Presented by:

DONOVAN enterprises, inc.

December

2025

Water Rate Study

Final Report

Prepared for:

FALLS CITY
End of the road, start of your adventure

Donovan Enterprises, Inc.
9600 SW Oak Street, Suite 335
Tigard, Oregon 97223-6596
☎ 503.517.0671

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Utilities Rates and Cost of Service Study

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Executive Summary

The City of Falls City is the sole provider of water services to customers within the urban services boundary of the city. Revenues required to fund the delivery of these services are obtained from monthly user fees which are set by the City Council via its City charter authority. This study addresses the revenue required from rates needed to support future operations and maintenance costs for the water utility along with a funding plan for capital needs identified by City Staff and from the 2017 Water System Master Plan.

With the active involvement of City staff, and input from the City Council, twenty-year planning models were developed for this project; however, the focus for the rate study is the five-year near-term forecast of fiscal 2027 through fiscal 2031. These financial models have been reviewed with the City as they were developed and will be provided as a project deliverable enabling the City to make future updates.

The purpose of this study is to develop a cost of service-based methodology that will accurately determine the cost the city incurs to deliver water services. The models developed for this project have been populated with budget data for fiscal 2026, estimated results for fiscal 2025, and actual results for fiscal 2024. Historical data for fiscal 2021 through 2023 has also been included. These models simulated the current service levels (CSL) of the water utility, and sensitivity cases for several funding issues. The results of each model run were expressed in terms of the rate impacts on the average single family residential customer's monthly bill for utility services.

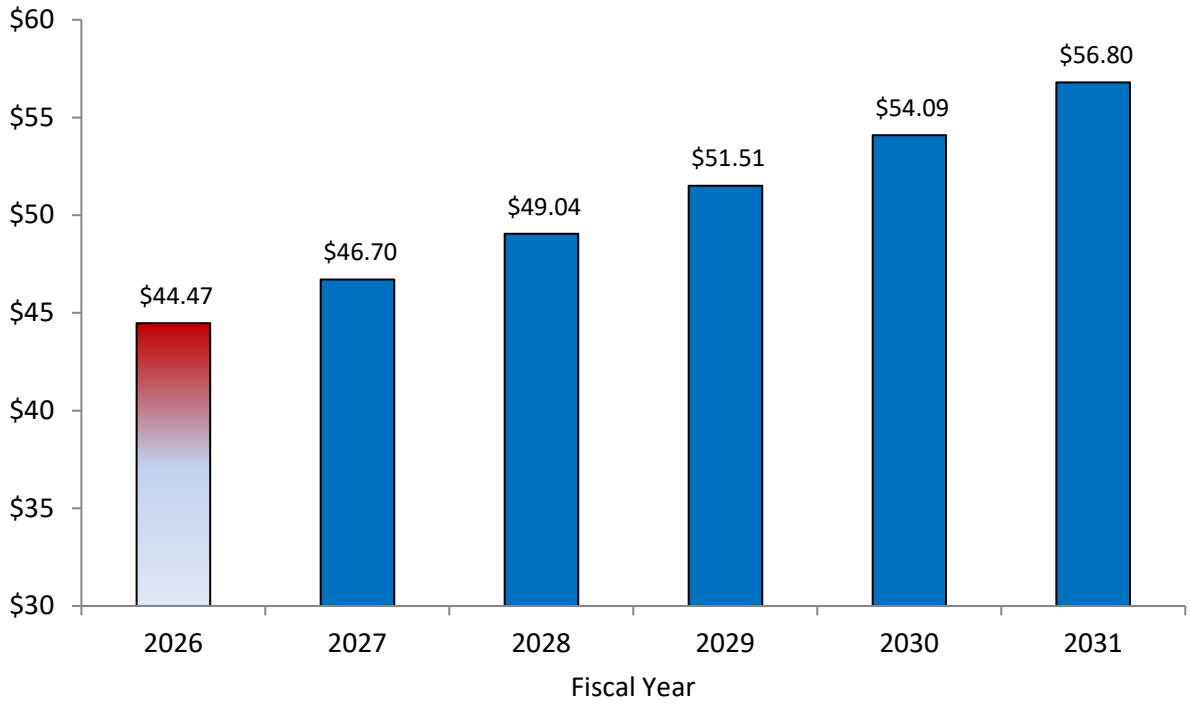
On December 1, 2025, the project team presented the base case and staff alternative rate forecasts to the City Council at a work session. Each of these cases contained a number of unique forecast variables that included capital funding strategies, cash positions at the end of the five-year forecasts, and multiple other dependent variables. After considerable discussion and deliberation, the City Council coalesced on their preferred rate strategy which calls for 5.0% per year rate increases for water.

In the Spring of 2026, the City Council will hold a public hearing on the Council-preferred water rates at their business meeting. At the conclusion of that public hearing the Council will be presented with a resolution for their consideration that adopts the findings and conclusion of this rate study and the attendant water rate adjustments.

We recommend the City increase water rates on or near July 1, 2026, by 5.0%. After this immediate rate increase, we are projecting annual water system rate increases of about 5% per year, every year over the balance of the five-year water system financial forecast. Our modeling indicates these rate increases will generate sufficient revenues to fund the projected operations, maintenance, and capital improvement requirements of the water system. The City Council-Preferred plan anticipates the City will have to borrow approximately $1,075,218 in fiscal 2026 to fund the construction of a portion of the 2017 water master priority 1A system improvements. Over the five-year forecast horizon, the City will also spend approximately $25k on other water system capital improvements. These projects will be funded from cash on hand. Our modeling indicates by the end of fiscal 2031, the water fund will have $298k in cash if all future recommend rate increases are implemented.

The immediate impact on the average single family residential customer is an increase in the monthly water bill of approximately $2.23 per month. The average single family residential monthly water bill will go from the current amount of $44.47 to $46.70. This funding scenario was presented to the City Council at the December 1, 2025, work session. At that meeting, the Councilors in attendance moved to a consensus that the proposed funding plan was rational and necessary for the City. The five-year forecast of average single-family residential water bill is shown in Figure 1.

Figure 1 - Forecast of Monthly Average Single-Family Residential Water Bills (5.98 kgal)



Staff was given direction to proceed with this strategy, and the complete schedule of projected water rates that results from this funding strategy are show below in Table 1.

Table 1 - Five Year Forecast of Water Rates

Water Rate Component	Current 2026	Forecast 2027	2028	2029	2030	2031
Inside City Limits						
Residential (RI)						
Monthly base charge (5 kgal included)						
5/8"	$ 41.96	$ 44.06	$ 46.28	$ 48.60	$ 51.04	$ 53.59
1"	$ 64.64	$ 67.88	$ 71.29	$ 74.87	$ 78.62	$ 82.56
1 1/2"	$ 72.58	$ 76.22	$ 80.04	$ 84.06	$ 88.28	$ 92.70
2"	$ 86.18	$ 90.50	$ 95.04	$ 99.82	$ 104.82	$ 110.07
3"	$ 106.60	$ 111.94	$ 117.56	$ 123.47	$ 129.66	$ 136.15
4"	$ 151.96	$ 159.57	$ 167.59	$ 176.00	$ 184.83	$ 194.08
Volume charge ($/kgal)	$ 2.55	$ 2.68	$ 2.81	$ 2.95	$ 3.10	$ 3.26
Commercial - (RCI and NCI)						
Monthly base charge (5 kgal included)						
5/8"	$ 64.64	$ 67.88	$ 71.29	$ 74.87	$ 78.62	$ 82.56
1"	$ 87.32	$ 91.69	$ 96.30	$ 101.14	$ 106.21	$ 111.52
1 1/2"	$ 96.39	$ 101.22	$ 106.30	$ 111.64	$ 117.24	$ 123.11
2"	$ 108.86	$ 114.31	$ 120.05	$ 126.08	$ 132.41	$ 139.03
3"	$ 129.28	$ 135.76	$ 142.57	$ 149.74	$ 157.25	$ 165.11
4"	$ 174.64	$ 183.39	$ 192.60	$ 202.27	$ 212.42	$ 223.05
Volume charge ($/kgal)	$ 3.12	$ 3.28	$ 3.44	$ 3.61	$ 3.79	$ 3.98
Outside City Limits						
Residential (RO)						
Monthly base charge (5 kgal included)						
5/8"	$ 47.06	$ 49.42	$ 51.90	$ 54.51	$ 57.24	$ 60.10
1"	$ 69.74	$ 73.23	$ 76.91	$ 80.77	$ 84.83	$ 89.07
1 1/2"	$ 77.68	$ 81.57	$ 85.67	$ 89.97	$ 94.48	$ 99.21
2"	$ 92.42	$ 97.05	$ 101.92	$ 107.04	$ 112.41	$ 118.04
3"	$ 111.70	$ 117.30	$ 123.19	$ 129.37	$ 135.86	$ 142.66
4"	$ 157.06	$ 164.93	$ 173.21	$ 181.91	$ 191.04	$ 200.59
Volume charge ($/kgal)	$ 2.84	$ 2.98	$ 3.13	$ 3.29	$ 3.45	$ 3.63
Commercial - (RCO and NCO)						
Monthly base charge (5 kgal included)						
5/8"	$ 69.74	$ 73.23	$ 76.91	$ 80.77	$ 84.83	$ 89.07
1"	$ 92.42	$ 97.05	$ 101.92	$ 107.04	$ 112.41	$ 118.04
1 1/2"	$ 101.49	$ 106.57	$ 111.93	$ 117.55	$ 123.44	$ 129.62
2"	$ 113.97	$ 119.68	$ 125.69	$ 132.00	$ 138.62	$ 145.56
3"	$ 134.38	$ 141.11	$ 148.20	$ 155.64	$ 163.45	$ 171.63
4"	$ 179.74	$ 188.75	$ 198.22	$ 208.18	$ 218.62	$ 229.56
Volume charge ($/kgal)	$ 3.12	$ 3.28	$ 3.44	$ 3.61	$ 3.79	$ 3.98

The schedules of water rates shown above were developed through consultation with City staff and the members of the rate study project team. The study process included an evaluation of revenue requirements, cost of service, and rate design for the five-year forecast (fiscal 2027 through fiscal 2031). The revenue requirements analysis determined the amount of annual revenue needed to be generated by water rates. This analysis addressed the level, rather than the structure of rates. The cost-of-service analysis provided an analytical basis for assigning costs to customers and addressing equity among customer classes. Finally, the rate design element established the structure of rates for cost recovery through fixed and variable rate components. This step addressed equity within customer classes.

A number of specific conclusions and policy recommendations were developed through this collaboration and are briefly discussed in this executive summary. Itemized below is a listing of these conclusions and recommendations.

Conclusions

- We estimate the water fund will end this fiscal year (i.e., June 30, 2026) with a cash balance of $366k. With 5.0% per year general water rate increases we project this fund will have a cash balance of $298k on June 30, 2031. With these future rate increases and the prudent use of cash reserves, there should be adequate funds available to pay for planned water system expenditures over the balance of the five-year forecast horizon. This also accounts for the planned borrowing in 2026 of approximately $1,075,218 for the construction of the 2017 water master plan priority 1A projects. The reader should note, the total costs of these projects is estimated to be $2.4 million. To fund this total, the City secured a grant from the Oregon Infrastructure Finance Authority in the amount of $1,292,082 to make up the shortfall. The total sources and uses of the priority 1A funds is as follows:

	Estimated Project Costs		
Line Item Description	2017	2026	Totals
Sources of Funds:			
SDWRLF loan			$ 1,075,218
IFA grant (forgivable loan)			1,292,082
Total sources of funds			$ 2,367,300
Uses of Funds:			
Priority 1A water MP projects			
Repair bridge holding water line	$ 116,188	$ 165,481	
Alan street	303,079	431,662	
Sheldon avenue	125,206	178,325	
Parry road	82,891	118,058	
Fairview street and Terrace street	343,964	489,892	
Hopkins street	225,599	321,310	
Alle north of main street	150,443	214,269	
Mill street	58,305	83,041	
Forest lane and Clark street	256,458	365,261	
Total uses of funds	$ 1,662,133	$ 2,367,300	$ 2,367,300

- The City's current water rate structure conforms to industry practice and consists of a flat monthly base charge and a volume charge per 1,000 gallons of metered water consumption.
- We estimate the water capital projects fund will end this fiscal year with a cash balance of $241k. This balance takes into consideration a one-time transfer to the street fund of $120k which was in the adopted fiscal 2025-26 budget.

