



Water, Sewer and Stormwater Utilities Rate Study

Council Workshop

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May 7, 2018

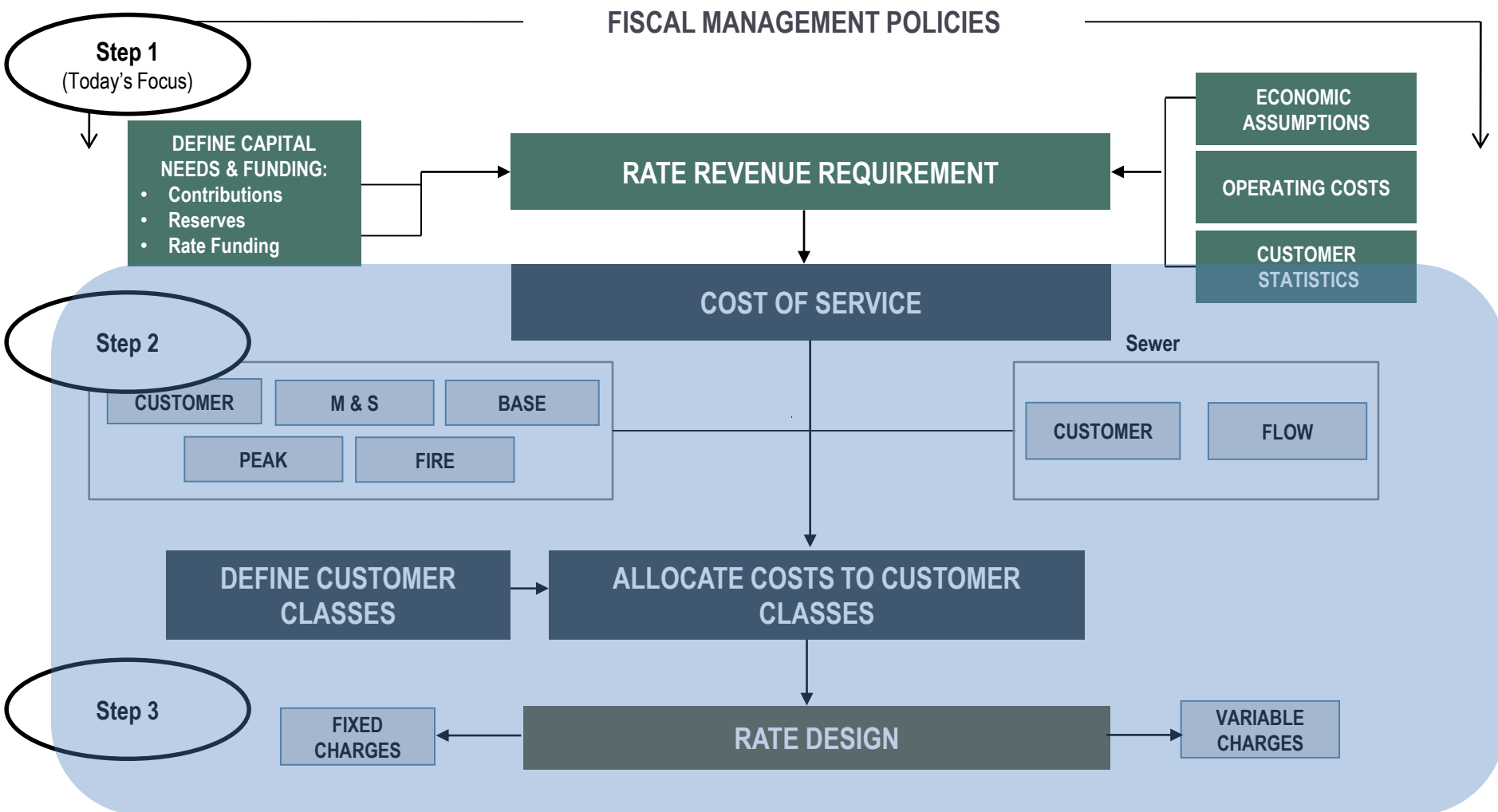


Overview

- ◆ **Overview of rate study process**
- ◆ **Fiscal policies**
- ◆ **Water – Sewer – Stormwater Utilities:**
 - Revenue requirement
 - Rate design
- ◆ **Next Steps**



