MEDFORD WATER

Memorandum

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

FROM: Beau N. Belikoff, Finance Manager

DATE: Wednesday, November 18, 2026

SUBJECT: Study Session: Water Cost of Service Study and Proposed Rates

OBJECTIVE: Present the final Cost of Service Study recommendations and proposed rates, which reflect the Board's direction from the November 4, 2026, study session.

Issue

Medford Water and its rate consultant, HDR, have completed the revenue requirement, Cost of Service Analysis (COSA), and rate design for FY 2026/27 and FY 2027/28. The proposed rates fund operating and capital costs, maintain Board-established financial policies, and proportionally distribute costs among Medford Water retail customers, Districts, and Partner Cities.

Discussion

At the November 4, 2026, study session, the Board chose the five-year BRIC Plus capital funding alternative, supported the preliminary Year 1 COSA results and proposed Year 2 assumptions, and directed staff to return with final recommendations and proposed rates. A project-level list of the ten-year CIP that identifies funding sources, including BRIC-funded projects, has been prepared.

BRIC Plus keeps the baseline systemwide rate adjustments: 5.0 percent in FY 2026/27, 4.5 percent in FY 2027/28, and 4.0 percent a year through FY 2035/36. It uses about $34.8 million in expected BRIC grant funding to bring more capital projects into the ten-year plan without raising rates. Under this plan, ending fund balances stay at or above target levels, and debt service coverage meets the Board's minimum target of 2.0, above the 1.25 bond covenant requirement.

The Year 1 COSA includes about $41 million in newly capitalized infrastructure, $5.1 million in work in progress, credits for System Development Charges-funded assets and prior Water System Treatment Plant contributions, and a rate of return rising from 5.65 to 5.90 percent, producing cost of service adjustments of 2.8 percent for retail customers, 11.7 percent for Districts, and 23.4 percent for Partner Cities.

Year 2 rates assume 80 percent completion of FY 2027/28 capital projects, Operation Center improvement costs allocated by rate base share, the 0.25 percentage-point maximum increase in the rate of return, and current usage assumptions, which result in adjustments of 3.0 percent for retail customers and 14.7 percent for District and Partner Cities. As the Board agreed, staff will complete a limited COSA update in 2027 to confirm Year 2 rates for the Partner Cities and Districts.

Financial Impact

The proposed rates provide the revenue needed to fund operations, the BRIC Plus capital program, and debt service while keeping reserves and debt service coverage in line with Board policy. Current rate schedules, customer classes, and rate structures stay the same, rate components are updated to match cost of service results, and the backflow fee is unchanged.

Requested Board Action

Staff requests Board input and further direction before presenting a resolution "Prescribing and Establishing Rates for the Use and Sale of Water from the Municipal Water System of the City of Medford" at the December 2, 2026, public hearing.