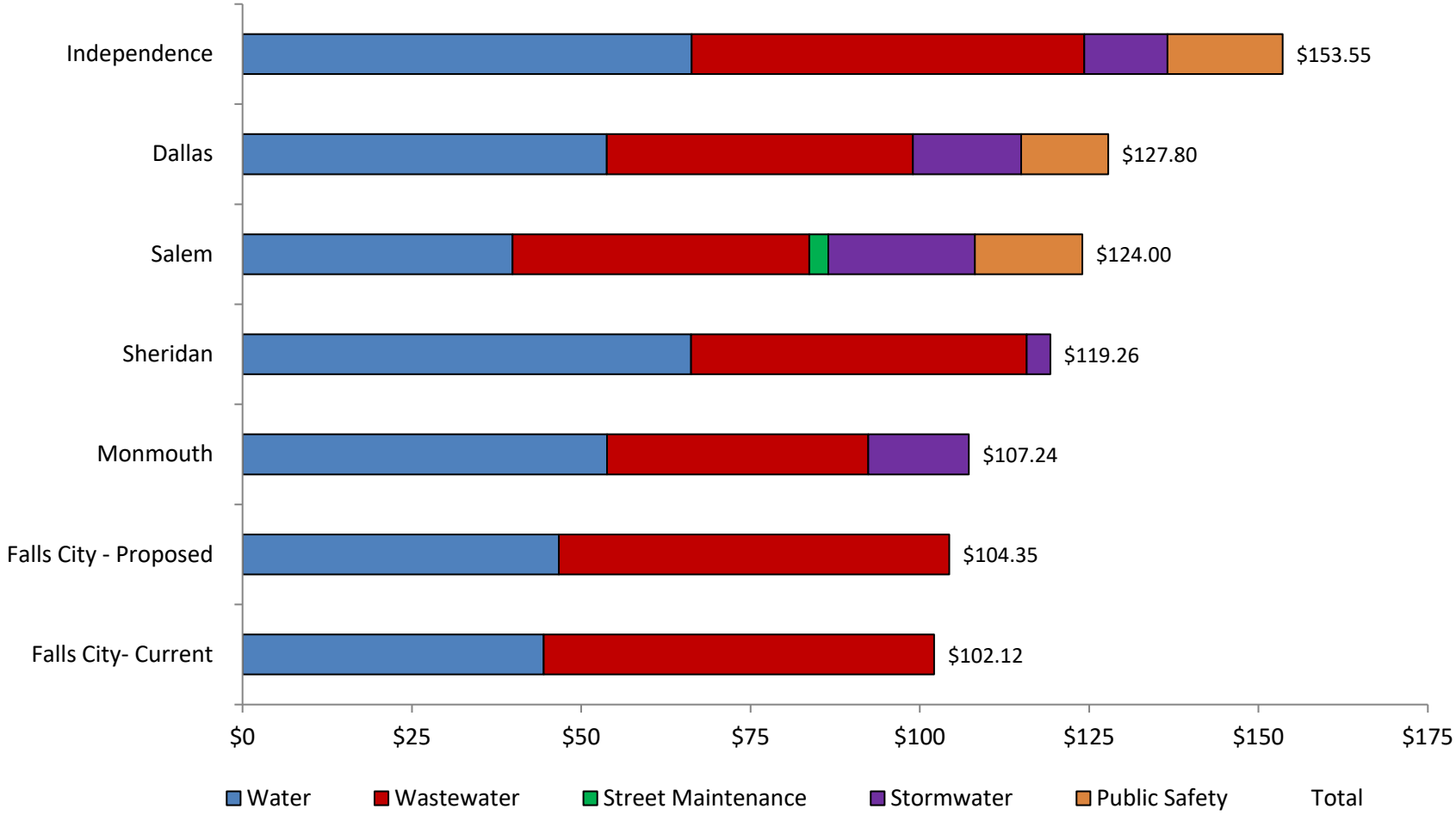
Recommendations

- *Water rates* - We recommend the city increase water rates on or near July 1, 2026, by 5.0%, and by 5.0% on July 1st every year thereafter until 2031. The immediate impact on the average single family residential customer is an increase in the water bill of approximately $2.23 per month. The average single family residential monthly water bill will go from the current amount of $44.47 to $46.70. We further recommend the city implement its planned water conservation rate structure on January 1, 2027. The details of this conservation rate strategy is enumerated in the body of this report.
- *Funding of water system repairs and replacements program* – We recommend the city continue to focus on its distribution system repair and replacement program through regular annual expenditures. In our five-year forecast, we have budgeted $25k (plus inflation) per year for this program; all funded from water rates. We recommend the city adopt this strategy in annual water system budget preparations.
- *Funding of the water equipment and facilities replacement program* – We recommend the city continue to fund its water system replacement program through regular annual expenditures. In our five-year forecast, we have budgeted $22k per year for this program (plus inflation); all funded from water rates. We recommend the city adopt this strategy in annual water system budget preparations.
- *Funding of Master Plan priority capital improvements* – Our water system financial modeling assumes the Master Plan priority capital improvements will cost approximately $2.4 million (adjusted for inflation) over the five-year forecast horizon. We have developed a funding plan that calls for the issuance of new debt in fiscal 2026 for the priority 1a projects, and cash expenditures for all other master plan projects. The City also has approximately $250k held in reserve in the water capital projects fund. We recommend the City implement this five-year funding strategy. We also recommend the City consult with its engineering team to verify our planning assumptions and estimated project costs. In these inflationary times, estimating future costs can be difficult.

Neighboring Communities' Utility Rates

Shown below in Figure 2 is a chart that compares the current and proposed utility rates for a single-family customer in Falls City to the same charges in similar communities in the region.

Figure 2 - Neighboring Communities' Single Family Utility Bills- December 2025



Analysis Section

Water Rates

Analysis of Water System Revenue Requirements

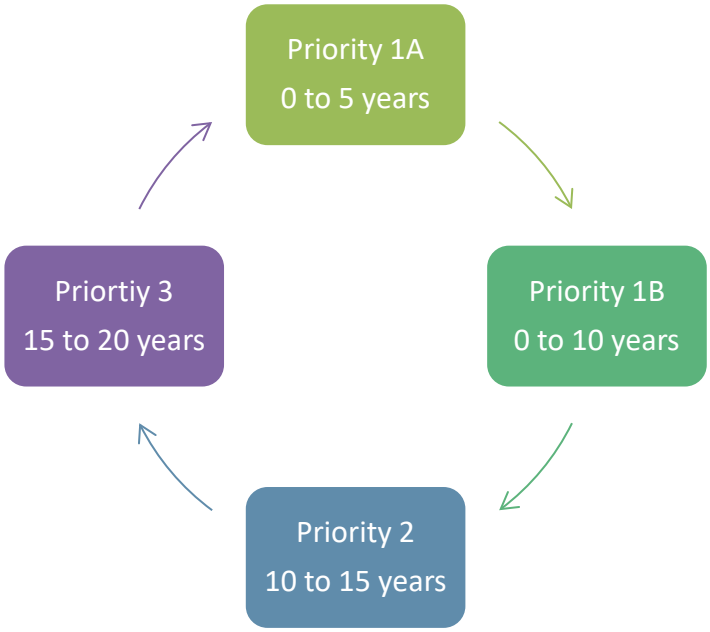
This analytical task determines the amount of revenue needed from water rates. This is driven by utility cash flow or income requirements, constraints of bond covenants, and specific fiscal policies related to the water utility. Based on three years of actual financial records (i.e., fiscal 2023 through 2025), and the adopted budget for fiscal 2026, the City Council-Preferred analysis was developed. This case is predicated on a number of planning assumptions. These planning assumptions are discussed in detail below.

For the current budget year (fiscal 2026), it is forecasted the water utility will generate sufficient revenues from rates, charges, and fees to meet its obligations and produce an unappropriated ending balance in the water operating fund of $366,129. The beginning balance for the water operating fund in this same fiscal year was $356,991. In order to establish and maintain cash balances in the water operating fund while continuing to support the funding of future capital requirements, general water rate increases will be required over the five-year forecast horizon. We recommend the City increase water rates on or near January 1, 2026, by 5.0%. After this immediate rate increase, we are projecting annual water system rate increases of about 5% per year, every year over the balance of the five-year water system financial forecast. Our modeling indicates these rate increases will generate sufficient revenues to fund the projected operations, maintenance, and capital improvement requirements of the water system. For the forecast of revenue requirements, the following assumptions were made based on discussions with City staff:

Inflation in costs and growth in the customer base – In order to accurately reflect likely future conditions, the revenue requirements model was programmed to allow for inflation and cost escalation factors by budget line item. Per guidance from City staff, the following factors were applied for estimating future cost escalation:

- All direct labor line items – The model uses an annual average increase of 3.0% per year.
- Retirement (City cost) – 8.0% per year. This line item includes employer contributions to the defined benefit pension plan (i.e., PERS) that covers City employees.
- Health, vision, and dental insurance (City cost) – 8.0% per year for employer contributions to health insurance premiums.
- Materials and services – 3.0% per year.
- Construction cost inflation – 2.2% per year based on the most recent five-year average growth rate in the Engineering New Record's percent change in the Construction Cost Index.
- The growth forecast expressed in the annual increase in 3/4" meter equivalents is estimated to be 0.4% per year over the five (5) year forecast horizon. This growth rate is consistent with the latest certified population growth rates as published by the Population Research Center at Portland State University.

Capital Improvement Plan Funding – In September of 2017, the City completed a new water master plan. One of the outputs of that plan is a 20-year capital improvement plan (CIP). That 20-year CIP is broken out into four priority groups. The master plan defines these priorities as follows:



For this financial analysis we are funding the Priority 1A projects based on guidance from City Staff. The funding sources for these projects are a mix of cash on hand in the water construction fund, a forgivable loan (i.e., grant) in the amount of $1,292,082. and a new long-term loan from the Safe Drinking Water Revolving Loan Program administered by the Oregon Health Authority in the amount of $1,075,218. As of July 1, 2025, the cash balance in the water capital projects fund was $410,941. The five-year prioritized water capital improvement plan cash flow is shown below in Table 2.

Table 2 – Water Master Plan Priority Capital Improvement Plan

	Estimated Project Costs		
Line Item Description	2017	2026	Totals
Sources of Funds:			
SDWRLF loan			$ 1,075,218
IFA grant (forgivable loan)			1,292,082
Total sources of funds			$ 2,367,300
Uses of Funds:			
Priority 1A water MP projects			
Repair bridge holding water line	$ 116,188	$ 165,481	
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Alle north of main street	150,443	214,269	
Mill street	58,305	83,041	
Forest lane and Clark street	256,458	365,261	
Total uses of funds	$ 1,662,133	$ 2,367,300	$ 2,367,300

Please also note the future water capital improvement plan shown in Table 2 does not account for service installations, small works construction, minor equipment and tools, and the funding for an ongoing meter replacement program. Funding for these types of projects and emergency repairs to the water distribution system is funded from a separate budget of $25k per year, every year over the five-year forecast. This $25k per year is completely funded from rates.

