASH RESERVES

Operating Reserve

An operating reserve is designed to provide a liquidity cushion; it protects the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Industry practice for utility operating reserves typically ranges from 30 days (8 percent) to 120 days (33 percent) of operating expenses, with the lower end more appropriate for utilities with stable revenue streams and the higher end of the range more appropriate for utilities with significant seasonal or consumption-based fluctuations.

Recommended Policy: Achieve a year-end minimum balance target of 73 days (20 percent) of total annual operating expenditures in the water, wastewater and storm drain operating reserves. This target is in line with current City policy and practices.

For the water, wastewater, and storm drain utilities this equates to \$263,000, \$304,000, and \$59,000 respectively based on the FY 2022-23 operating budget for each individual utility.

Capital Reserve

This reserve provides a source of emergency funding for unexpected asset failures or other unanticipated capital needs. This capital reserve policy is not intended to guard against catastrophic system failure or extreme acts of nature. Given these different purposes, there are a variety of potential benchmarks for setting a minimum balance for this fund – options include a percentage (commonly 1-2 percent) of the original cost of fixed assets, a rolling multi-year average of capital costs, or an amount determined sufficient to fund an equipment or asset failure.

Recommended Policy: Achieve a year-end target of at least 1 percent of the original cost of fixed assets in the water and wastewater utilities. This is approximately \$86,000 based on the current water assets, and \$132,000 based on the current wastewater assets.

Achieve a year-end target of \$100,000 based on the average storm drain emergency project rather than a percentage of current storm drain assets.

This reserve target for all three utilities is in addition to what the City is currently doing, and capital reserves larger than this may be prudent if the City is saving in advance for future capital projects.

DEBT MANAGEMENT

Only the water utility has existing debt, which continues through FY 2054-55. The following discussion highlights a few items to keep in mind if the City decides to borrow additional money in the future to fund utility improvements.

Debt Reserve

The debt reserve is most often required as a condition of bond issuance, though some loan programs also require a reserve. The intent of the reserve is to protect bondholders (or the agency issuing loans) from the risk of the borrower defaulting on their payments. Typically specified in the related bond or loan agreement, the minimum balance for this reserve is most often linked to either average annual debt service, maximum annual debt service, or the amount issued.

Recommended Policy: The City does not currently have any revenue bond debt reserve obligations associated with its water utility debt. In the future, this policy should be dictated by terms outlined in contracts for debt obligations if the City chooses to utilize additional debt.

Debt Service Coverage

Debt service coverage is typically a requirement associated with revenue bonds and some State loans, and it is an important benchmark to measure the riskiness of the utility's capital funding plans.

Debt service coverage is most easily understood as a factor applied to annual debt service. In such a case, if it sells revenue bonds, the City agrees to collect enough revenue to meet operating expenses and not only pay debt service but collect an additional increment above bonded debt service. The extra revenue is a cushion that makes bondholders more confident that debt service will be paid on time. The extra revenue can be used for capital expenditures, to build system reinvestment reserves, or for debt service on subordinate debt. Achieving a bonded debt service coverage level greater than the minimum required level is a positive signal that bond rating agencies notice, and it can result in more favorable terms if the City goes to the market for revenue bonds.

Recommended Policy: Based on discussions with City staff, the City maintains a minimum policy coverage of 1.20 for the water utility debt, and any future debt for other utilities.

CAPITAL FUNDING

Debt Funding

Debt helps spread capital costs over a prolonged period, such as 20 years. This helps spread costs between existing and future customers who will benefit from those assets. However, debt comes with issuance and interest costs. A utility's ability to meet debt service coverage and other debt-related requirements may limit the amount of additional debt that it can issue. Additionally, excessive amounts of outstanding debt can affect a utility's credit rating and its ability to secure low-interest debt in the future. It is best suited for large, discrete projects rather than ongoing capital programs or system replacement.

One key advantage to borrowing is that capital projects could be funded and executed quicker than saving up cash in advance, thereby reducing the effects of long-term cost inflation.

Cash Funding

Funding capital projects with rate revenue (cash) typically results in higher near-term rates since existing customers pay 100 percent of the cost. While this may not seem equitable, it can be argued that existing customers should pay for the repair and replacement of assets that are currently in use. Rate revenue designated for capital can be applied to project costs directly or held in reserve for future capital spending needs.

While it is a flexible source of revenue, its biggest disadvantage is that the amount available in any given year is limited, whereas the amounts needed to fund the CIP might vary widely. To smooth out the financial demands over time, utilities typically need to either save money in advance or borrow.

Resulting Considerations

Whether to fund projects with cash and/or debt is an important policy decision. While cash funding will be cheaper in the long run because there is no interest cost, debt funding is a practical option since it allows for the payment of costs over an extended period. Using debt to spread the cost over time promotes intergenerational equity, since future customers will help pay for debt service through annual utility rates.

The City may want to consider a hybrid approach in the future for the wastewater and storm drain utilities. For example, the City could use rate revenues to fund annual repair and replacement projects and consider a combination of cash and debt for large, one-time projects that may be difficult to fund solely with rate revenues, or when grant money is not available.

RATE FUNDED SYSTEM REINVESTMENT

The concept of system reinvestment funding entails funding long-term infrastructure replacement needs through a regular and predictable rate provision. A system reinvestment funding program can be structured to consider the defined funding source (rates), accumulation of funds when funding exceeds near-term needs, and augmentation of funds (e.g., through debt) when replacement needs exceed available cash resources. Many municipal utilities incorporate a system reinvestment funding provision based on depreciation expense. Specific benchmarks for annual funding can include:

- **Original cost depreciation expense as reported in financial records.** This approach fully funds the decline in asset value attributable to the wear and tear from routine use, as measured by original construction costs. It avoids a decline in system asset value (financial integrity) by replacing physical assets with cash assets.
- **Replacement-based depreciation expense.** This approach estimates the replacement cost of the system, and bases system reinvestment funding on this higher cost. By so doing, it more closely conforms to the actual cost of replacing the system.
- **Asset management plan.** This approach identifies a specific dollar amount of funding to be budgeted annually, ideally based on an asset management plan, which relies on an accurate asset inventory, supplemented by an evaluation of asset criticality and routine asset condition assessments.

- **Directly budgeted replacement project expenditures.** Budgeting replacement project expenditures as they occur, this approach does not attempt to anticipate or accumulate toward replacement needs and is likely to provide highly variable annual requirements.

Of these various approaches, only the asset management approach is designed to ensure full funding of replacement needs, assuming the accuracy of assumptions used. All the others are intended to provide reasonable contributions toward meeting replacement needs, but do not ensure the adequacy of such funding. Most commonly, utilities that have addressed replacement funding needs have used historical (original cost) depreciation expense as the basis for a reasonable level of reinvestment in the system. This strategy and level of funding satisfies several standards for reasonable rates:

- It avoids a decline in system asset value (financial integrity);
- It charges customers commensurate with their consumption of facility useful lives and avoids the possibility of charging customers more than the current cost to provide service (rate equity); and
- It provides a substantial source of funding for replacement (capital funding adequacy).

However, it is important to recognize that funding system reinvestment based on original cost depreciation will generally not fully meet future replacement needs (especially for mature systems that are just beginning to address or fund those needs). In such cases, debt or use of other City cash resources would be required to cover the resulting funding gap.

