

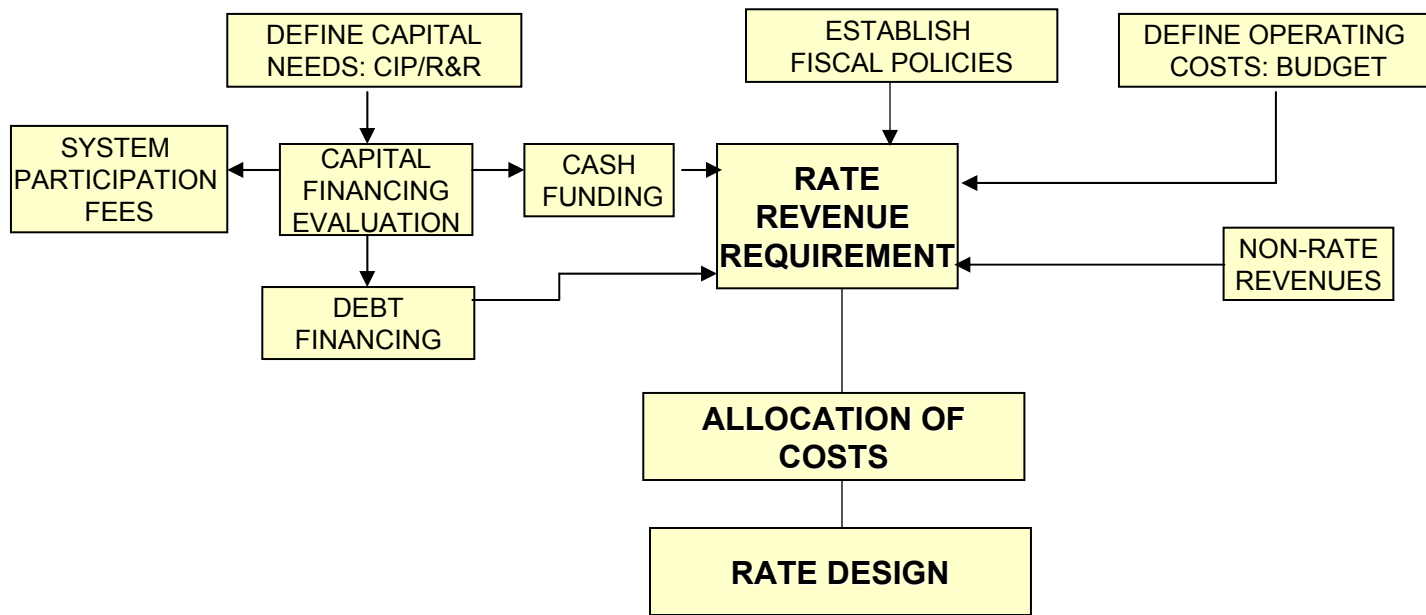
City of Bainbridge Island

Sewer Utility Rate Study

Findings & Recommendations

August 3, 2005

Rate Study Methodology



Economic Assumptions

- Winslow Area customer growth rate of 2.0% per year
- Kitsap County Sewer District #7 (SD7) WWTP customer growth based on estimated number of connections per year
- Annual inflation:
 - General Inflation: 3.0%
 - Labor costs: 2.50%
 - Benefits Costs: 15.0%
 - Construction costs: 5.0%
- Funds interest earnings rate: 3.0% near term
- Utility tax: 6% of rate revenues transferred to General Fund

Key Study Assumptions

- Study Period: 2005 through 2014
- Phase-in strategy to policy-related revenue needs
- 10-Year Capital Improvement Program
- Exclude South Island Sewer LID costs from rate analysis
 - Fully funded through assessment revenues
 - Timing issues will be dealt with internally
- 2005 Budget, plus annual escalation
- Identify costs unique to SD7 WWTP customers
 - Grinder pump maintenance
 - Grinder pump replacement funding

Capital Improvement Program

CAPITAL IMPROVEMENT PROGRAM	2005	2006	2007	2008	2009	2010
Collection System/Lift Station Projects	\$ 120,000	\$ 216,300	\$ 483,998	\$ 538,296	\$ 595,598	\$ 564,116
Infiltration & Inflow Program	-	-	82,688	86,822	91,163	95,721
Wastewater Treatment Plant Upgrade	8,166,400	-	-	-	-	-
South Island Sewer LID	2,993,000	-	-	-	-	-
Other	-	85,050	230,423	364,652	364,652	372,674
Total Capital Projects	\$ 11,279,400	\$ 301,350	\$ 797,108	\$ 989,769	\$ 1,051,413	\$ 1,032,512

