



Memorandum

TO: Commissioners Jason Anderson, David Wright, John Dailey, Bob Mylenek, and Brian Sjothun

FROM: Beau N. Belikoff, Finance Manager

DATE: Wednesday, November 4, 2026

SUBJECT: Study Session: Water Cost of Service Study Results

OBJECTIVE: The purpose of the study session is to present the preliminary results and receive Board input and direction before staff finalize proposed rates.

Issue

Medford Water and its rate consultant, HDR, have completed the preliminary revenue requirement and Cost of Service Analysis (COSA) for the upcoming rate period. The study evaluates the revenues needed to fund operating and capital costs, maintain Board-established financial policies, and proportionally distribute costs among Medford Water retail customers, the District, and Partner Cities.

Discussion

The presentation will review three long-term capital funding alternatives: the Baseline Capital Plan, a five-year BRIC funding alternative, and a five-year BRIC funding alternative that includes additional capital investment. Each alternative evaluates projected rate adjustments, customer bill impacts, ending fund balances, and debt service coverage while maintaining target minimum reserves.

Under the Baseline Capital Plan, projected systemwide rate adjustments are 5.0 percent in FY 2026/27, 4.5 percent in FY 2027/28, and 4.0 percent annually thereafter. The five-year BRIC alternative follows the baseline adjustments through FY 2029/30, followed by projected annual adjustments of 2.0 percent. The BRIC Plus alternative maintains the baseline rate adjustments while providing capacity for additional capital investment.

HDR will also present the preliminary Year 1 COSA results. The analysis reflects updated operating costs, customer usage characteristics, recently capitalized infrastructure, construction work in progress, applicable contributions, and the agreed-upon methodology for distributing costs among customer classes.

For Year 2, staff is seeking direction on an approach that would use projected capital activity and other assumptions to establish rates for the Partner Cities and District. The proposed approach includes an 80 percent completion factor for applicable Year 2 capital projects, a 0.25 percentage-point increase in the assumed rate of return, and continuation of the current consumption and peak-factor assumptions.

Financial Impact

The Board's direction regarding the preferred capital funding alternative and rate transition will affect future rate adjustments, customer bills, reserve balances, and the level and timing of capital investment. The Year 1 and Year 2 COSA decisions will also affect how costs are distributed among Medford Water retail customers, districts, and Partner Cities.

Requested Board Action

Staff requests Board input and direction regarding: (1) The preferred CIP and funding alternative and associated rate adjustments. (2) The preliminary Year 1 COSA results. (3) The proposed approach and assumptions for the Year 2 COSA. (4) Next steps based on the discussion, including whether final recommendations and proposed rates should return to the Board on November 18th or December 2nd, 2026.