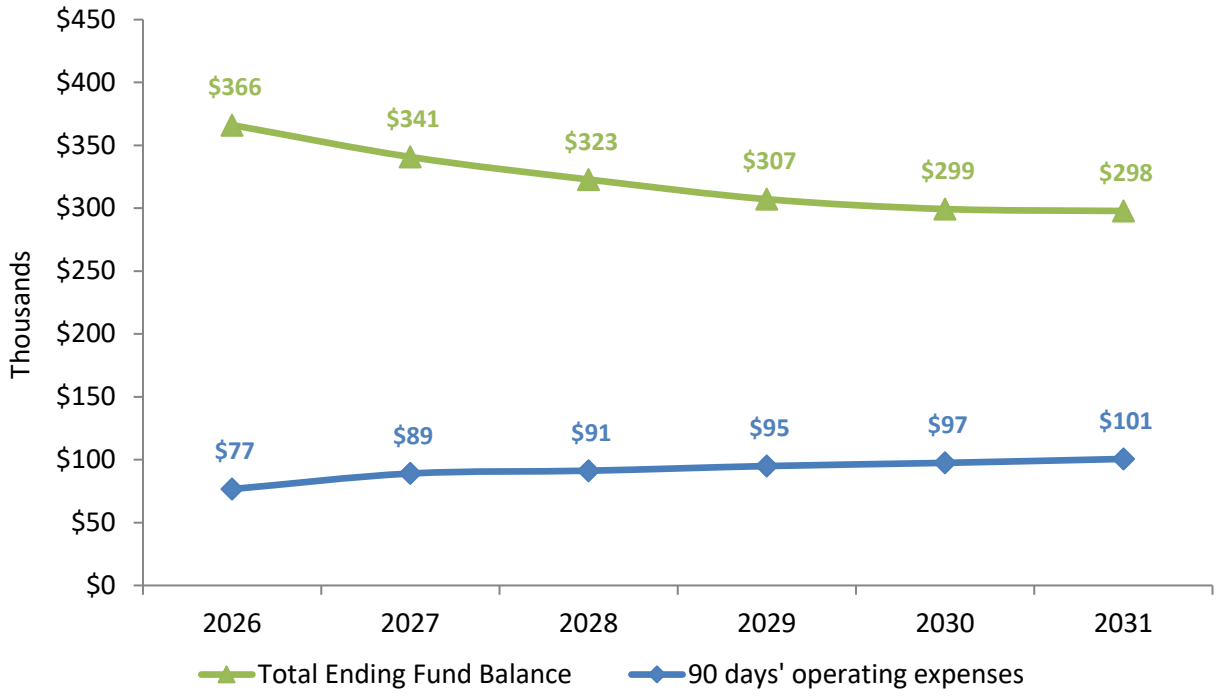
Operating Costs in Excess of Inflation – We have identified two categories affecting revenue requirements. They are pension costs and health care premiums. These cost categories have been accounted for in the revenue requirements model. We have not identified any other areas of concern for this forecast, but the city should monitor the cost structure of the water utility on an ongoing basis. Two key areas of future concern are:

Administrative charges – We have not estimated or accounted for any unusual increases in City/general fund administrative charges. The City provides administrative services such as accounting, legal, and billing to the water system. The city should monitor this situation for developments.

Staffing Costs – We have not planned or budgeted for any additional labor. If the water utility does add staff, these costs will impact the current revenue requirements forecast.

Modeling for Contingencies, Reserves, and Ending Fund Balances - The financial engine of the water utility is the water operating fund. Because the utility cash finances all of its operations, the ending fund balance in the water operating fund is in effect the contingency fund for the utility. For planning purposes, we are expecting the water operating fund will end all forecast years with a target ending fund balance in excess of ninety days of operating expenses. This target balance gives the water utility enough contingency to fund unforeseen operating cost spikes. The five-year forecast of targeted water operating fund balances and operating reserve requirements is shown below in Figure 3.

Figure 3 - Forecast of Water Operating Fund Balances and Operating Reserve Requirements



Revenue Requirements Forecast & Results

All of the above cost elements are contained in the revenue requirements model and from this, the "City Council-Preferred case" forecast was developed. The City Council-Preferred case assumes the utility would fund the projected capital costs discussed above over the entire five-year forecast horizon. Also, the utility would fund the operating costs as adjusted for inflation. This case resulted in the following forecast of water system revenue requirements (Table 3).

Table 3 – City Council-Preferred Case Forecast of Water System Revenue Requirements

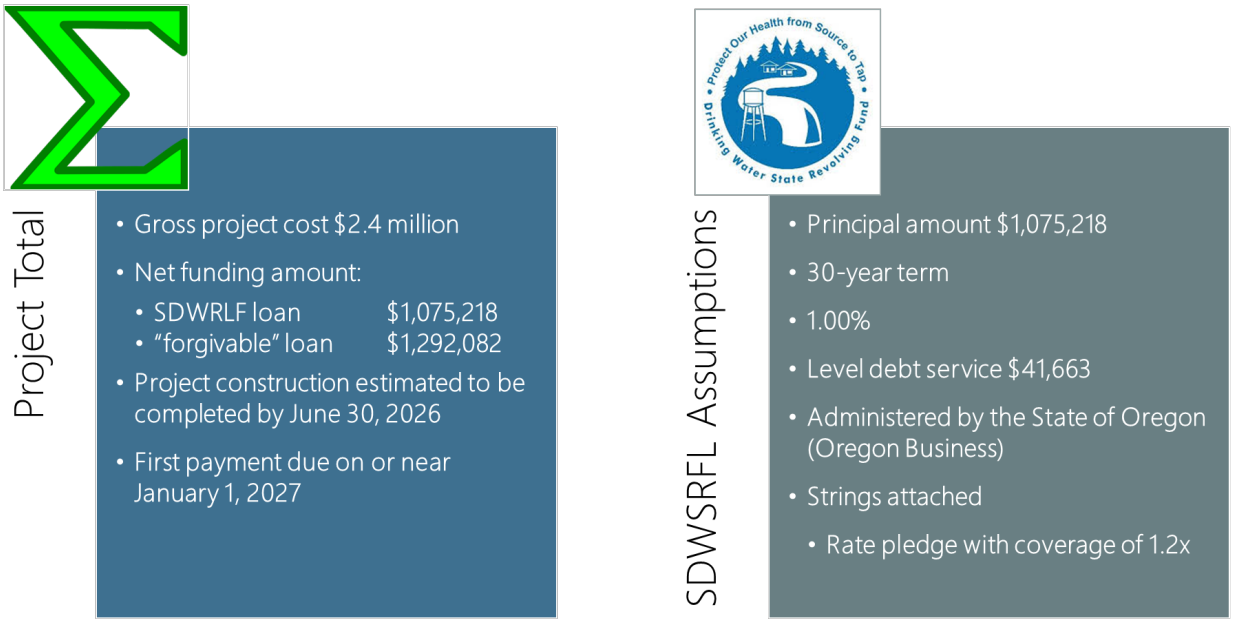
	Budget	Forecast				
	2026	2027	2028	2029	2030	2031
Projection of Cash Flow:						
Revenues:						
Total licenses and permits	15,000	15,450	15,914	16,391	16,883	17,389
Total Service Charges	301,000	301,000	316,081	331,954	348,625	366,113
Total interest earned	-	-	-	-	-	-
Total other financing sources	2,367,300	-	-	-	-	-
Total miscellaneous income	4,000	4,120	4,244	4,371	4,502	4,637
Subtotal gross operating revenues	2,687,300	320,570	336,238	352,716	370,010	388,139
Operations & Maintenance Expense:						
Total personal services	153,000	160,490	168,437	176,872	185,832	195,352
Total materials and services	93,000	95,790	98,664	101,624	104,672	107,812
Total capital outlay	2,367,300	-	-	-	-	-
Total debt service	64,862	104,726	102,926	106,576	104,828	104,828
Transfers to other funds	-	-	-	-	-	-
Total operations and maintenance expense	2,678,162	361,006	370,026	385,072	395,332	407,992
(Use)/replacement of fund balance		(46,300)	(38,500)	(37,000)	(28,800)	(22,500)
Net Cash	9,138	5,864	4,712	4,644	3,478	2,647
Net Deficiency/(Surplus)	(9,138)	(5,864)	(4,712)	(4,644)	(3,478)	(2,647)
Test of Coverage Requirement:						
Gross Revenues:						
Operating revenues	2,687,300	320,570	336,238	352,716	370,010	388,139
System Development Charges	-	-	-	-	-	-
Total Gross Revenues	2,687,300	320,570	336,238	352,716	370,010	388,139
Operating Expenses:						
Total personal services	153,000	160,490	168,437	176,872	185,832	195,352
Total materials and services	93,000	95,790	98,664	101,624	104,672	107,812
Transfers to other funds	-	-	-	-	-	-
Transfers to/(from) the rate stabilization account	-	(46,300)	(38,500)	(37,000)	(28,800)	(22,500)
Total Operating Expenses	246,000	209,980	228,600	241,496	261,704	280,665
Net Revenues	2,441,300	110,590	107,638	111,220	108,306	107,474
Debt Service	64,862	104,726	102,926	106,576	104,828	104,828
Coverage Recognized	37.64	1.06	1.05	1.04	1.03	1.03
Coverage Required	1.20	1.20	1.20	1.20	1.20	1.20
Net Deficiency/(Surplus)	(2,363,466)	15,081	15,873	16,671	17,488	18,319
Projection of Revenue Sufficiency and Forecasted Rates:						
Maximum Deficiency	-	15,081	15,873	16,671	17,488	18,319
Percent Increase Required Over Current Rate Revenues	**0.00%**	**5.01%**	**5.02%**	**5.02%**	**5.02%**	**5.00%**
Revenues Recovered From Existing Rates and Charges:	301,000	301,000	316,081	331,954	348,625	366,113
add: Revenues Recovered From Rate Increase	-	15,081	15,873	16,671	17,488	18,319
Total Revenues Recovered From Rates & Charges after Increase	301,000	316,081	331,954	348,625	366,113	384,432

Table 3 shows forecasted annual changes in water system revenue requirements average approximately 5.0% per year from fiscal 2027 through fiscal 2031.

Funding of Future Debt Service

As discussed above, the Council preferred water system financial plan calls for the City to fund a portion of the priority IA capital improvements with the proceeds of a 30-year loan from the Safe Drinking Water Revolving Loan program. The financing assumptions associated with the anticipated loan are shown below in Figure 4.

Figure 4 - Safe Drinking Water Loan Funding Assumptions



Existing and Recommended Water Rates

The City's current water rate structure consists of a fixed fee per meter per month, and a commodity charge expressed in dollars per 1,000 gallons (kgals). During the month, the first 5 kgals of metered water are included in the base charge. After that, any metered consumption is charged out at the current commodity rate. After a thorough discussion of the pros and cons of the current water rate structure, the project team has made the following observations:

- Monthly base charge – the city's current water rate structure conforms to industry practice and the recovery of fixed costs from the monthly base charge is the most common approach to water ratemaking.
- Commodity charge – The current commodity charges increase or decrease based on the amount of water consumed. This promotes conservation and is consistent with trends in the industry. This methodology has worked for the city and has generated predictable revenues. The city should consider implementing an inverted block pricing structure in the future to promote higher levels of water conservation. With this in mind, the city is proposing to implement an inverted block pricing structure on January 1, 2027. The process that was used to develop this rate structure is as follows.