Overview of the Rate Setting Process





Revenue Requirement

- ◆ **Determine the amount of annual revenue necessary to fund all financial obligations on a stand-alone basis**
 - Operating expenses
 - Debt service (principal & interest)
 - Capital costs and funding approach
- ◆ **Meet financial parameters and targets**
 - Target debt service coverage ratios
 - Maintain target reserve balances
- ◆ **Evaluate revenue sufficiency over multi-year period**
- ◆ **Develop rate plan to balance financial needs and minimize customer impacts**



Rate Design

- ◆ **Produce sufficient revenue to meet utility financial requirements**
- ◆ **Collect the target revenue level for each class of service**
- ◆ **Meet the goals and objectives of the utility**
- ◆ **Cost based and equitable**



Utility Policy Assumptions

Policy	Purpose	Target
Operating Reserve	To provide sufficient cash flow to accommodate short-term revenue and expense cycles	Water: 90 days O&M Sewer: 60 days O&M Storm: 60 days O&M
Capital Reserve	To provide a source of funding for emergency repairs, unanticipated capital, and project cost overruns	Water: \$250k Sewer: \$750k Storm: \$100k
System Reinvestment	To preserve system integrity through ongoing reinvestment	Annual depreciation expense Water: deferred Sewer: \$10k-\$244k (up to 10% of depr.) Storm: \$140k-\$155k (up to 20% of depr.)
Debt Service Coverage	To comply with existing debt covenants and maintain creditworthiness for future debt issuance	$1.25 \times$ annual revenue bond debt service



Key Assumptions

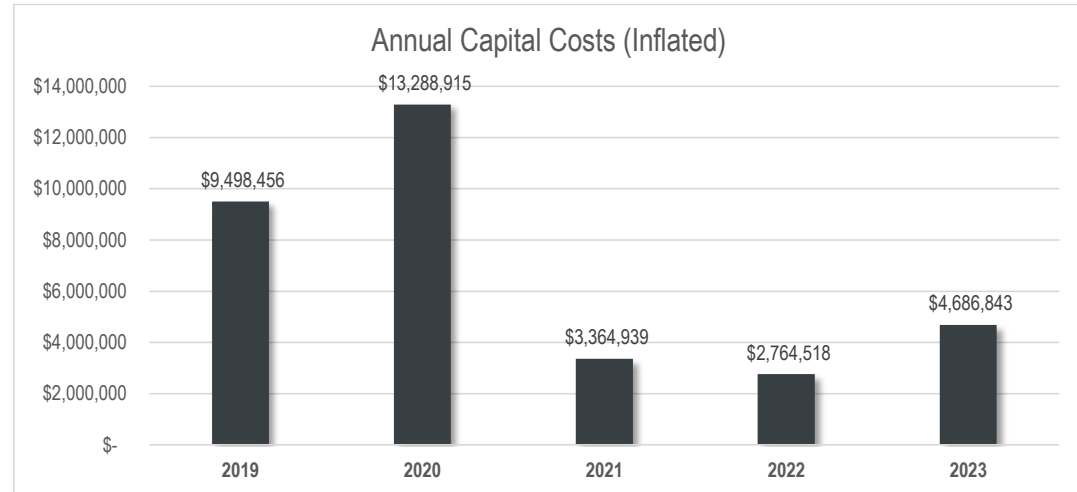
- ◆ **Study focus period 2019 – 2023**
 - 20-year projection evaluated
- ◆ **Projected rate revenue based on customer statistics plus growth**
 - Growth: 1.5% average
- ◆ **2018 budget used as baseline for non-rate revenues and expenses – various escalation factors used for future years:**
 - Operating: 1.8%-3.0%
 - Capital: 3.5%
- ◆ **New Debt**
 - Revenue bonds: 20 year term, 5.0% interest, 1.0% issuance