Recommended Policy: The City does not have any current system reinvestment policies, although the current capital plans are all funded at least in part by rate revenues.

Section III. REVENUE REQUIREMENT

As previously mentioned, the main purpose of the revenue requirement is to develop a funding plan for the FY 2022-23 through FY 2031-32 study period. The revenue requirement identifies the total revenue needed to fully fund the utility on a standalone basis considering current financial obligations including operating expenditures, policy-driven commitments, and future capital project needs. These increases are applied “across the board” for the utility. In other words, they apply equally to all rate classes and meter sizes (i.e., all line items on the rate schedule).

ECONOMIC & INFLATION FACTORS

The operating and maintenance expenditure forecast largely relies on the City FY 2022-23 utility budgets. The line items in the budget are then adjusted each future year by utilizing one of the following applicable factors:

- **General Cost Inflation.** Assumed to be 4.06 percent per year (as applied to the City’s FY 2022-23 budget) based on the recent historical performance of the CPI-U West.
- **Personnel Cost Inflation.** Based on discussions with City staff.
 - » Labor Cost Inflation: assumed to be 2.22 percent per year.
 - » Benefits Cost Inflation: assumed to be 3.07 percent per year.
- **Construction Cost Inflation.** Assumed to be 3.42 percent per year based on the *Engineering News-Record’s* Construction Cost Index (20-City Average), discussions with City staff, and current trends within the industry.
- **Annual Customer Account Growth (all utilities).** Assumed to be 0.30 percent based on discussions with the City staff, and historical population growth. This equates to an average of six new customers each year for each utility.

FUND BALANCES

Exhibit 5 shows that the City began FY 2022-23 with roughly \$1.41 million in combined cash or cash equivalents in the water utility, \$795,000 in the wastewater utility, and \$242,000 in the stormwater utility.

Exhibit 5: Water, Wastewater, and Storm Drain Utility Cash or Cash Equivalent Balances

Water Utility	FY 2023 Beginning Balance
Operating Reserve	\$196,000
Capital Reserve	\$1.21 million
Total	\$1.41 million

Wastewater Utility	FY 2023 Beginning Balance
Operating Reserve	\$255,000
Capital Reserve	\$540,000
Total	\$795,000

Storm Drain Utility	FY 2023 Beginning Balance
Operating Reserve	\$47,000
Capital Reserve	\$195,000
Total	\$242,000

EXISTING DEBT OBLIGATIONS

The City currently has four outstanding water revenue bonds related to the following projects: Water Meter Replacements in FY 2022-23, Water Resiliency Phase I in FY 2022-23, Water Resiliency Phase II in FY 2023-24, and Water Resiliency Phase III in FY 2024-25. Debt service payments on these obligations will continue until FY 2054-55.

Based on discussions with City staff, it is their preference that the wastewater and storm drain utilities continue to cash-fund capital projects during the study period.

WATER UTILITY

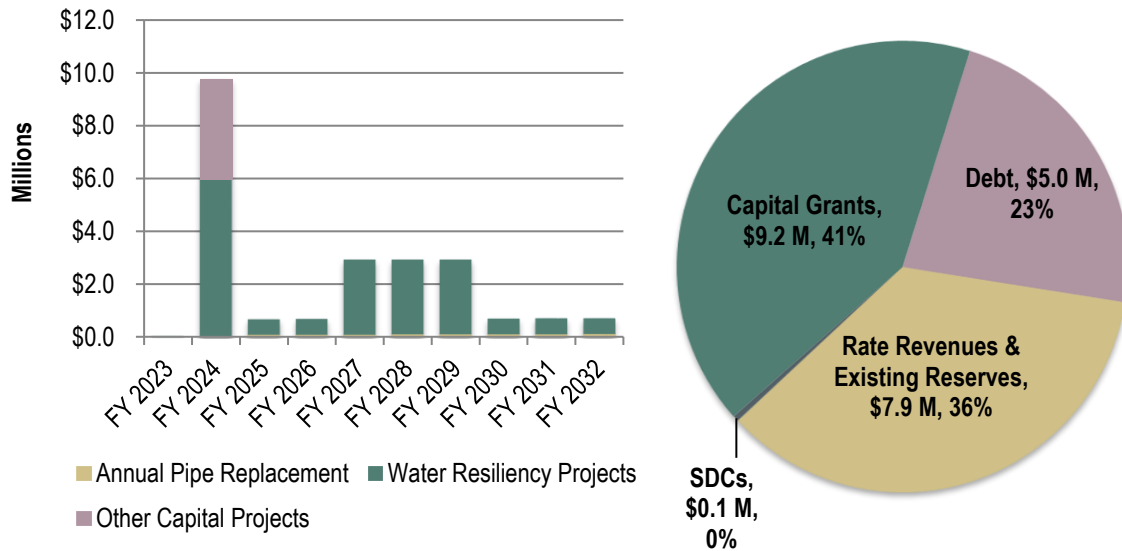
Capital Program

The City supplied FCS GROUP with the capital plan for FYs 2022-23 through 2031-32, including project costs and timing. The FY 2022-23 through FY 2031-32 capital program totals \$22.2 million with anticipated cost escalation. The capital plan is summarized in **Exhibit 6**.

Capital Funding Strategy

The FY 2022-23 through FY 2031-32 capital projects result in a plan in which \$0.1 million is expected to be funded with system development charge revenue, \$9.2 million with capital grants, \$5.0 million from new debt, and \$7.9 million is expected to be funded by rate revenues and existing reserves. The new debt for this utility will increase the annual debt service by \$360,000 in FY 2031-32. The capital funding strategy is also shown in **Exhibit 6**.

Exhibit 6: Water Utility Capital Funding Strategy FY 2023-2032



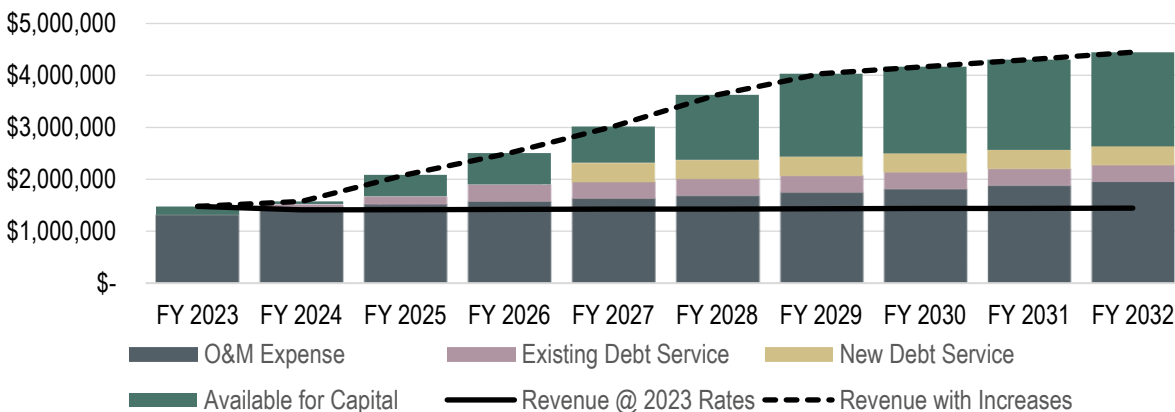
Revenue Requirement Forecast

Exhibit 7 graphically represents the revenue requirement forecast through FY 2031-32. The stacked columns represent costs of the utility such as operating expenses, and annual rate revenue earmarked for capital projects. The solid black line represents revenue at existing rates and the dashed line shows forecasted revenue with rate increases.