[a] Includes an allowance for annual inflation

Capital Financing Plan

CAPITAL FINANCING PLAN	2005	2006	2007	2008	2009	2010
Beginning Fund Balance	\$ 1,731,000	\$ 451,930	\$ 564,138	\$ 223,965	\$ 220,141	\$ 224,211
Funding Sources						
Capital Reserves	\$ 51,930	\$ 13,558	\$ 16,924	\$ 8,959	\$ 8,806	\$ 8,968
System Participation Fee Revenues	400,000	400,000	207,041	211,182	215,406	219,714
Assessments, Grants, Contributions	2,993,000	-	-	-	-	-
PWTF Loan Proceeds	3,618,000	-	-	-	-	-
LTGO Bond Proceeds	2,937,400	-	232,970	765,804	831,272	808,300
Total Funding Sources	\$ 10,000,330	\$ 413,558	\$ 456,935	\$ 985,945	\$ 1,055,484	\$ 1,036,983
Less: Capital Projects [a]	\$ (11,279,400)	\$ (301,350)	\$ (797,108)	\$ (989,769)	\$ (1,051,413)	\$ (1,032,512)
Fund Balance	\$ 451,930	\$ 564,138	\$ 223,965	\$ 220,141	\$ 224,211	\$ 228,682
<i>Minimum Target Balance [1.0% of assets]:</i>	<i>\$ 225,563</i>	<i>\$ 228,577</i>	<i>\$ 236,548</i>	<i>\$ 246,446</i>	<i>\$ 256,960</i>	<i>\$ 267,285</i>

Revenue Requirement Summary

REVENUE REQUIREMENTS SUMMARY	2005	2006	2007	2008	2009	2010
Revenues						
Rate Revenue (w/ existing rates)	\$ 1,745,145	\$ 1,782,230	\$ 1,822,591	\$ 1,863,613	\$ 1,905,312	\$ 1,947,700
Other Revenues	10,000	10,000	10,000	10,000	10,000	10,000
Use of Operating Reserves	206,736	424,595	125,780	-	-	-
Interest Earnings	27,000	20,798	12,196	9,565	6,649	8,271
Total Revenues	\$ 1,988,881	\$ 2,237,623	\$ 1,970,567	\$ 1,883,178	\$ 1,921,961	\$ 1,965,970
Expenses						
Operating & Maintenance Expenses	\$ 1,565,945	\$ 1,634,404	\$ 1,708,016	\$ 1,791,261	\$ 1,882,065	\$ 1,981,435
Existing Debt Service	188,706	187,809	188,769	192,125	192,105	241,058
New Debt Service	234,229	424,650	440,840	501,338	567,090	630,998
Rate Funded System Reinvestment	-	-	-	-	-	-
SD7 Rate-Funded Grinder Pump Replacement	-	9,316	9,752	10,187	10,623	11,059
Additions to Operating Reserves	-	-	-	-	-	37,524
Total Expenses	\$ 1,988,881	\$ 2,256,179	\$ 2,347,376	\$ 2,494,912	\$ 2,651,883	\$ 2,902,073
Annual Surplus/(Deficiency)	\$ -	\$ (18,555)	\$ (376,809)	\$ (611,734)	\$ (729,922)	\$ (936,103)
Annual Rate Adjustment	0.00%	9.50%	9.50%	9.50%	9.50%	5.74%
Cumulative Rate Adjustment	0.00%	9.50%	19.90%	31.29%	43.77%	52.02%
Beginning Fund Balance	\$ 900,000	\$ 693,264	\$ 406,550	\$ 239,117	\$ 166,218	\$ 206,763
Ending Fund Balance	\$ 693,264	\$ 406,550	\$ 239,117	\$ 166,218	\$ 206,763	\$ 244,287
<i>Actual Days of O&M:</i>	<i>162</i>	<i>91</i>	<i>51</i>	<i>34</i>	<i>40</i>	<i>45</i>
<i>Minimum Target Balance [45 days]:</i>	<i>\$ 193,062</i>	<i>\$ 201,502</i>	<i>\$ 210,577</i>	<i>\$ 220,840</i>	<i>\$ 232,035</i>	<i>\$ 244,287</i>

Cost of Service Allocation

- ❑ Allocation of system costs to service areas
 - ❑ Finance-related admin & overhead costs allocated to all customers
 - ❑ Public Works-related costs allocated to service areas based on a review of detailed line item expenditures:
 - ❑ City treatment-related costs allocated to Winslow area customers only
 - ❑ Grinder pump maintenance and replacement costs allocated only to SD7 customers with grinder pumps
 - ❑ All other costs allocated to all customers
- ❑ Allocation results in unit costs of service that serve as the basis for establishing adequate and equitable rates for each service area