Water Utility



Water Key Components

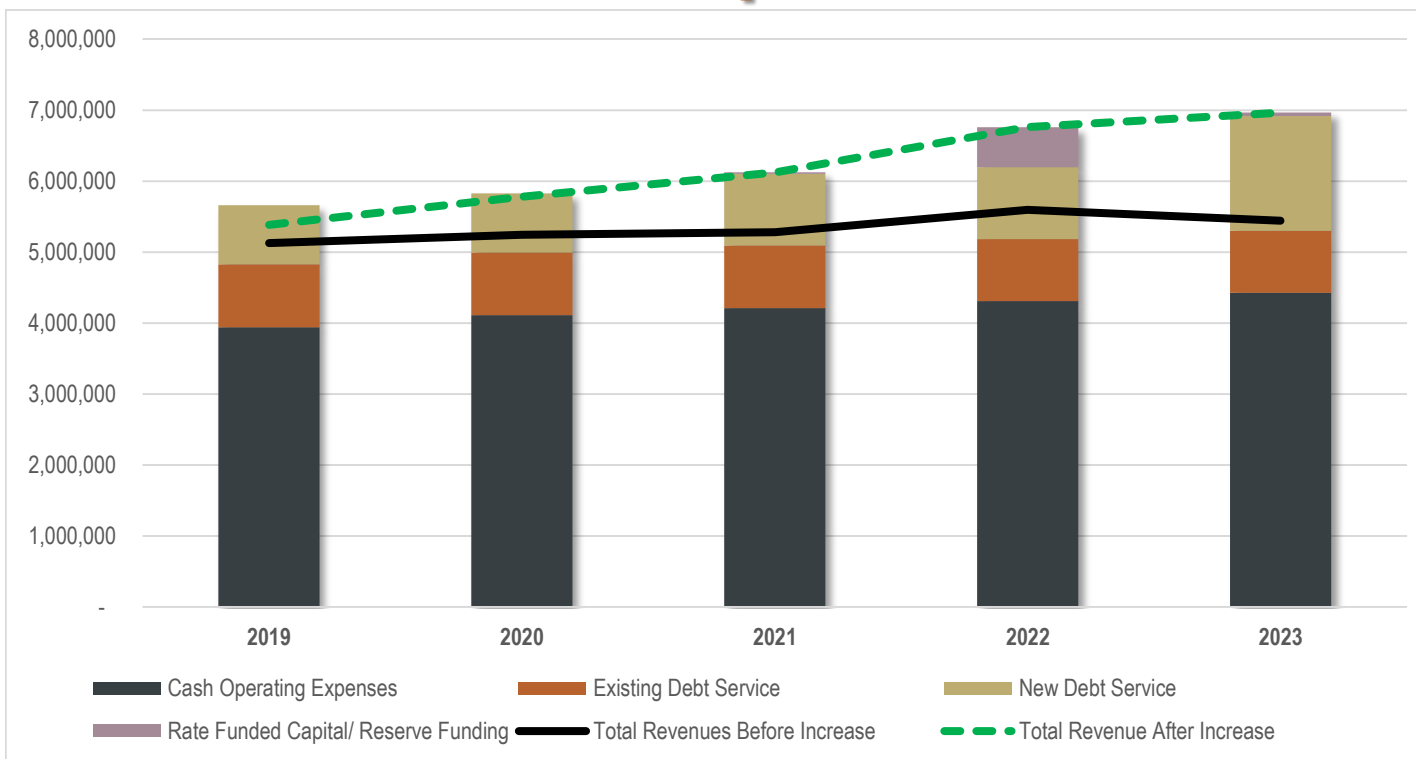
Description	Water 2019-2023
Existing Rate Revenue	\$4.6 M - \$5.0 M
O&M Expenses	\$3.9 M - \$4.3 M
Existing Debt Service	\$888 k - \$870 k
New Debt Service	\$834 k - \$1.6 M
Total CIP (2019-2023)	\$33,603,671