There is one year in which new debt is forecasted for the utility. There is \$5.025 million in loan proceeds assumed in FY 2026-27. The terms assumed for this loan are as follows:

- 20-year loan
- 3.0 percent interest
- No issuance costs

Exhibit 7: Water Utility Annual Revenue Requirement Forecast FY 2023-2032



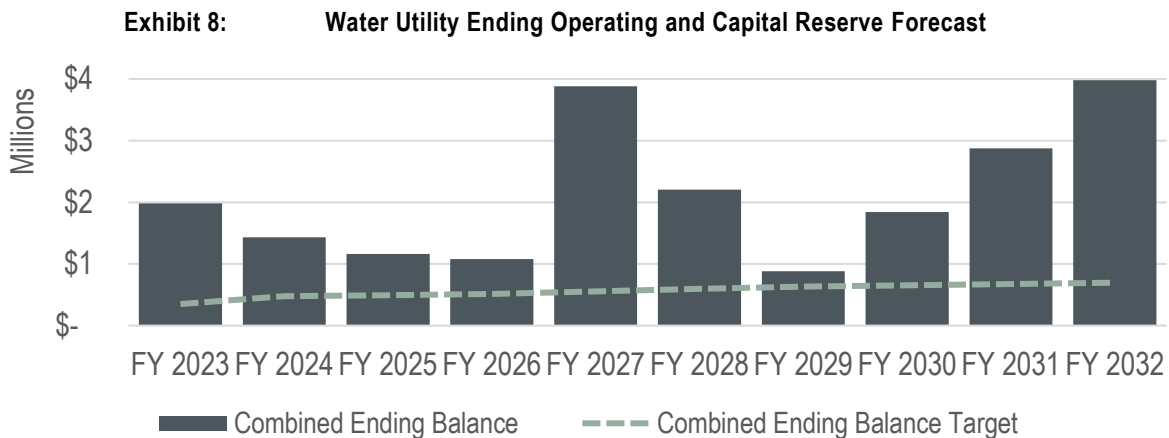
Water Rate Revenue Forecast	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Annual Rate Revenue Increase		23.00%	20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Monthly SFR Bill at 400 cf	\$25.67	\$31.57	\$37.89	\$45.47	\$54.56	\$65.47	\$72.67	\$74.85	\$77.10	\$79.41
Change From Prior Year		+\$5.90	+\$6.31	+\$7.58	+\$9.09	+\$10.91	+\$7.20	+\$2.18	+\$2.25	+\$2.31
Revenue Bond Issuances					\$5.025 M					

*Note that FY 2024 implements a January 1st rate, whereas all other years implement on July 1st.

High water rate increases for the next four years are in large part due to the more than \$10.0 million in capital costs stacked at the beginning of the forecast.

Forecasted Reserves

The target operating reserve is equal to 73 days of operating expenses. The target minimum capital reserve is equal to 1 percent of water capital assets. **Exhibit 8** shows the ending fund balance is always above these targets over the study period.



WASTEWATER UTILITY

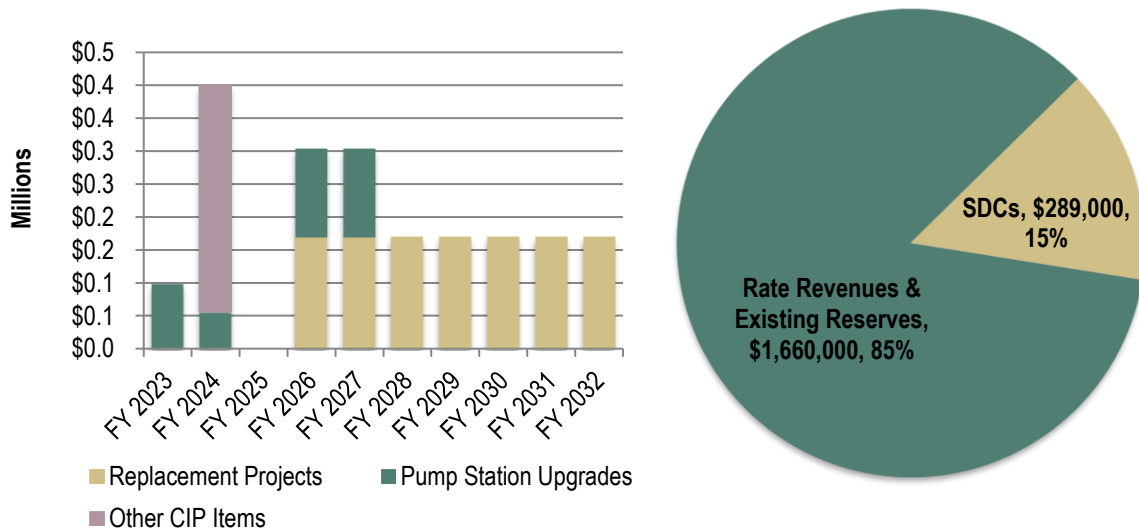
Capital Program

The City supplied FCS GROUP with the FY 2023-2032 CIP along with project costs and timing. The FY 2023-2032 capital program totals \$1.9 million with anticipated cost escalation. The capital plan is summarized in **Exhibit 9**.

Capital Funding Strategy

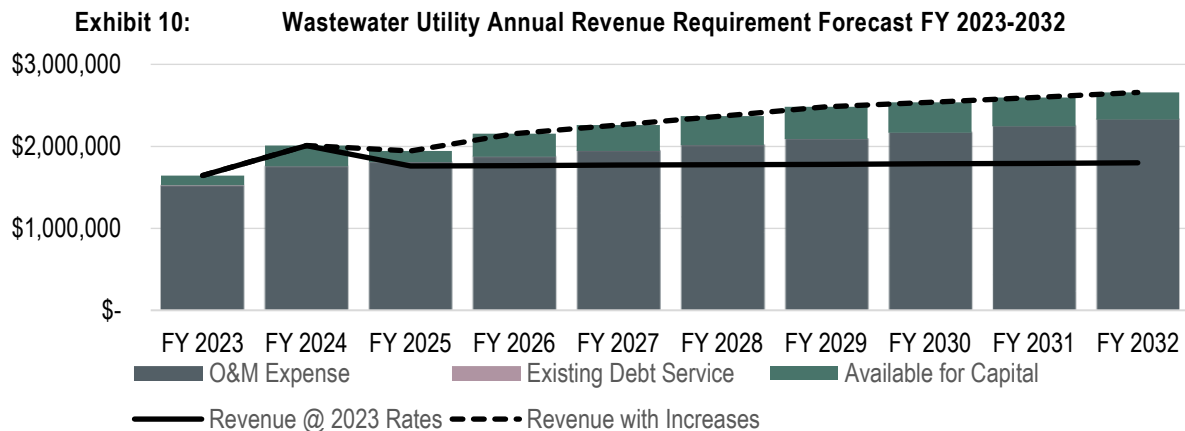
The FY 2023-2032 capital projects result in a plan in which \$289,000 is expected to be funded with system development charge revenue and \$1.7 million is expected to be funded by rate revenues and existing reserves. The capital funding strategy is shown in **Exhibit 9**. Because of the sufficiency of rates and SDCs, the capital funding strategy does not require the use of debt.