Conservation Pricing and the Water Management and Conservation Plan

The city is required to develop and administer a comprehensive Water Management and Conservation Plan by the Oregon Water Resources Department. Under Chapter 690 Division 86 of the Oregon Administrative Rules, the City must do the following:

OAR 690-086-0150

"(5) If the Municipal Water Supplier serves a population greater than 1,000 and proposes to expand or initiate diversion of water under an Extended Permit for which resource issues have been identified under OAR 690-086-0140(5)(i), or if the Municipal Water Supplier serves a population greater than 7,500, a description of the specific activities, along with a schedule that establishes five-year Benchmarks, for implementation of each of the following measures; or documentation showing that implementation of the measures is neither feasible nor appropriate for ensuring the efficient use of water and the prevention of waste:

(a) Technical and financial assistance programs commensurate to the size of the Municipal Water Supplier to encourage and aid residential, commercial, and industrial customers in implementation of conservation measures;

(b) Supplier financed retrofitting or replacement of existing inefficient water using fixtures, including distribution of residential conservation kits and rebates for customer investments in water conservation;

(c) Adoption of rate structures, billing schedules, and other associated programs that support and encourage water conservation;

(d) Water reuse, recycling, and non-potable water opportunities; and

(e) Any other conservation measures identified by the water supplier that would improve water use efficiency."

Proposed Methodology and Structure of the Water Conservation Rates

Conservation pricing is based on the idea that customer water use decreases as the price paid for water increases, which is the typical price-quantity relationship for almost any good or service. Inverted block pricing (aka, inclining block rates) is the structural form that is most frequently associated with conservation-oriented water rates and is the proposed approach for the city. Given an inverted block rate structure, customer water usage is divided into several blocks so that the price paid for the additional unit of water increases as residential water usage increases from one block to the next.

To develop the consumption blocks for the city's proposed water conservation rate structure, the project team analyzed all water sold to city customers served by ¾" water meters in the month of August 2025. August 2025 was the peak demand month for the whole year 2025. Using statistical methods, the team arrived at a rate structure that consisted of three rate blocks as shown below in Figure 5. The results of this historical statistical analysis was presented to the City Council on December 1, 2025, at a work session. After consultation and debate, the Council settled on the following pricing strategy for its proposed January 1, 2027, water conservation rates:

Figure 5 - Proposed Water Pricing Blocks

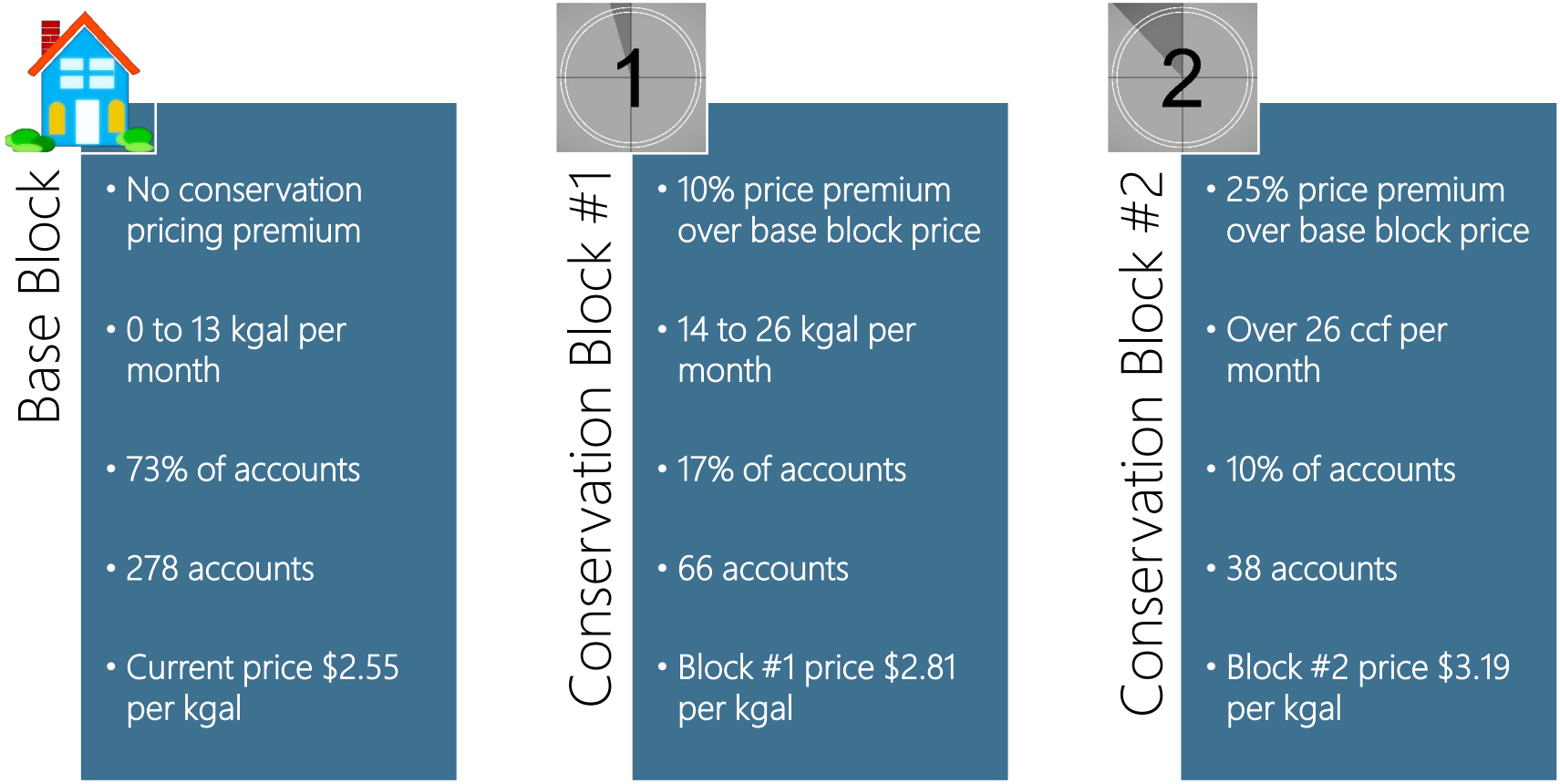


Figure 5 - Proposed Water Pricing Blocks continued

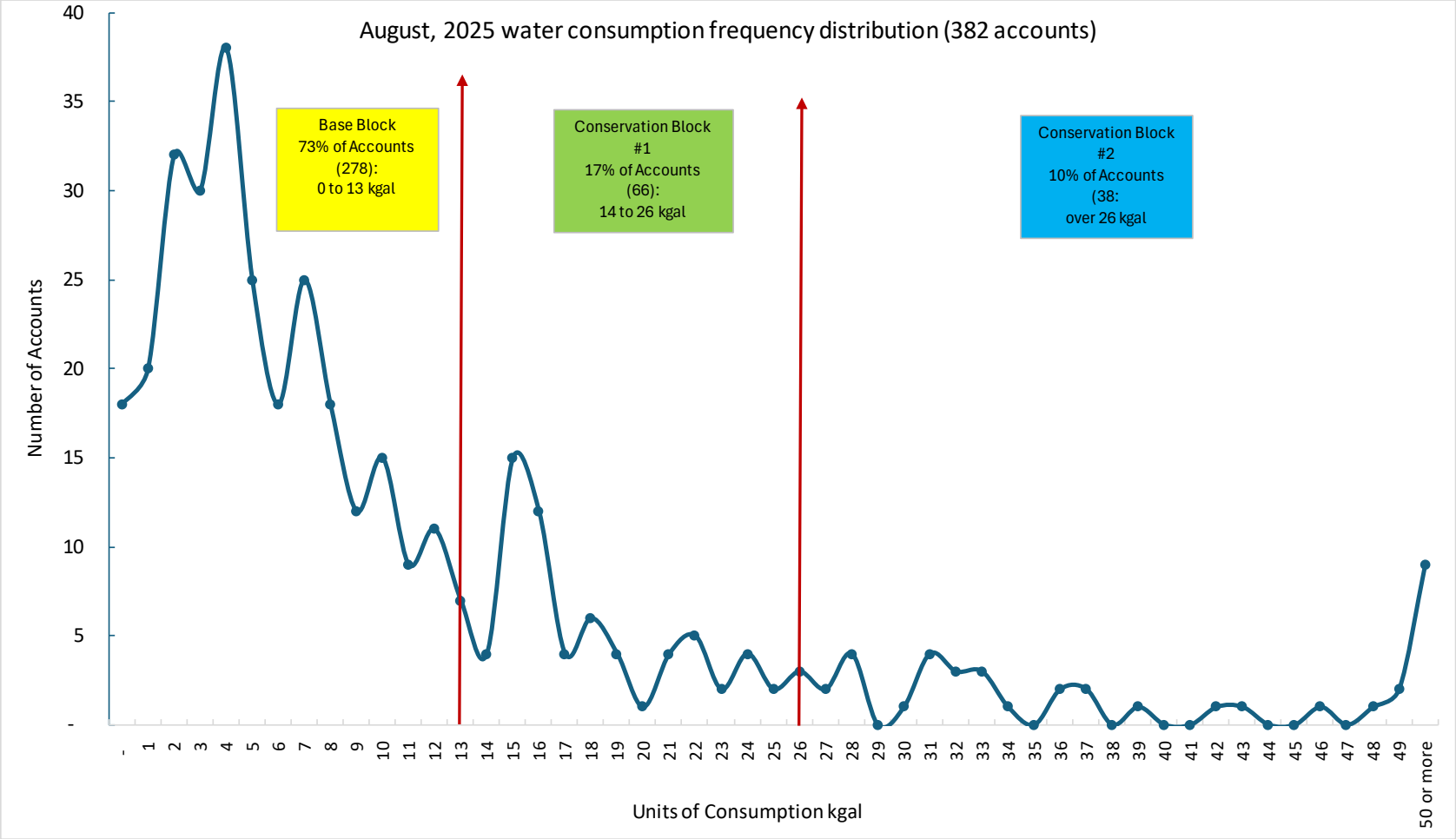


Figure 5 - Proposed Water Pricing Blocks continued

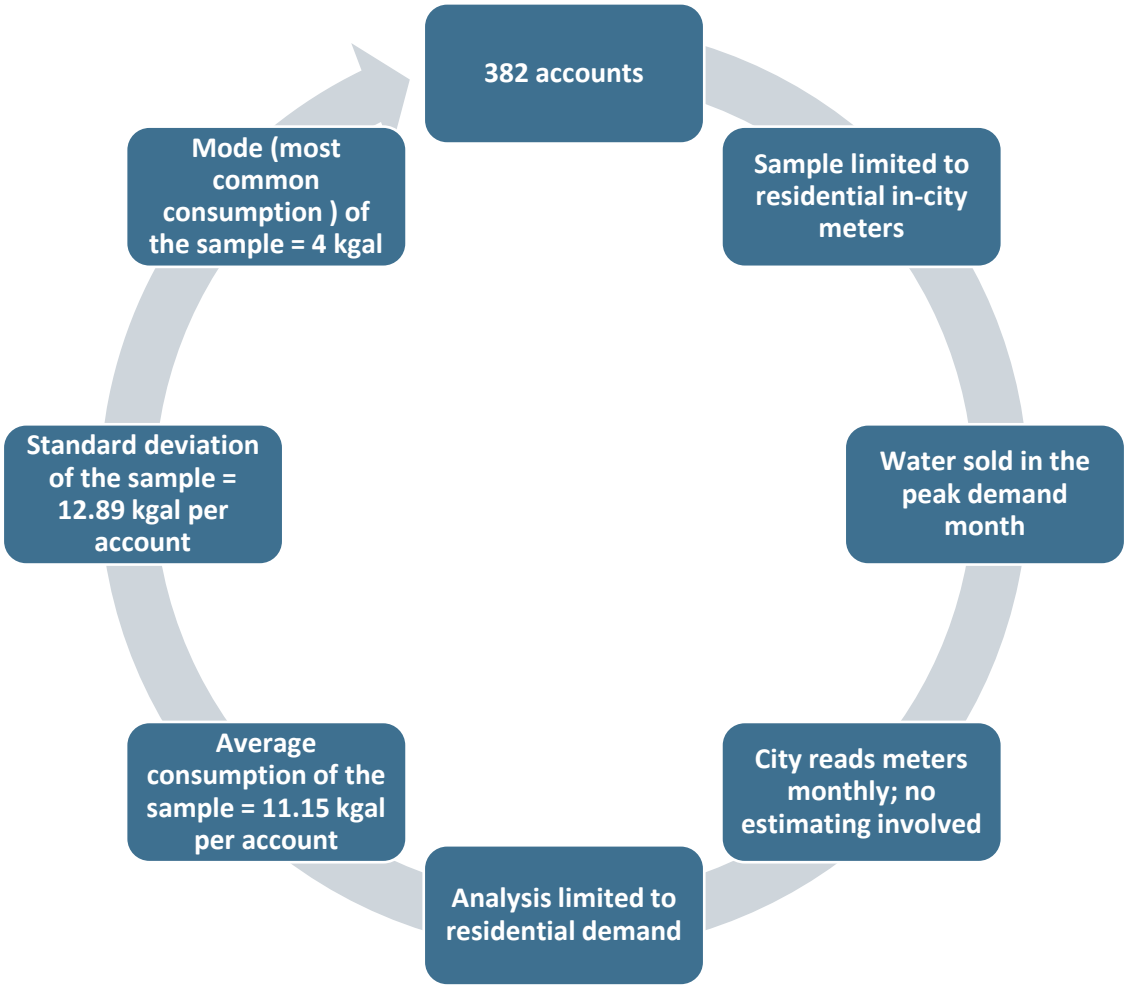
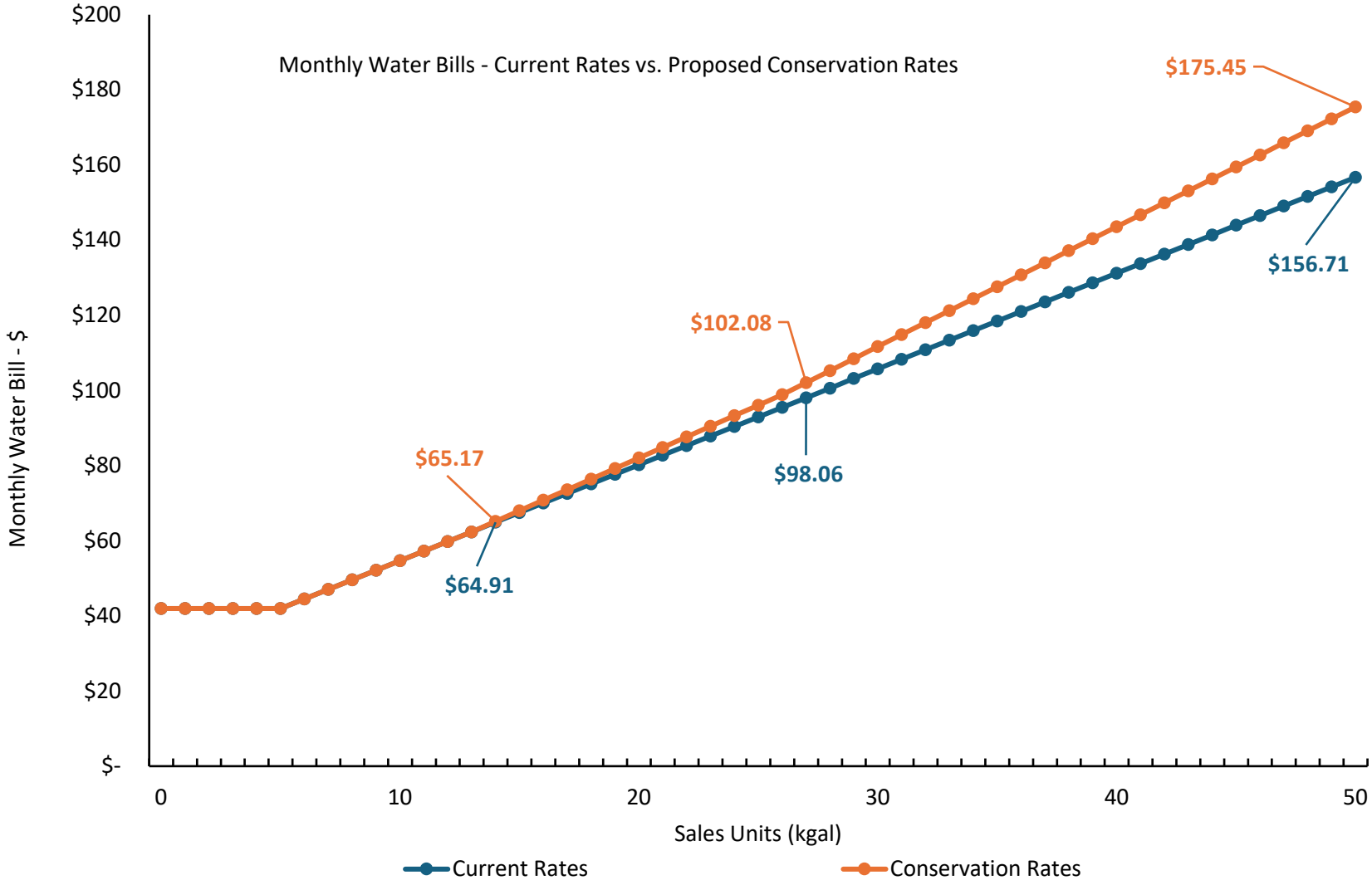


Figure 5 - Proposed Water Pricing Blocks continued



The assumptions shown above became the base case for the water rate analysis. The ratemaking methodology that was used is called the "base-extra capacity method" and is consistent with industry standards in water rate making. Under this methodology, costs of service are separated into three primary cost components: (1) base costs, (2) extra capacity costs, and (3) customer costs.

Base costs are those that tend to vary with the total quantity of water used plus those operations and maintenance (O&M) expenses and capital costs associated with service to customers under average load conditions, without the elements of cost incurred to meet water use variations and resulting peaks in demand. Base costs include O&M expenses of supply, treatment, pumping, and distribution facilities. Base costs also include capital costs related to water plant investment associated with serving customers to the extent required for a constant, or average, annual rate of demand/usage.

Extra capacity costs are those associated with meeting rate of use requirements more than average and include O&M expenses and capital costs for system capacity beyond that required for average rate of use. These costs have been subdivided into costs necessary to meet maximum-day extra demand, and maximum-hour demand more than maximum day demand.

Customer costs comprise those costs associated with serving customers, irrespective of the amount or rate of water use. They include meter reading, billing, and customer accounting and collection expense, as well as maintenance and capital costs related to meters and services.

The resulting forecast of recommended water rates is shown below in Table 4.

Table 4 - Proposed Schedule of Water Rates

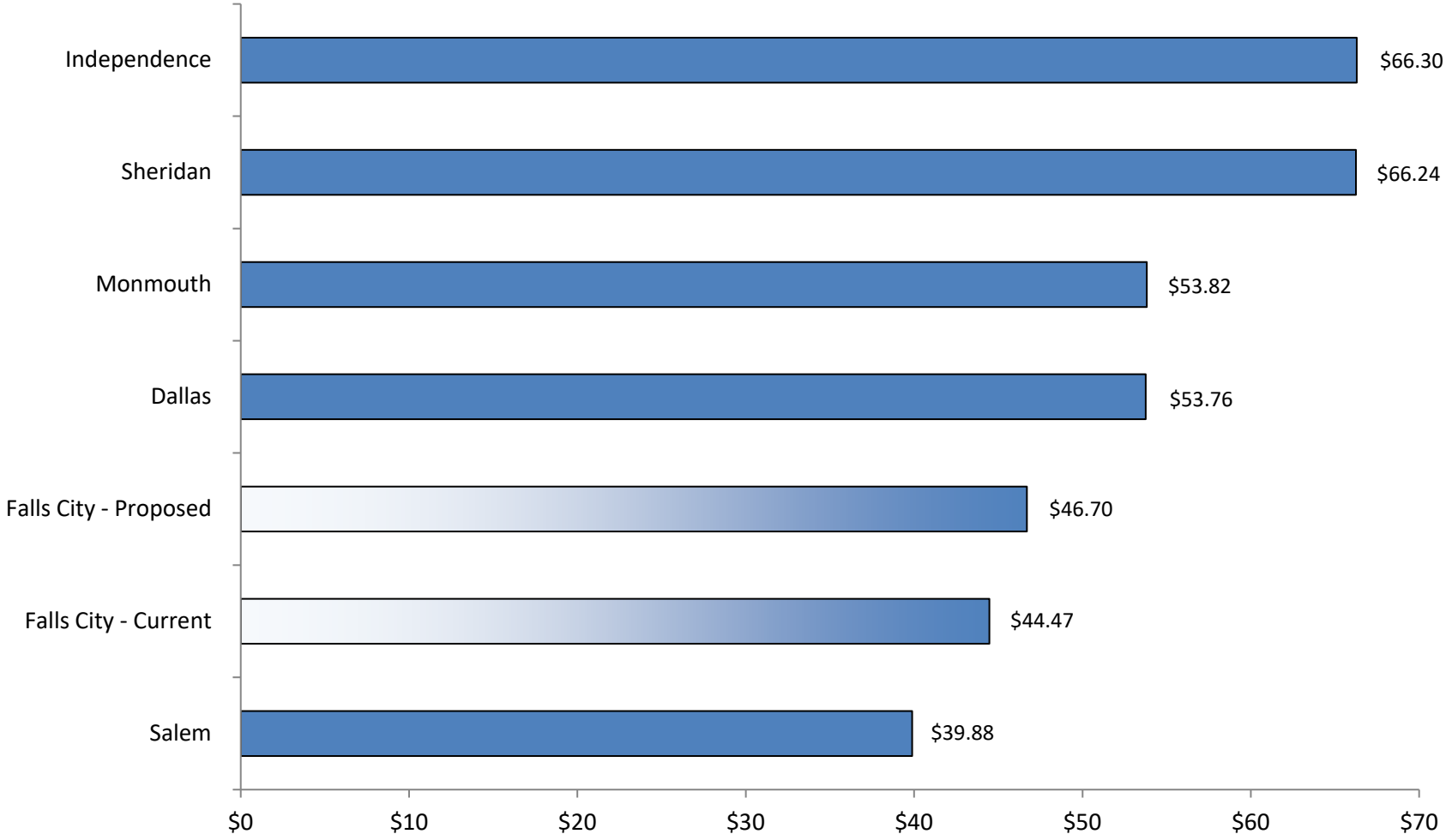
Water Rate Component	2026	2027	2028	2029	2030	2031
Projected percentage increase in revenue requirements		5.01%	5.02%	5.02%	5.02%	5.00%
Average monthly water bill:						
Base charge - 5/8" meter	$ 41.96	$ 44.06	$ 46.28	$ 48.60	$ 51.04	$ 53.59
Commodity Charge:	$ 2.55	$ 2.68	$ 2.81	$ 2.95	$ 3.10	$ 3.26
Single family residential monthly water bill after increase	$ 44.47	$ 46.70	$ 49.04	$ 51.51	$ 54.09	$ 56.80
Current monthly water bill	$ 44.47	$ 44.47	$ 44.47	$ 44.47	$ 44.47	$ 44.47