- ◆ **O&M includes the following adjustments:**
 - 2 entry level FTE additions in 2019 and 2020, partial GIS FTE starting in 2019
 - Asset management expense starting in 2019 at \$50,000 per year
- ◆ **\$33.6 million in capital funded by cash, SDC revenue, developer donations and revenue bond loan proceeds**
 - Assumes 75% developer contribution towards annual North Shore distribution costs and Leadbetter Road Transmission Main
 - \$18.3 million in revenue bond proceeds assumed in three separate issuances
 - 2019: \$9.5 M
 - 2021: \$2.0 M
 - 2023: \$6.9 M



Water Revenue Requirement Forecast



Water	Existing	2019	2020	2021	2022	2023
Proposed Increase		5.50%	5.50%	5.50%	5.50%	5.50%
Sample Residential Bi-Mo. Bill	\$ 58.22	\$ 61.42	\$ 64.80	\$ 68.36	\$ 72.12	\$ 76.09
\$ Bi-Mo. Difference		\$ 3.20	\$ 3.38	\$ 3.56	\$ 3.76	\$ 3.97
\$ Mo. Difference		\$ 1.60	\$ 1.69	\$ 1.78	\$ 1.88	\$ 1.98

Note: assumes a 3/4" meter with 20 ccf water usage bi-monthly.



Water Rate Design Considerations

- ◆ No change with across the board increase
- ◆ Review level of fixed (base) versus variable (volume) charges
 - Enhance revenue stability by increasing the fixed charge
- ◆ Residential tiered volume rates
 - Encourage conservation

Meter	Existing Rates	
Bi-Monthly Fixed Rates		
5/8"	\$	19.40
3/4"		21.02
1"		25.94
1.25"		29.20
1.5"		32.50
2"		50.50
3"		182.94
4"		232.06
6"		346.54
8"		477.42
10"		624.62
Volume Rates (per ccf)		
Residential	\$	1.86
Commercial		2.27
Industrial		1.88
Cemetery		0.84
Irrigation		2.11

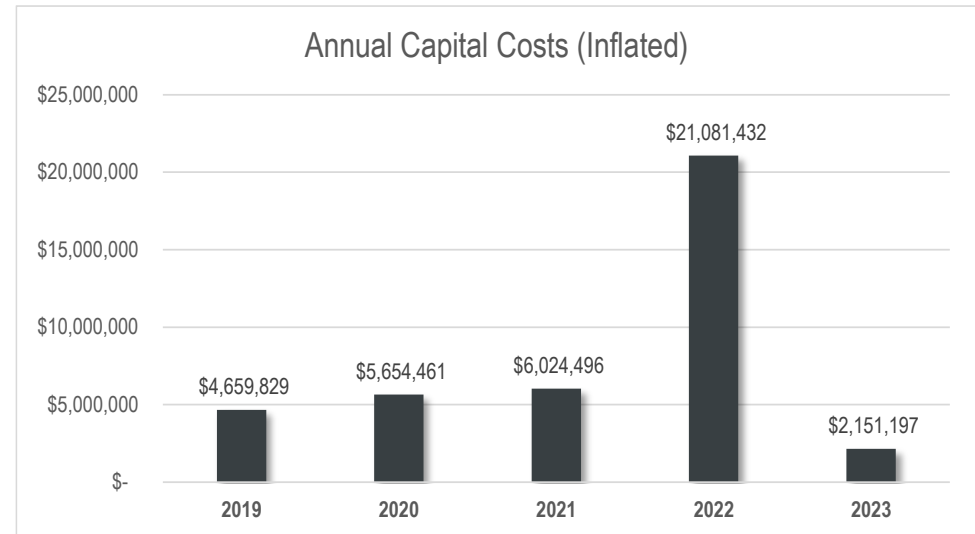
Note: all options would collect the overall average 5.5%.