Exhibit 9: Wastewater Utility Capital Funding Strategy FY 2023-2032



Revenue Requirement Forecast

Exhibit 10 graphically represents the revenue requirement forecast through FY 2031-32.



Wastewater Rate Revenue Forecast	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Annual Rate Revenue Increase		16.20%	10.50%	10.50%	4.50%	4.50%	4.50%	2.00%	2.00%	2.00%
Monthly SFR Bill at 400 cf	\$28.74	\$33.39	\$36.90	\$40.77	\$42.60	\$44.52	\$46.53	\$47.46	\$48.40	\$49.37
Change From Prior Year		+\$4.65	+\$3.51	+\$3.87	+\$1.83	+\$1.92	+\$2.00	+\$0.93	+\$0.95	+\$0.97

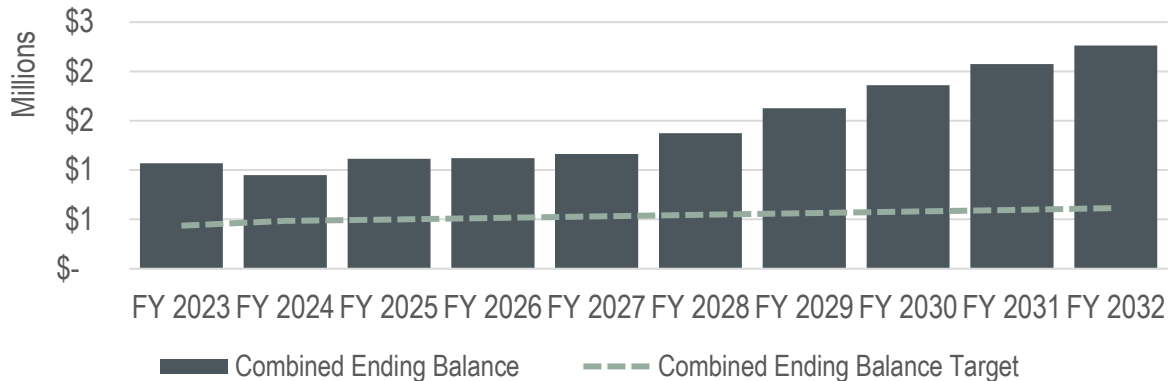
* Note that FY 2024 is already adopted

Note that the revenue at FY 2022-23 rates also includes non-rate revenues, which is why there is an uptick in revenue for FY 2023-24, but then the revenue does not continue at that level (there was a one-time addition in FY 2023-24). The wastewater utility has a substantially smaller capital plan than the water utility, and is therefore able to have lower rate increases and rely more on SDC revenue than additional debt.

Forecasted Reserves

The target operating reserve is equal to 73 days of operating expenses. The target minimum capital reserve is equal to 1 percent of wastewater capital assets. **Exhibit 11** shows the ending fund balance is always above these targets over the study period.

Exhibit 11: Wastewater Utility Ending Operating and Capital Reserve Forecast



STORM DRAIN UTILITY

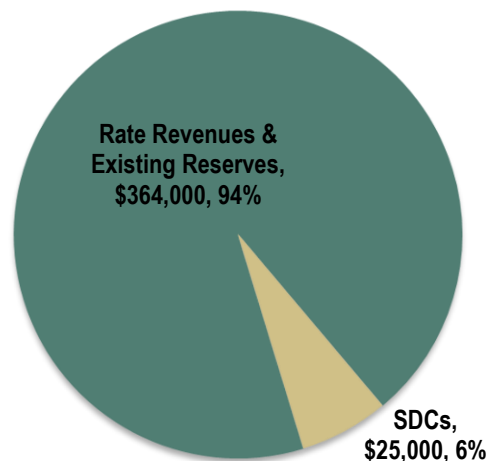
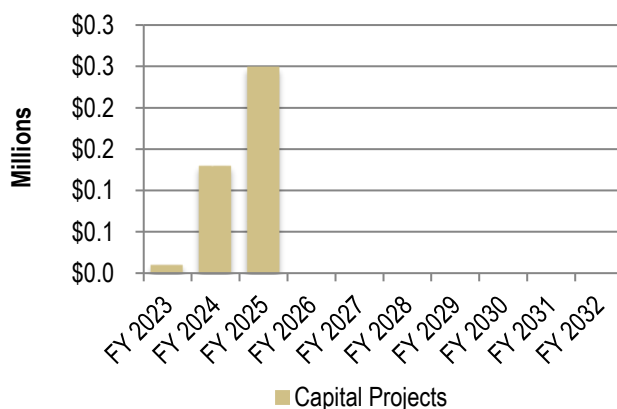
Capital Program

The City supplied the FY 2022-23 through FY 2031-32 CIP along with project costs and timing. The FY 2022-23 through FY 2031-32 capital program totals \$389,000 with anticipated cost escalation. The capital plan is summarized in **Exhibit 12**.

Capital Funding Strategy

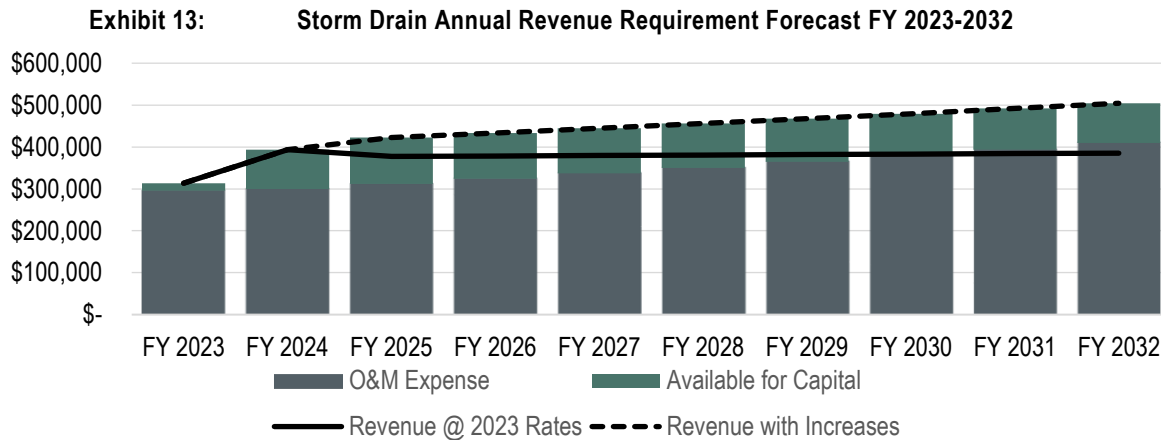
The FY 2022-23 through FY 2031-32 capital projects result in a plan in which \$25,000 is expected to be funded with system development charge revenue, and \$364,000 is expected to be funded with rate revenues and existing reserves. The capital funding strategy is shown in **Exhibit 12**.

Exhibit 12: Storm Drain Utility Capital Funding Strategy FY 2023-2032



Revenue Requirement Forecast

Exhibit 13 graphically represents the revenue requirement forecast through FY 2031-32.