	Current	Forecast				
Water Rate Component	2026	2027	2028	2029	2030	2031
Inside City Limits						
Residential (RI)						
Monthly base charge (5 kgal included)						
5/8"	$ 41.96	$ 44.06	$ 46.28	$ 48.60	$ 51.04	$ 53.59
1"	$ 64.64	$ 67.88	$ 71.29	$ 74.87	$ 78.62	$ 82.56
1 1/2"	$ 72.58	$ 76.22	$ 80.04	$ 84.06	$ 88.28	$ 92.70
2"	$ 86.18	$ 90.50	$ 95.04	$ 99.82	$ 104.82	$ 110.07
3"	$ 106.60	$ 111.94	$ 117.56	$ 123.47	$ 129.66	$ 136.15
4"	$ 151.96	$ 159.57	$ 167.59	$ 176.00	$ 184.83	$ 194.08
Volume charge ($/kgal)	$ 2.55	$ 2.68	$ 2.81	$ 2.95	$ 3.10	$ 3.26
Commercial - (RCI and NCI)						
Monthly base charge (5 kgal included)						
5/8"	$ 64.64	$ 67.88	$ 71.29	$ 74.87	$ 78.62	$ 82.56
1"	$ 87.32	$ 91.69	$ 96.30	$ 101.14	$ 106.21	$ 111.52
1 1/2"	$ 96.39	$ 101.22	$ 106.30	$ 111.64	$ 117.24	$ 123.11
2"	$ 108.86	$ 114.31	$ 120.05	$ 126.08	$ 132.41	$ 139.03
3"	$ 129.28	$ 135.76	$ 142.57	$ 149.74	$ 157.25	$ 165.11
4"	$ 174.64	$ 183.39	$ 192.60	$ 202.27	$ 212.42	$ 223.05
Volume charge ($/kgal)	$ 3.12	$ 3.28	$ 3.44	$ 3.61	$ 3.79	$ 3.98
Outside City Limits						
Residential (RO)						
Monthly base charge (5 kgal included)						
5/8"	$ 47.06	$ 49.42	$ 51.90	$ 54.51	$ 57.24	$ 60.10
1"	$ 69.74	$ 73.23	$ 76.91	$ 80.77	$ 84.83	$ 89.07
1 1/2"	$ 77.68	$ 81.57	$ 85.67	$ 89.97	$ 94.48	$ 99.21
2"	$ 92.42	$ 97.05	$ 101.92	$ 107.04	$ 112.41	$ 118.04
3"	$ 111.70	$ 117.30	$ 123.19	$ 129.37	$ 135.86	$ 142.66
4"	$ 157.06	$ 164.93	$ 173.21	$ 181.91	$ 191.04	$ 200.59
Volume charge ($/kgal)	$ 2.84	$ 2.98	$ 3.13	$ 3.29	$ 3.45	$ 3.63
Commercial - (RCO and NCO)						
Monthly base charge (5 kgal included)						
5/8"	$ 69.74	$ 73.23	$ 76.91	$ 80.77	$ 84.83	$ 89.07
1"	$ 92.42	$ 97.05	$ 101.92	$ 107.04	$ 112.41	$ 118.04
1 1/2"	$ 101.49	$ 106.57	$ 111.93	$ 117.55	$ 123.44	$ 129.62
2"	$ 113.97	$ 119.68	$ 125.69	$ 132.00	$ 138.62	$ 145.56
3"	$ 134.38	$ 141.11	$ 148.20	$ 155.64	$ 163.45	$ 171.63
4"	$ 179.74	$ 188.75	$ 198.22	$ 208.18	$ 218.62	$ 229.56
Volume charge ($/kgal)	$ 3.12	$ 3.28	$ 3.44	$ 3.61	$ 3.79	$ 3.98

Neighboring Communities' Water Rates

Shown below in Figure 6 is a chart that compares the current and proposed water rates for a single-family customer in Falls City to the same charges in similar communities in the region.

Figure 6 - Neighboring Communities' Single-Family Water Bills (5.98 kgal) – December 2025



Rate Study Conclusions and Recommendations

The schedules of water rates shown above were developed through consultation with City staff and the members of the rate study project team. The study process included an evaluation of revenue requirements, cost of service, and rate design for the five-year forecast (fiscal 2027 through fiscal 2031). The revenue requirements analysis determined the amount of annual revenue needed to be generated by water and water rates. This analysis addressed the level, rather than the structure of rates. The cost-of-service analysis provided an analytical basis for assigning costs to customers, addressing equity among customer classes. Finally, the rate design element established the structure of rates for cost recovery through fixed and variable rate components. This step addressed equity within customer classes.

A number of specific conclusions and policy recommendations were developed through this collaboration and are briefly discussed in this executive summary. Itemized below is a listing of these conclusions and recommendations.

Conclusions

- We estimate the water fund will end this fiscal year (i.e., June 30, 2026) with a cash balance of $366k. With 5.0% per year general water rate increases we project this fund will have a cash balance of $298k on June 30, 2031. With these future rate increases and the prudent use of cash reserves, there should be adequate funds available to pay for planned water system expenditures over the balance of the five-year forecast horizon. This also accounts for the planned borrowing in 2026 of approximately $1,075,218 for the construction of the 2017 water master plan priority 1A projects. The reader should note, the total costs of these projects is estimated to be $2.4 million. To fund this total, the City secured a grant from the Oregon Infrastructure Finance Authority in the amount of $1,292,082 to make up the shortfall. The total sources and uses of the priority 1A funds is as follows:

	Estimated Project Costs		
Line Item Description	2017	2026	Totals
Sources of Funds:			
SDWRLF loan			$ 1,075,218
IFA grant (forgivable loan)			1,292,082
Total sources of funds			$ 2,367,300
Uses of Funds:			
Priority 1A water MP projects			
Repair bridge holding water line	$ 116,188	$ 165,481	
Alan street	303,079	431,662	
Sheldon avenue	125,206	178,325	
Parry road	82,891	118,058	
Fairview street and Terrace street	343,964	489,892	
Hopkins street	225,599	321,310	
Alle north of main street	150,443	214,269	
Mill street	58,305	83,041	
Forest lane and Clark street	256,458	365,261	
Total uses of funds	$ 1,662,133	$ 2,367,300	$ 2,367,300

- The City's current water rate structure conforms to industry practice and consists of a flat monthly base charge and a volume charge per 100 cubic feet of metered water consumption.

- We estimated the water capital projects fund will end this fiscal year with a cash balance of $241k. This balance considers a one-time transfer to the street fund of $120k which was in the adopted fiscal 2025-26 budget.

Recommendations

- *Water rates* - We recommend the city increase water rates on or near July 1, 2026, by 5.0%, and by 5.0% on July 1st every year thereafter until 2031. The immediate impact on the average single family residential customer is an increase in the water bill of approximately $2.23 per month. The average single family residential monthly water bill will go from the current amount of $44.47 to $46.70. We further recommend the city implement its planned water conservation rate structure on January 1, 2027. The details of this conservation rate strategy is enumerated in the body of this report.
- *Funding of water system repairs and replacements program* – We recommend the city continue to focus on its distribution system repair and replacement program through regular annual expenditures. In our five-year forecast, we have budgeted $25k (plus inflation) per year for this program; all funded from water rates. We recommend the city adopt this strategy in annual water system budget preparations.
- *Funding of the water equipment and facilities replacement program* – We recommend the city continue to fund its water system replacement program through regular annual expenditures. In our five-year forecast, we have budgeted $22k per year for this program (plus inflation); all funded from water rates. We recommend the city adopt this strategy in annual water system budget preparations.
- *Funding of Master Plan priority capital improvements* – Our water system financial modeling assumes the Master Plan priority capital improvements will cost approximately $2.4 million (adjusted for inflation) over the five-year forecast horizon. We have developed a funding plan that calls for the issuance of new debt in fiscal 2026 for the priority 1a projects, and cash expenditures for all other master plan projects. The City also has approximately $250k held in reserve in the water capital projects fund. We recommend the City implement this five-year funding strategy. We also recommend the City consult with its engineering team to verify our planning assumptions and estimated project costs. In these inflationary times, estimating future costs can be difficult.

Water Rates Forecast Presentation

December 1, 2025

DONOVAN enterprises, inc.

Agenda …

- Key planning assumptions for the forecast
- Funding strategy for the 2017 Water Master plan projects
- Forecast of annual changes in water system revenue requirements
- Forecast of average monthly single-family water bills
- Monthly single-family water bills in neighboring communities
- Conservation pricing
- Next Steps

KEY PLANNING ASSUMPTIONS

Macro Economic

- Customer growth 0.4%
- Inflation generally 3.0%
  - Health premiums 8.0%
  - PERS retirement 8.0%
- Interest earnings rate 4.0%

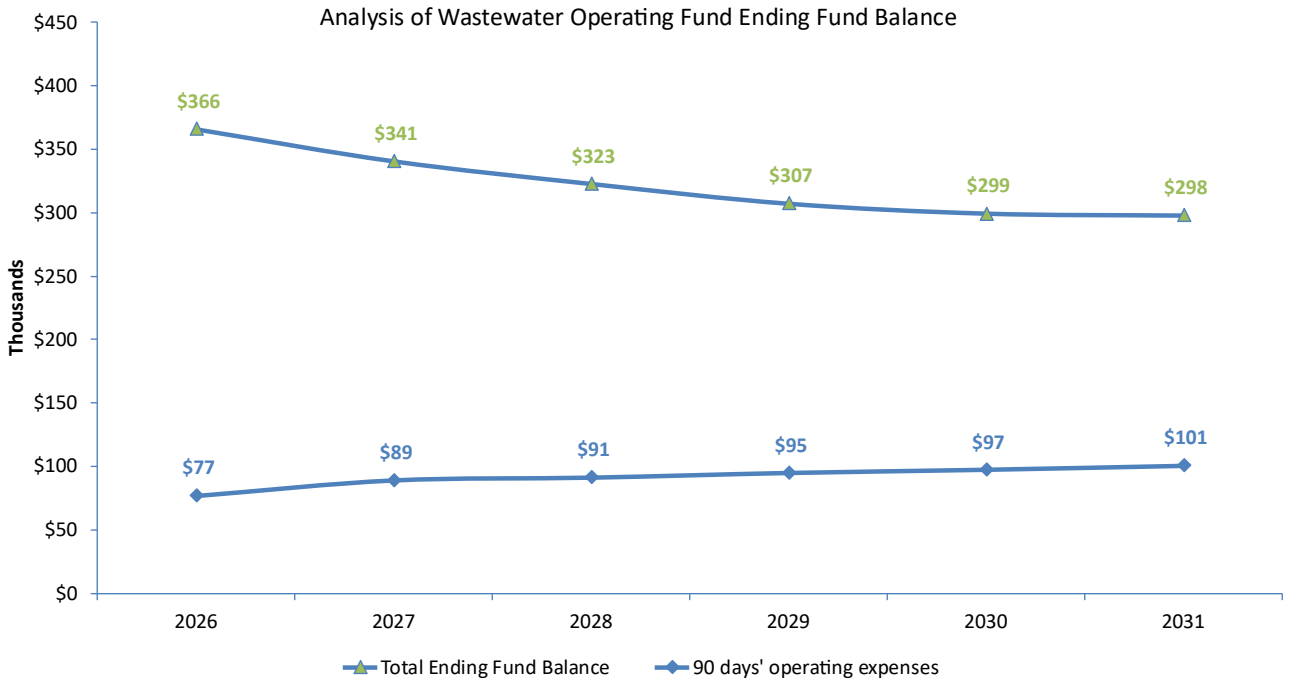
Long Term Debt

- 2017 water refunding bonds retire in 2039, ~$65k per year
- 2026 Safe Drinking Water loan retires in 2056
  - First payment starts in FY27
  - ~$42k per year

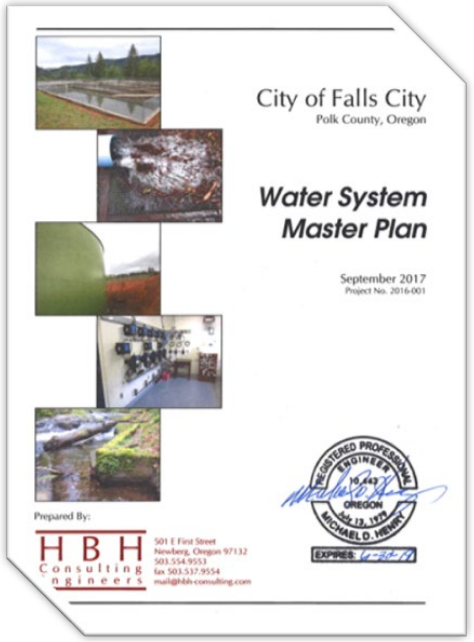
Cash Flows & Rate Strategy

- Fully fund water operations and maintenance costs
- $25k per year capital spending out of the capital projects fund
- $1,292,082 grant from Infrastructure Finance Authority this year.
- 5% per year general water rate increase