Sewer Utility



Sewer Key Components

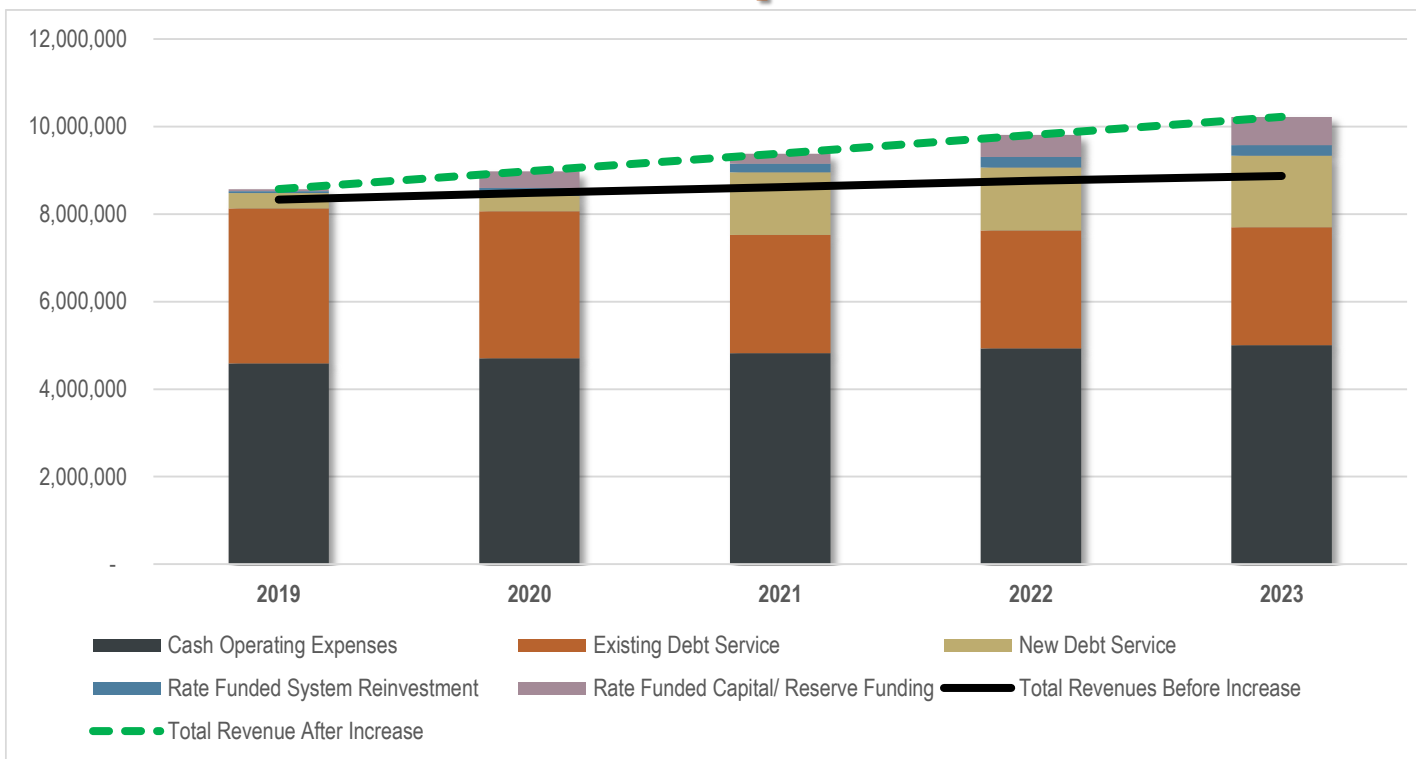
Description	Sewer 2019-2023
Existing Rate Revenue	\$8.0 M - \$8.5 M
O&M Expenses	\$4.6 M - \$5.0 M
Existing Debt Service	\$3.5 M - \$2.7 M
New Debt Service	\$352 k - \$1.6 M
System Reinvestment	\$43 k - \$244 k
Total CIP (2019-2023)	\$39,571,414