Storm Drain Rate Revenue Forecast	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Annual Rate Revenue Increase		30.00%	12.00%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Monthly Charge per Unit	\$9.22	\$11.99	\$13.43	\$13.73	\$14.04	\$14.36	\$14.68	\$15.01	\$15.35	\$15.69
Change From Prior Year		+\$2.77	+\$1.44	+\$0.30	+\$0.31	+\$0.32	+\$0.32	+\$0.33	+\$0.34	+\$0.35

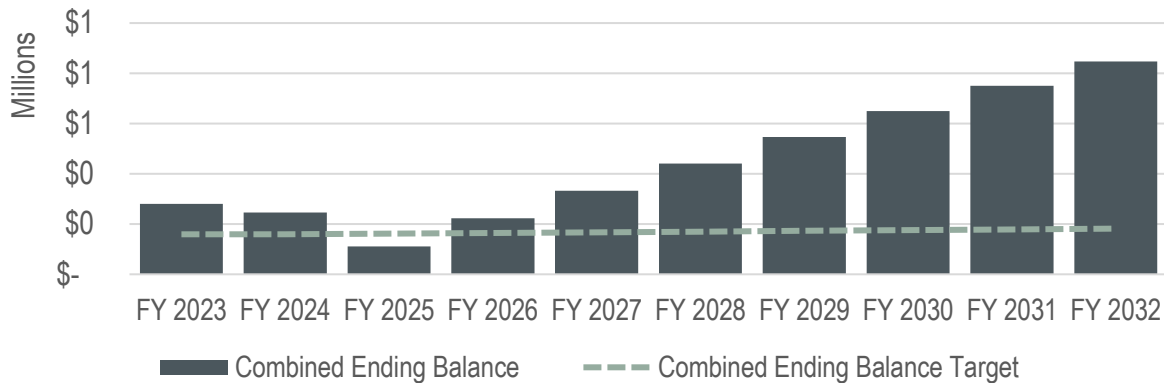
* Note that FY 2024 is already adopted

With the already adopted rate increase of 30 percent in FY 2023-24, the utility does not require double-digit rate increases past FY 2024-25 and can cover current obligations (forecasted O&M increases as well as the outlined capital plan) with 2.25 percent increases starting in FY 2025-26. The City could also choose to increase the storm drain utility rate by general inflation instead of a fixed annual percentage.

Forecasted Reserves

The target operating reserve is equal to 73 days of operating expenses. The target minimum capital reserve is equal to \$100,000 for emergency repairs. **Exhibit 14** shows the ending fund balance apart from FY 2024-25 is always above these targets during the study period. Because the utility is able to recover within the next year and there is no planned new debt service, the slight dip below this target is acceptable for the City.

Exhibit 14: Storm Drain Utility Ending Operating and Capital Reserve Forecast



SINGLE-FAMILY RESIDENTIAL RATE COMPARISON

As a resource to the City and its customers, a rate survey of area utilities was performed in calendar year (CY) 2023. **Exhibits 15-16** show each jurisdiction's monthly single-family residential water and wastewater bill with 400 cubic feet (cf) of usage and **Exhibit 17** shows each jurisdiction's monthly storm drain bill. Note that each jurisdiction has a unique set of geographic traits, customers, and system characteristics that can have a significant impact on rates. Additionally, many of these jurisdictions may have plans to adjust rates in CY 2024.

Exhibit 15: Water Jurisdictional Survey: SFR Monthly Bill at 4 ccf

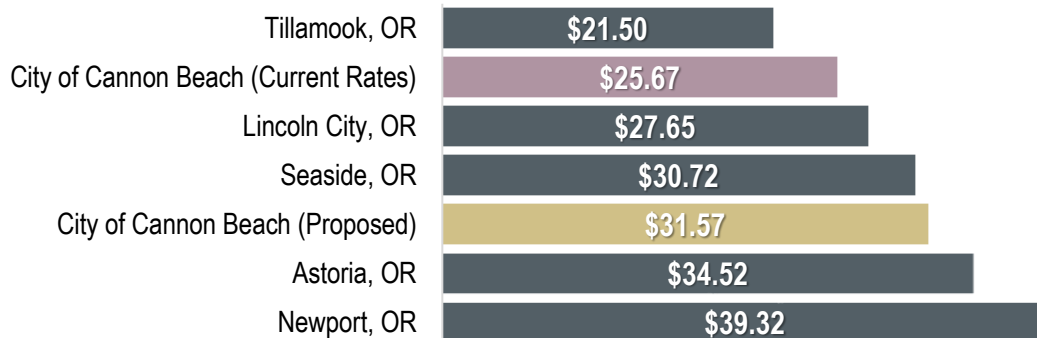


Exhibit 16: Wastewater Jurisdictional Survey: SFR Monthly Bill at 4 ccf

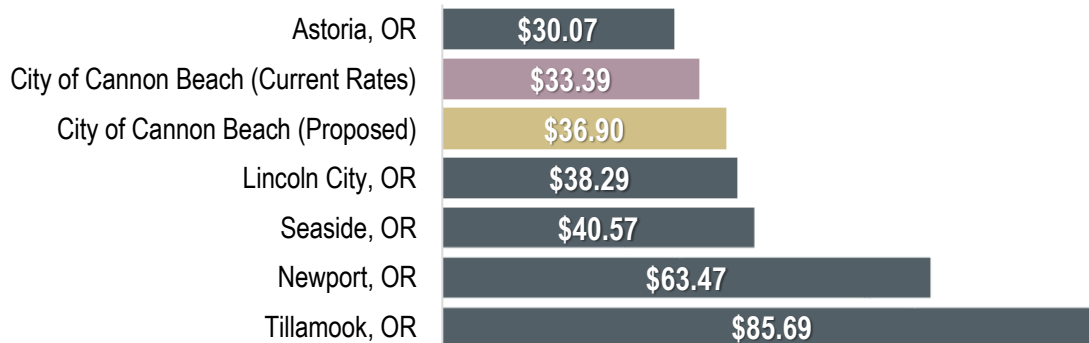
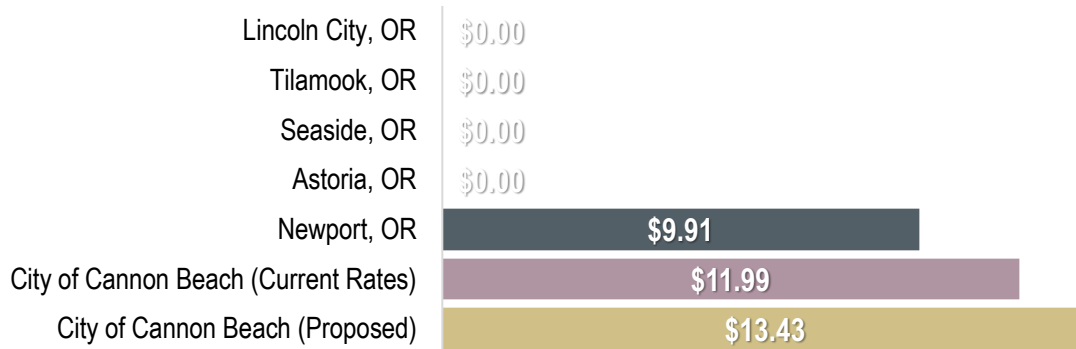


Exhibit 17: Storm Drain Jurisdictional Survey: SFR Monthly Bill



UPDATING THIS STUDY'S FINDINGS

We recommend that the City revisit the study findings during the forecast period to check that the assumptions used are still appropriate and that no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, comparing study outcomes to actual revenues and expenses each year. Any significant or unexpected changes may require adjustments to the rate strategy recommended in this report.