KEY PLANNING ASSUMPTIONS – RESERVES ATTAINMENT



FUNDING STRATEGY FOR THE MASTER PLAN WATER PROJECTS



Sources of Funds:

SDWRLF loan	$ 1,075,218
IFA grant (forgivable loan)	1,292,082
Total sources of funds	$ 2,367,300

Uses of Funds:

Priority 1A water MP projects	
Repair bridge holding water line	
Alan street	
Sheldon avenue	
Parry road	
Fairview street and Terrace street	
Hopkins street	
Alle north of main street	
Mill street	
Forest lane and Clark street	
Total uses of funds	$ 2,367,300

FUNDING STRATEGY FOR THE MP WATER PROJECTS

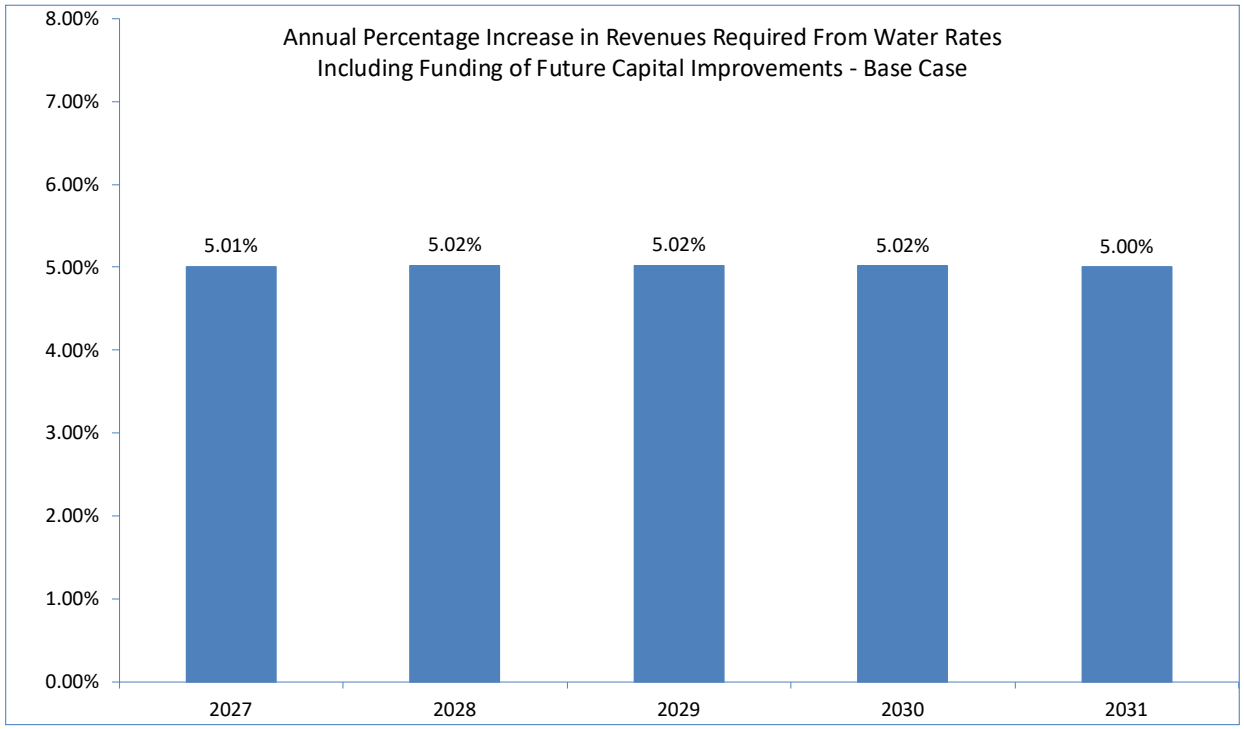
Project Total

- Gross project cost $2.4 million
- Net funding amount:
  - SDWRLF loan $1,075,218
  - "forgivable" loan $1,292,082
- Project construction estimated to be completed by June 30, 2026
- First payment due on or near January 1, 2027

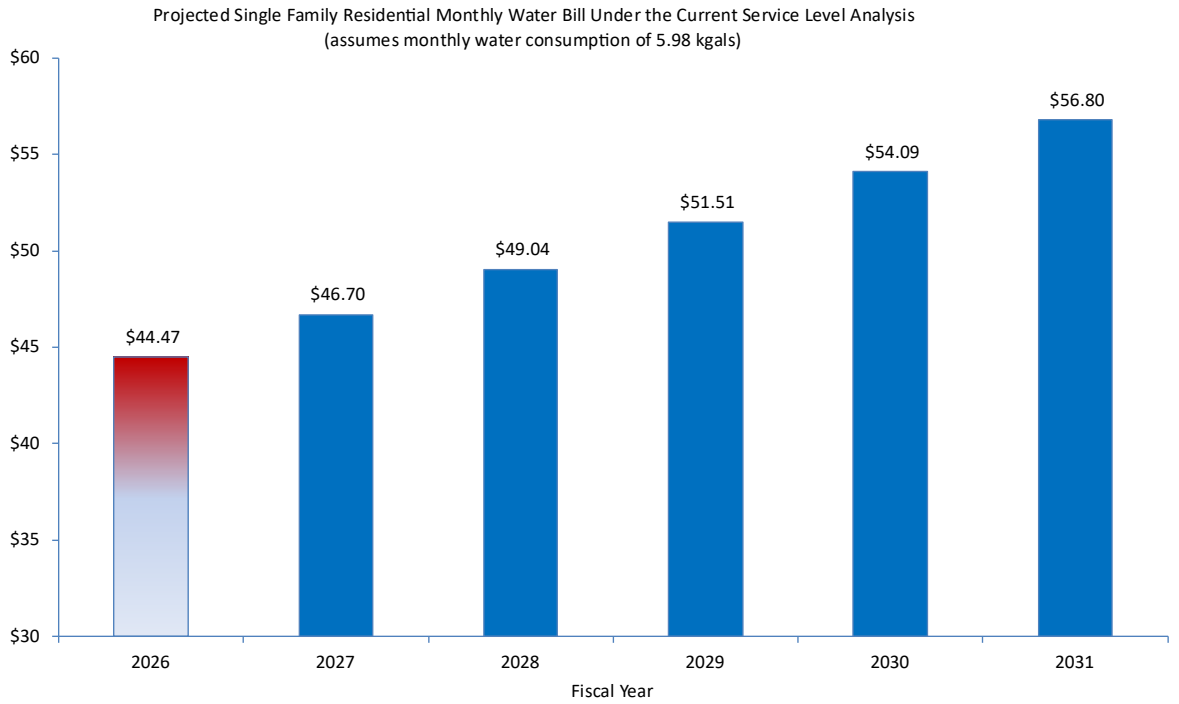
SDWSRFL Assumptions

- Principal amount $1,075,218
- 30-year term
- 1.00%
- Level debt service $41,663
- Administered by the State of Oregon (Oregon Business)
- Strings attached
  - Rate pledge with coverage of 1.2x