- ♦ **O&M includes the following adjustments:**
 - 2 entry level FTE additions in 2019, partial GIS FTE starting in 2019
 - Asset management expense starting in 2019 at \$50,000 per year
 - Pump station telemetry/ SCADA at \$50k per year 2019-2022
- ♦ **\$39.6 million in capital funded by cash, SDC revenue and revenue bond loan proceeds**
 - \$26.0 million in revenue bond proceeds assumed in 3 separate issuances
 - 2019: \$4.0 M
 - 2021: \$19.7 M
 - 2023: \$2.3 M



Sewer Revenue Requirement Forecast



Sewer	Existing	2019	2020	2021	2022	2023
Proposed Increase		3.00%	3.00%	3.00%	3.00%	3.00%
Sample Residential Bi-Mo. Bill	\$ 98.47	\$ 101.42	\$ 104.47	\$ 107.60	\$ 110.83	\$ 114.15
\$ Bi-Mo. Difference		\$ 2.95	\$ 3.04	\$ 3.13	\$ 3.23	\$ 3.32
\$ Mo. Difference		\$ 1.48	\$ 1.52	\$ 1.57	\$ 1.61	\$ 1.66

Note: assumes 13 ccf usage bi-monthly.



Sewer Rate Design Considerations

- ◆ No change with across the board increase
- ◆ 100% Residential fixed rate
- ◆ Review level of fixed (base) versus variable (volume) charges
 - Enhance revenue stability by increasing the fixed charge

Class	Existing Rates	
	Bi-Mo. Fixed	Volume (per ccf)
Residential	\$ 49.46	\$ 3.77
Commercial and Industrial	23.72	5.03

Note:

Residential volume rate is based on winter average usage.

Note: all options would collect the overall average 3.0%.