Section IV. WATER RATE DESIGN

Introduction

Rate design refers to how the bills are calculated. Every rate has a numerator and a denominator. The numerator is the total cost that must be recovered for the system to be able to fund its revenue requirement. The denominator is the *unit basis*, the measurement used to calculate an individual bill. Rate design has to do with the unit basis for the charges. Most rate designs consist of some combination of fixed and variable charges. Fixed charges often vary by meter size, which is an indicator of a particular customer's potential demand for water service.

A primary consideration in rate design is that the rates are *equitable*—that is, they generate sufficient revenue in a manner that is reasonably commensurate with the cost of providing service to individual customers. At the same time, rate design is influenced by the City's other policy goals. There are several competing policy considerations when designing a rate structure. These include revenue stability, conservation incentives, or the protection of certain vulnerable customer classes (such as low-income customers, or small residential customers). State law gives utilities wide discretion in determining rate classes and designing rates, as long as the rates are not arbitrary and capricious.

During the rate study, the City's existing water rate design was reviewed, and rate design alternatives were presented to the Council for consideration on February 13th, 2024.

Existing Water Rate Structure

Currently, there is one rate schedule for all water customers in the City of Cannon Beach. Each customer's rate is dependent on two factors; the customer's meter size, and the amount of water they use in cubic feet. **Exhibit 18** shows the current water rates as stated in Resolution No. 23-12.

Exhibit 18: Water Service Rates and Charges Effective July 1, 2023

Meter Size	Base Rate	Base Allowance	Unit Rate per 100 Cubic Feet
3/4"	\$25.67	400 cubic feet	\$6.42
1"	\$64.19	400 cubic feet	
1-1/2"	\$128.37	400 cubic feet	
2"	\$205.39	400 cubic feet	
3"	\$410.77	400 cubic feet	
4"	\$641.84	400 cubic feet	
6"	\$1,283.67	400 cubic feet	
Irrigation Line	\$51.35	400 cubic feet	
Note:	Cannon Beach Rural Fire District is exempt from charges		

Timing and Intent of a Rate Design

A change in rate design can result in two separate outcomes as it relates to the revenue requirement (or in other words the amount of revenue needed to meet existing and future utility obligations and targets). The rate design can either shift rates in a way that changes the amount of revenue recovered (either more or less), or it can be revenue neutral. This analysis presents rate alternatives that are revenue neutral in nature.

In this analysis we assume that rate structure changes would be effective on July 1, 2024, at the beginning of FY 2024-25. In our tables throughout this section, this is referring to the FY 2025 columns (their titles highlighted in a darker green). We recognize the City adopted rates in January 2024, that are 23 percent higher than **Exhibit 18** (as was recommended during the September Council meeting). However, this analysis applies the rate design changes to the current fiscal year (FY 2023-24) which means the FY 2024 columns throughout this section do not show the exact rates the council has recently adopted, but rather how our rate design changes would affect those adopted rates in this fiscal year. As noted above, this analysis is revenue neutral which means the rates adopted by council in January 2024 (and the rate schedule thereafter), are expected to recover the same amount of revenue as these suggested rate design alternatives.

Goals of the Rate Design Changes

The City of Cannon Beach requested that FCS GROUP examine two separate rate design goals:

- **Lower the base rate for 3/4" customers.** The goal of this rate alternative is to help customers that have small residential meters, and use below the 400 cubic foot threshold. This goal was addressed in two separate approaches; Scenario 1A and Scenario 1B.
 - » Scenario 1A addresses this goal in a revenue neutral way by lowering the FY 2023-24 base rate for 3/4" customers, and increasing the larger meter sizes' base rate to recover the revenue difference. Usage rates remain as adopted.
 - » Scenario 1B addresses this goal by lowering the FY 2023-24 base rate for 3/4" customers, as well as lowering the usage rates for 3/4" customers. In Scenario 1B, the rate design alternative is kept revenue neutral by making up lost revenue (from the 3/4" class) in the larger meter sizes' usage portion of the bill as well as their base portion of the bill.
- **Shift revenue to the volumetric portion of the bill.** This rate alternative is made to encourage conservation by rewarding those who use less water. This goal was addressed in two separate approaches; Scenario 2A and Scenario 2B.
 - » Scenario 2A addresses this goal in a revenue neutral way by lowering the FY 2023-24 base rate for 3/4" customers (as is the case in both the Scenario 1 alternatives), and increasing the larger meter sizes in proportion to the 3/4" base. In other words, the base charges for all meter sizes reflect the rates as shown in **Exhibit 18**. The usage rate for all customers is increased to make up the difference in revenue. In this rate scenario, price elasticity is not a factor. This means that as the cost for water increases (the volumetric rate), we assume that the customers' behavior does not change.
 - » Scenario 2B addresses this goal in the exact same way as Scenario 2A, but also takes price elasticity into consideration. This means that as the usage price for water increases, this will change how much water the customer base in Cannon Beach uses. As customers see a higher price for more water usage, this will signal them to use less. With less water usage comes less

revenue, so in order to ensure this rate alternative is revenue neutral while considering price elasticity, the cost for water usage needs to be higher than in Scenario 2A. Specifically for the City of Cannon Beach, this means that for every percent increase of the usage rate, usage will decrease by 0.51 percent.

Status Quo

The table below shows the City water rate schedule and rate structure as it is today. Each meter size as well as the usage rate for all customers will increase by the same percentage (also known as across-the-board) in each fiscal year. These percentages are described in **Section III** of this report.

Exhibit 19: Rate Schedule FY 2022-23 Through FY 2031-32: Status Quo

Water Utility	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
		23.00%	20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Base Rate up to 400 cf (Monthly)										
3/4"	\$25.67	\$31.57	\$37.89	\$45.47	\$54.56	\$65.47	\$72.67	\$74.85	\$77.10	\$79.41
1"	\$64.19	\$78.95	\$94.74	\$113.69	\$136.43	\$163.72	\$181.73	\$187.18	\$192.79	\$198.58
1 1/2"	\$128.37	\$157.90	\$189.47	\$227.37	\$272.84	\$327.41	\$363.43	\$374.33	\$385.56	\$397.13
2"	\$205.39	\$252.63	\$303.16	\$363.79	\$436.54	\$523.85	\$581.48	\$598.92	\$616.89	\$635.40
3"	\$410.77	\$505.25	\$606.30	\$727.56	\$873.07	\$1,047.68	\$1,162.93	\$1,197.81	\$1,233.75	\$1,270.76
6"	\$1,283.67	\$1,578.91	\$1,894.70	\$2,273.64	\$2,728.36	\$3,274.04	\$3,634.18	\$3,743.21	\$3,855.50	\$3,971.17
Irrigation Line	\$51.34	\$63.15	\$75.78	\$90.93	\$109.12	\$130.94	\$145.35	\$149.71	\$154.20	\$158.83
Volume Charge (100 cf)	\$6.42	\$7.90	\$9.48	\$11.37	\$13.65	\$16.37	\$18.18	\$18.72	\$19.28	\$19.86

Note that the FY 2024 column was adopted by Council in January 2024 (meaning the above rates were effective for 6 months of the 12 month fiscal year). If the City were to continue on the path of Status Quo, the FY 2025 rates would be adopted in July of 2024.