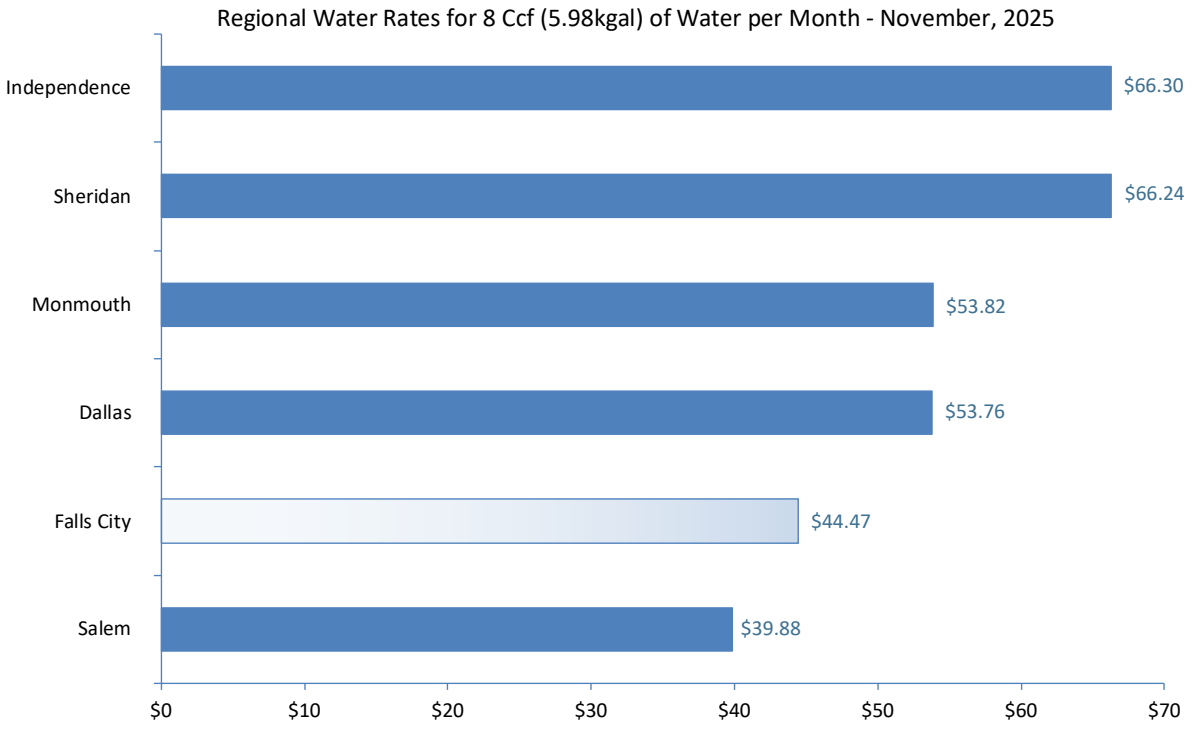
FORECAST OF ANNUAL CHANGES IN REVENUE REQUIREMENTS



FORECAST OF AVERAGE MONTHLY SINGLE -FAMILY WATER BILLS



NEIGHBORING COMMUNITIES' MONTHLY WATER BILLS



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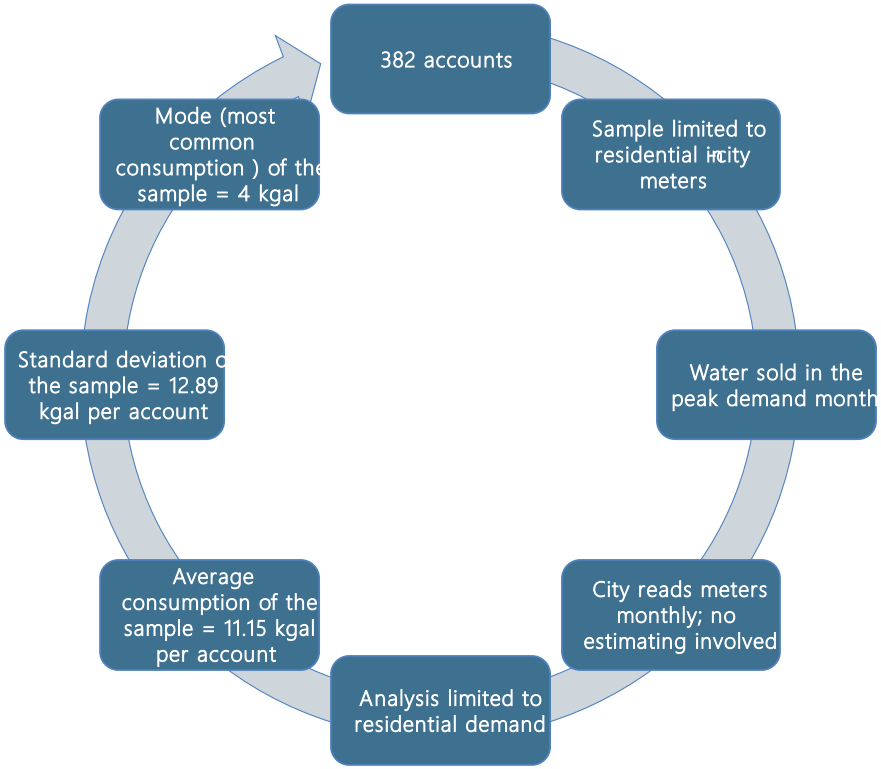
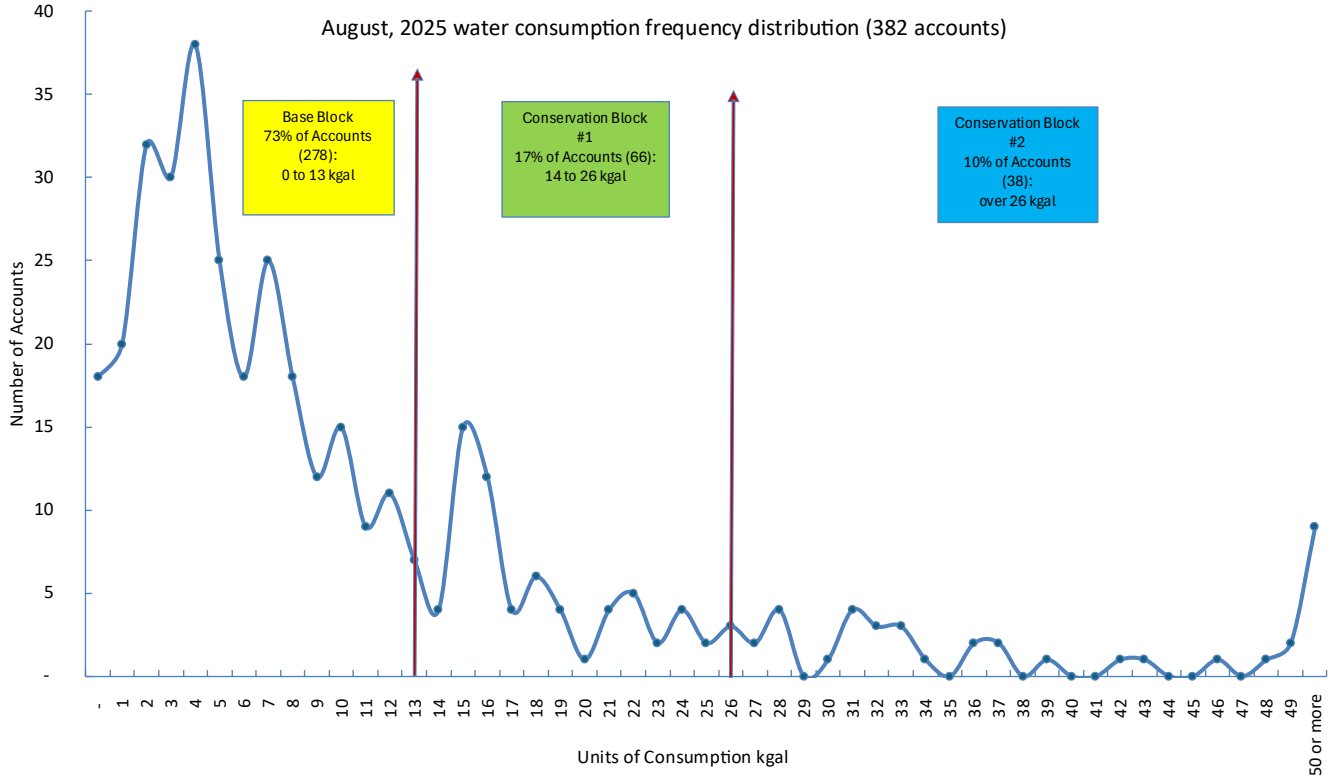
OBSERVED WATER CONSUMPTION – AUGUST, 2025



FREQUENCY DISTRIBUTION OF WATER CONSUMPTION



PROPOSED PRICING FOR CONSERVATION TIERS/BLOCKS

Base Block

- No conservation pricing premium
- 0 to 13 kgal per month
- 73% of accounts
- 278 accounts
- Current price $2.55 per kgal

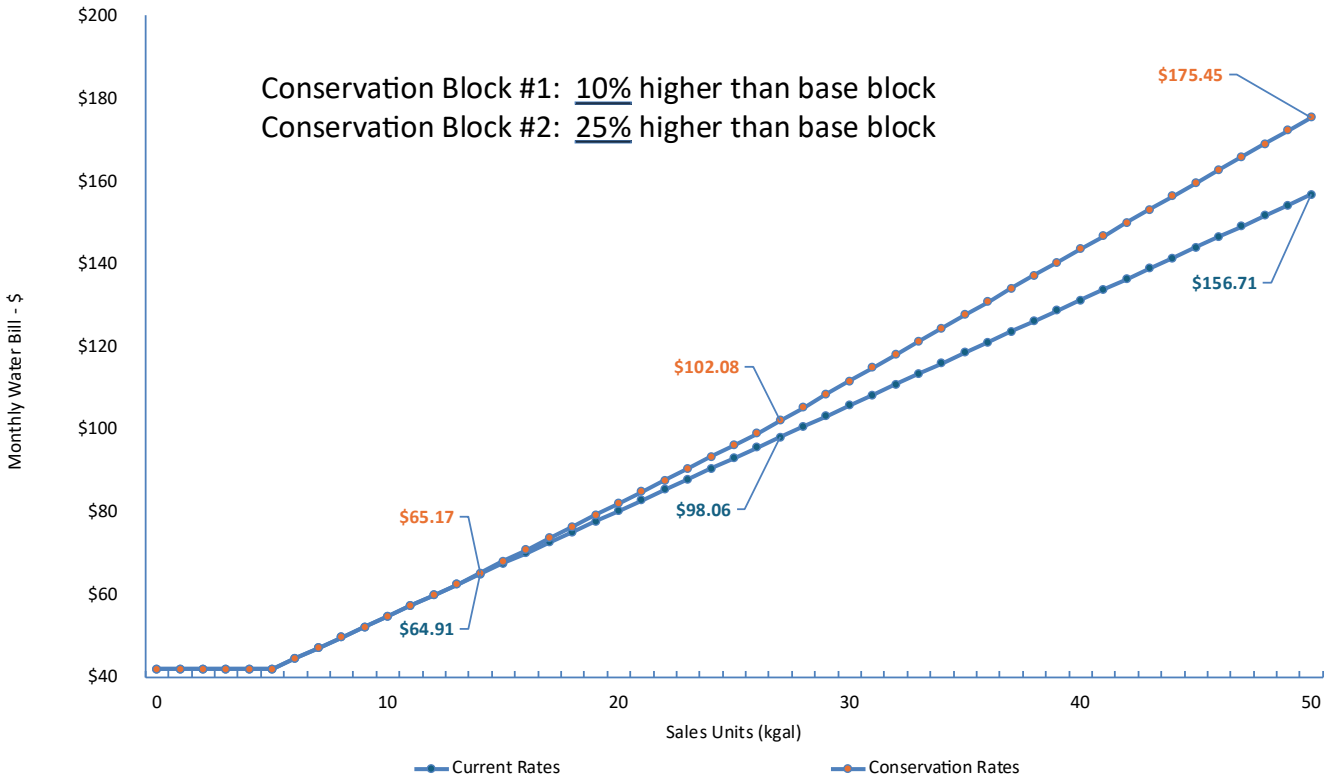
Conservation Block #1

- 10% price premium over base block price
- 14 to 26 kgal per month
- 17% of accounts
- 66 accounts
- Block #1 price $2.81 per kgal

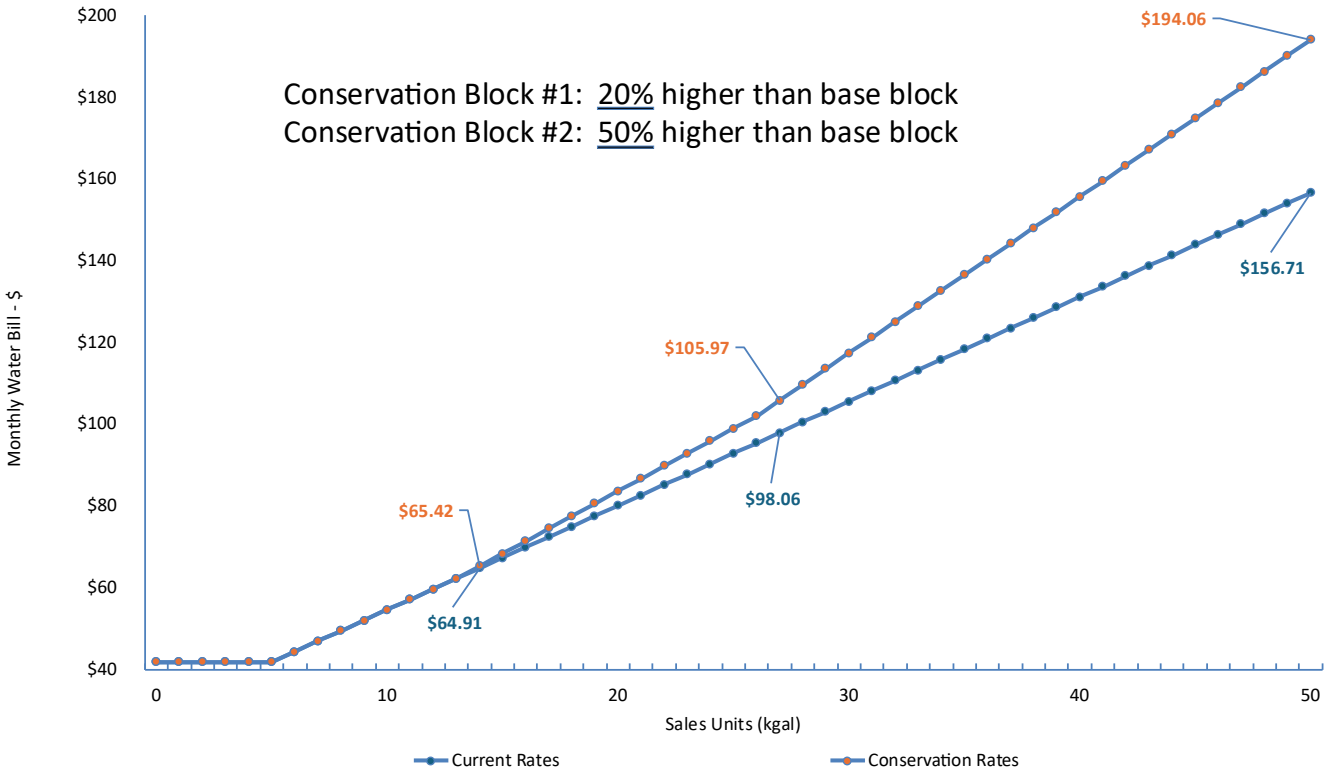
Conservation Block #2

- 25% price premium over base block price
- Over 26 ccf per month
- 10% of accounts
- 38 accounts
- Block #2 price $3.19 per kgal

SAMPLE MONTHLY WATER BILLS UNDER CONSERVATION PRICING



SAMPLE MONTHLY WATER BILLS UNDER CONSERVATION PRICING



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DISCUSSION