Stormwater Utility



Storm Key Components

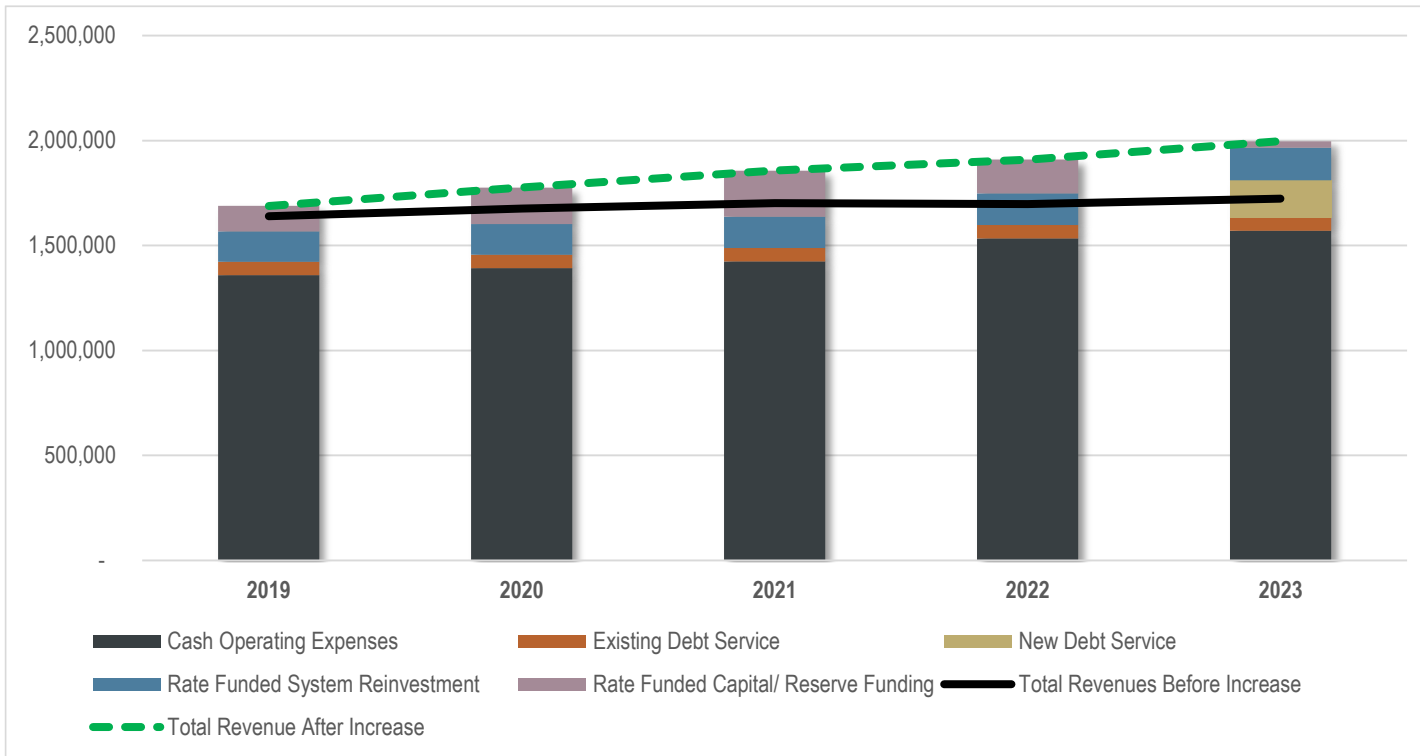
Description	Storm 2019-2023
Existing Rate Revenue	\$1.6 M - \$1.7 M
O&M Expenses	\$1.4 M - \$1.6 M
Existing Debt Service	\$64 k
New Debt Service	\$176 k
System Reinvestment	\$144 k - \$155 k
Total CIP (2019-2023)	\$3,753,001



- ◆ **O&M includes the following adjustments:**
 - 2 FTE additions in 2019, partial GIS FTE starting in 2019, 1 FTE addition in 2022
 - Asset management expense starting in 2019 at \$50,000 per year
- ◆ **\$3.8 million in capital funded by cash and revenue bond loan proceeds**
 - \$2.0 million in revenue bond proceeds in 2021



Storm Revenue Requirement Forecast



Stormwater	Existing	2019	2020	2021	2022	2023
Proposed Increase		3.00%	3.00%	3.00%	3.00%	3.00%
Sample Residential Bi-Mo. Bill	\$ 23.38	\$ 24.08	\$ 24.80	\$ 25.55	\$ 26.31	\$ 27.10
<i>\$ Bi-Mo. Difference</i>		<i>\$ 0.70</i>	<i>\$ 0.72</i>	<i>\$ 0.74</i>	<i>\$ 0.77</i>	<i>\$ 0.79</i>
<i>\$ Mo. Difference</i>		<i>\$ 0.35</i>	<i>\$ 0.36</i>	<i>\$ 0.37</i>	<i>\$ 0.38</i>	<i>\$ 0.39</i>



Storm Existing Rates

Description	Existing (Bi-Mo.)
Per ESU	\$23.38

Note:

ESU = Equivalent service unit

1 ESU = 3,218 square feet of impervious surface

All single-family accounts equal 1 ESU



Next Steps

- ◆ **Incorporate feedback on overall rate strategy and rate design**
- ◆ **Present rate design and impacts to council and public**
- ◆ **System Development Charges**
- ◆ **Rates go into effect January 1st, 2019**



Questions/Discussion