Scenario 1A

In this scenario, the smallest meter size would remain at the \$25.67 rate, while the larger meter sizes would increase to make up the revenue difference. A 1" meter in the Status Quo scenario would pay \$94.74 as their base charge, but \$130.20 in Scenario 1A.

Exhibit 20: Rate Schedule FY 2022-23 Through FY 2031-32: Scenario 1A

Water Utility	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
			20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Base Rate up to 400 cf (Monthly)										
3/4"	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
1"	\$64.19	\$108.50	\$130.20	\$156.24	\$187.49	\$224.98	\$249.73	\$257.22	\$264.94	\$272.89
1 1/2"	\$128.37	\$216.98	\$260.38	\$312.45	\$374.94	\$449.93	\$499.42	\$514.41	\$529.84	\$545.74
2"	\$205.39	\$347.17	\$416.60	\$499.92	\$599.90	\$719.88	\$799.07	\$823.04	\$847.74	\$873.17
3"	\$410.77	\$694.32	\$833.18	\$999.82	\$1,199.78	\$1,439.73	\$1,598.11	\$1,646.05	\$1,695.43	\$1,746.29
6"	\$1,283.67	\$2,169.76	\$2,603.71	\$3,124.46	\$3,749.35	\$4,499.22	\$4,994.13	\$5,143.96	\$5,298.27	\$5,457.22
Irrigation Line	\$51.34	\$51.34	\$61.61	\$73.93	\$88.72	\$106.46	\$118.17	\$121.71	\$125.37	\$129.13
Volume Charge (100 cf)	\$6.42	\$7.90	\$9.48	\$11.37	\$13.65	\$16.37	\$18.18	\$18.72	\$19.28	\$19.86

Note that the FY 2024 column *does not reflect* the exact rates Council adopted in 2024 – instead it shows how the rate design changes would redistribute the rates (while remaining revenue neutral). If the City were to choose to adopt this scenario, the FY 2025 rates would be adopted in July of 2024.

Scenario 1B

In this scenario, the usage rate for the 3/4" meter is isolated from the usage charge for all other customers. This puts more burden on larger customers in both their base and usage charges.

Exhibit 21: Rate Schedule FY 2022-23 Through FY 2031-32: Scenario 1B

Water Utility	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
			20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Base Rate up to 400 cf (Monthly)										
3/4"	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
1"	\$64.19	\$115.55	\$138.66	\$166.39	\$199.67	\$239.60	\$265.96	\$273.94	\$282.15	\$290.62
1 1/2"	\$128.37	\$231.08	\$277.29	\$332.75	\$399.30	\$479.17	\$531.87	\$547.83	\$564.26	\$581.19
2"	\$205.39	\$369.72	\$443.67	\$532.40	\$638.88	\$766.66	\$850.99	\$876.52	\$902.81	\$929.90
3"	\$410.77	\$739.43	\$887.31	\$1,064.78	\$1,277.73	\$1,533.28	\$1,701.94	\$1,753.00	\$1,805.59	\$1,859.75
6"	\$1,283.67	\$2,310.74	\$2,772.88	\$3,327.46	\$3,992.95	\$4,791.54	\$5,318.61	\$5,478.17	\$5,642.51	\$5,811.79
Irrigation Line	\$51.34	\$51.34	\$61.61	\$73.93	\$88.72	\$106.46	\$118.17	\$121.71	\$125.37	\$129.13
Volume Charge (100 cf) (3/4")	\$6.42	\$6.42	\$7.71	\$9.25	\$11.10	\$13.32	\$14.78	\$15.23	\$15.68	\$16.15
Volume Charge (100 cf) (other)	\$6.42	\$7.90	\$9.48	\$11.38	\$13.65	\$16.38	\$18.18	\$18.73	\$19.29	\$19.87

Note that the FY 2024 column *does not reflect* the exact rates Council adopted in 2024 – instead it shows how the rate design changes would redistribute the rates (while remaining revenue neutral). If the City were to choose to adopt this scenario, the FY 2025 rates would be adopted in July of 2024.

Scenario 2A

In this scenario, all meters would remain at the FY 2023 base rate, while the usage rate for all customers would increase to make up the revenue difference. This scenario does not consider price elasticity. During the February Council meeting, it was indicated that this is the preferred scenario.

Exhibit 22: Rate Schedule FY 2022-23 Through FY 2031-32: Scenario 2A

Water Utility	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
			20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Base Rate up to 400 cf (Monthly)										
3/4"	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
1"	\$64.19	\$64.19	\$77.03	\$92.43	\$110.92	\$133.10	\$147.75	\$152.18	\$156.74	\$161.45
1 1/2"	\$128.37	\$128.37	\$154.04	\$184.85	\$221.82	\$266.19	\$295.47	\$304.33	\$313.46	\$322.87
2"	\$205.39	\$205.39	\$246.47	\$295.76	\$354.91	\$425.90	\$472.75	\$486.93	\$501.54	\$516.58
3"	\$410.77	\$410.77	\$492.92	\$591.51	\$709.81	\$851.77	\$945.47	\$973.83	\$1,003.05	\$1,033.14
6"	\$1,283.67	\$1,283.67	\$1,540.40	\$1,848.48	\$2,218.18	\$2,661.82	\$2,954.62	\$3,043.26	\$3,134.55	\$3,228.59
Irrigation Line	\$51.34	\$51.34	\$61.61	\$73.93	\$88.72	\$106.46	\$118.17	\$121.71	\$125.37	\$129.13
Volume Charge (100 cf)	\$6.42	\$10.06	\$12.07	\$14.49	\$17.39	\$20.86	\$23.16	\$23.85	\$24.57	\$25.30

Note that the FY 2024 column *does not reflect* the exact rates Council adopted in 2024 – instead it shows how the rate design changes would redistribute the rates (while remaining revenue neutral). If the City were to choose to adopt this scenario, the FY 2025 rates would be adopted in July of 2024.

Scenario 2B

In this scenario, all meters would remain at the FY 2023 base rate, while the usage rate for all customers would increase to make up the revenue difference. This scenario considers price elasticity, and therefore the usage rate below is higher than in scenario 2A.

Exhibit 23: Rate Schedule FY 2022-23 Through FY 2031-32: Scenario 2B

Water Utility	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
			20.00%	20.00%	20.00%	20.00%	11.00%	3.00%	3.00%	3.00%
Base Rate up to 400 cf (Monthly)										
3/4"	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
1"	\$64.19	\$64.19	\$77.03	\$92.43	\$110.92	\$133.10	\$147.75	\$152.18	\$156.74	\$161.45
1 1/2"	\$128.37	\$128.37	\$154.04	\$184.85	\$221.82	\$266.19	\$295.47	\$304.33	\$313.46	\$322.87
2"	\$205.39	\$205.39	\$246.47	\$295.76	\$354.91	\$425.90	\$472.75	\$486.93	\$501.54	\$516.58
3"	\$410.77	\$410.77	\$492.92	\$591.51	\$709.81	\$851.77	\$945.47	\$973.83	\$1,003.05	\$1,033.14
6"	\$1,283.67	\$1,283.67	\$1,540.40	\$1,848.48	\$2,218.18	\$2,661.82	\$2,954.62	\$3,043.26	\$3,134.55	\$3,228.59
Irrigation Line	\$51.34	\$51.34	\$61.61	\$73.93	\$88.72	\$106.46	\$118.17	\$121.71	\$125.37	\$129.13
Volume Charge (100 cf)	\$6.42	\$11.70	\$14.04	\$16.84	\$20.21	\$24.26	\$26.92	\$27.73	\$28.56	\$29.42

Note that the FY 2024 column *does not reflect* the exact rates Council adopted in 2024 – instead it shows how the rate design changes would redistribute the rates (while remaining revenue neutral). If the City were to choose to adopt this scenario, the FY 2025 rates would be adopted in July of 2024.

Rate Comparisons

In **Exhibit 24**, each table represents a different example customer, and how each scenario described above would impact their water bill. The first table shows the typical water bill for a 3/4" meter customer that uses 400 cf of water or less during the billing period. The second table shows the same customer, but with 800 cf of water usage. The third table is a 2" meter customer that uses 800 cf of water during this billing period.

Exhibit 24: Bill Comparisons

Water Sample Monthly Bills 3/4" Meter at 400 cf of usage	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Scenario 0	\$25.67	\$31.57	\$37.89	\$45.47	\$54.56	\$65.47	\$72.67	\$74.85	\$77.10	\$79.41
Scenario 1a	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
Scenario 1b	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
Scenario 2a	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
Scenario 2b	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56

Water Sample Monthly Bills 3/4" Meter at 800 cf of usage	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Scenario 0	\$51.35	\$63.16	\$75.79	\$90.95	\$109.14	\$130.97	\$145.38	\$149.74	\$154.23	\$158.86
Scenario 1a	\$51.35	\$57.26	\$68.71	\$82.45	\$98.94	\$118.73	\$131.79	\$135.74	\$139.81	\$144.01
Scenario 1b	\$51.35	\$51.36	\$61.63	\$73.96	\$88.75	\$106.50	\$118.22	\$121.76	\$125.42	\$129.18
Scenario 2a	\$51.35	\$65.91	\$79.10	\$94.92	\$113.90	\$136.68	\$151.71	\$156.27	\$160.95	\$165.78
Scenario 2b	\$51.35	\$72.46	\$86.95	\$104.34	\$125.21	\$150.25	\$166.78	\$171.78	\$176.94	\$182.24

Water Sample Monthly Bills 2" Meter at 800 cf of usage	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Scenario 0	\$231.07	\$284.22	\$341.06	\$409.27	\$491.13	\$589.35	\$654.18	\$673.80	\$694.02	\$714.84
Scenario 1a	\$231.07	\$378.75	\$454.50	\$545.40	\$654.49	\$785.38	\$871.77	\$897.93	\$924.87	\$952.61
Scenario 1b	\$231.07	\$401.32	\$481.59	\$577.90	\$693.49	\$832.18	\$923.72	\$951.43	\$979.98	\$1,009.38
Scenario 2a	\$231.07	\$245.63	\$294.76	\$353.71	\$424.46	\$509.35	\$565.38	\$582.34	\$599.81	\$617.80
Scenario 2b	\$231.07	\$252.18	\$302.62	\$363.14	\$435.77	\$522.92	\$580.44	\$597.85	\$615.79	\$634.26

Section V. RATE SCHEDULES

The following rate schedules are the recommended rate plans for each utility. For water, Scenario 2A is the recommended rate structure.

WATER

Water Utility	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Base Rate up to 400 cf (Monthly)										
3/4"	\$25.67	\$25.67	\$30.80	\$36.96	\$44.36	\$53.23	\$59.08	\$60.86	\$62.68	\$64.56
1"	\$64.19	\$64.19	\$77.03	\$92.43	\$110.92	\$133.10	\$147.75	\$152.18	\$156.74	\$161.45
1 1/2"	\$128.37	\$128.37	\$154.04	\$184.85	\$221.82	\$266.19	\$295.47	\$304.33	\$313.46	\$322.87
2"	\$205.39	\$205.39	\$246.47	\$295.76	\$354.91	\$425.90	\$472.75	\$486.93	\$501.54	\$516.58
3"	\$410.77	\$410.77	\$492.92	\$591.51	\$709.81	\$851.77	\$945.47	\$973.83	\$1,003.05	\$1,033.14
6"	\$1,283.67	\$1,283.67	\$1,540.40	\$1,848.48	\$2,218.18	\$2,661.82	\$2,954.62	\$3,043.26	\$3,134.55	\$3,228.59
Irrigation Line	\$51.34	\$51.34	\$61.61	\$73.93	\$88.72	\$106.46	\$118.17	\$121.71	\$125.37	\$129.13
Volume Charge (100 cf)	\$6.42	\$10.06	\$12.07	\$14.49	\$17.39	\$20.86	\$23.16	\$23.85	\$24.57	\$25.30

*Note that FY 2024 was adopted by Council in January 2024. The FY 2025 rates would be adopted in July 2024.

WASTEWATER

Wastewater Utility	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Base Rate up to 400 cf (Monthly)										
3/4"	\$28.74	\$33.39	\$36.90	\$40.77	\$42.60	\$44.52	\$46.53	\$47.46	\$48.40	\$49.37
1"	\$71.84	\$83.48	\$92.25	\$101.93	\$106.52	\$111.31	\$116.32	\$118.65	\$121.02	\$123.44
1 1/2"	\$143.68	\$166.95	\$184.48	\$203.85	\$213.02	\$222.61	\$232.63	\$237.28	\$242.02	\$246.87
2"	\$229.89	\$267.12	\$295.17	\$326.16	\$340.84	\$356.18	\$372.20	\$379.65	\$387.24	\$394.98
3"	\$459.79	\$534.24	\$590.34	\$652.32	\$681.67	\$712.35	\$744.41	\$759.29	\$774.48	\$789.97
4"	\$718.42	\$834.75	\$922.40	\$1,019.25	\$1,065.12	\$1,113.05	\$1,163.13	\$1,186.40	\$1,210.12	\$1,234.33
6"	\$1,436.83	\$1,669.50	\$1,844.80	\$2,038.50	\$2,130.23	\$2,226.09	\$2,326.27	\$2,372.79	\$2,420.25	\$2,468.65
Volume Charge (100 cf)	\$7.19	\$8.35	\$9.23	\$10.20	\$10.65	\$11.13	\$11.63	\$11.87	\$12.10	\$12.35

*Note that FY 2024 was adopted by Council in January 2024. The FY 2025 rates would be adopted in July 2024.

STORM DRAIN

Storm Drain Utility	FY 2023	FY 2024*	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Monthly Charge per Unit	\$9.22	\$11.99	\$13.43	\$13.73	\$14.04	\$14.36	\$14.68	\$15.01	\$15.35	\$15.69

*Note that FY 2024 was adopted by Council in January 2024. The FY 2025 rates would be adopted in July 2024.