Comparison of Rates

Customer Class	Existing 2005		Proposed Service Area Cost of Service Rates			
	Fixed Charge \$ per acct [1]	Volume Charge \$ per ccf [2]	Jan-06		Jan-07	
			Fixed Charge \$ per acct [1]	Volume Charge \$ per ccf [2]	Fixed Charge \$ per acct [1]	Volume Charge \$ per ccf [2]
Winslow Customers			8.26%		10.33%	
<u>Metered Rate</u>						
Single Family	\$ 21.87	\$ 3.73	\$ 23.68	\$ 4.04	\$ 26.12	\$ 4.46
Senior	10.94	1.87	11.84	2.02	13.07	2.23
Multi-Family	19.15	3.73	20.73	4.04	22.87	4.46
Non-Residential	63.35	3.73	68.58	4.04	75.67	4.46
<u>Flat Rate</u>						
Single Family	\$ 61.36		\$ 66.43		\$ 73.29	
Senior	30.68		33.22		36.65	
Non-Residential	66.29		71.77		79.18	

SD7 WWTP Customers [3]				% increase		% increase
With Grinder Pumps	n/a		\$ 25.33	n/a	\$ 25.34	0.04%
Without Grinder Pumps	8.75		14.16	61.83%	14.17	0.07%
Composit Rate Multiplier	1.25		1.57		1.57	

[1] Multi-family fixed charge is applied per living unit

[2] Residential sewer volumes based on actual water usage in non-summer months and winter average water usage in summer months; Non-residential volumes based on actual annual water usage

[3] Includes City rate component only; currently at a 1.25 multiplier of District's rate of \$35 per connection

Comparison of Rates

Customer Class	Proposed Service Area Cost of Service Rates			
	Jan-08		Jan-09	
	Fixed Charge	Volume Charge	Fixed Charge	Volume Charge
	\$ per acct [1]	\$ per ccf [2]	\$ per acct [1]	\$ per ccf [2]
Winslow Customers	10.29%		10.26%	
<u>Metered Rate</u>				
Single Family	\$ 28.81	\$ 4.91	\$ 31.77	\$ 5.42
Senior	14.41	2.46	15.89	2.71
Multi-Family	25.23	4.91	27.82	5.42
Non-Residential	83.46	4.91	92.02	5.42
<u>Flat Rate</u>				
Single Family	\$ 80.84		\$ 89.13	
Senior	40.42		44.57	
Non-Residential	87.33		96.30	

SD7 WWTP Customers [3]		% increase		% increase
With Grinder Pumps	\$ 25.44	0.39%	\$ 25.56	0.47%
Without Grinder Pumps	14.27	0.71%	14.39	0.84%
Composit Rate Multiplier	1.57		1.57	

[1] Multi-family fixed charge is applied per living unit

[2] Residential sewer volumes based on actual water usage in non-summer months and winter average water usage in summer months; Non-residential volumes based on actual annual water usage

[3] Includes City rate component only; currently at a 1.25 multiplier of District's rate of \$35 per connection

Comparison of Sample Sewer Bills

Customer Class	No. of Units	Billed Volume (ccf)	Existing Rates	Service Area Cost Service Rates			
				2006	2007	2008	2009
Winslow Service Area Customers							
Residential	1	3	\$ 33.06	\$ 35.79	\$ 39.49	\$ 43.55	\$ 48.02
	1	6.7	46.86	50.73	55.98	61.74	68.07
	1	10	59.17	64.06	70.68	77.95	85.95
	1	15	77.82	84.25	92.96	102.52	113.04
Multi-Family	2	9	\$ 71.87	\$ 77.81	\$ 85.85	\$ 94.68	\$ 104.40
	4	15	132.55	143.50	158.33	174.63	192.55
	10	30	303.40	328.47	362.41	399.71	440.73
	30	65	816.95	884.46	975.84	1,076.28	1,186.73
Non-Residential	1	15	\$ 119.30	\$ 129.16	\$ 142.50	\$ 157.17	\$ 173.30
	1	25	156.60	169.54	187.06	206.31	227.48
	1	65	305.80	331.07	365.28	402.87	444.22
	1	100	436.35	472.41	521.22	574.86	633.86
Kitsap County Sewer District #7 Treatment Plant Customers [1]							
With Grinder Pumps	1	n/a	n/a	\$ 60.33	\$ 60.34	\$ 60.44	\$ 60.56
Without Grinder Pumps	1	n/a	\$ 43.75	\$ 49.16	\$ 49.17	\$ 49.27	\$ 49.39

[1] Includes SD7 WWTP charge of \$35.00

System Participation Fee - Overview

- ❑ A system participation fee (SPF) is a one-time charge imposed on new sewer customers (or redevelopment) as a condition of connection to the utility system (applies to Winslow service area only)
- ❑ Purpose: to promote equity between new and existing customers, and to provide a source of capital funding
- ❑ Calculation Methodology
 - ❑ Recovers a proportionate share of existing system infrastructure and future capital improvements from new customers
 - ❑ Excludes replacement projects assumed to be financed through rates
 - ❑ Excludes LID projects assumed to be financed through assessments
- ❑ Current SPF: \$3,168 per equivalent residential unit (ERU)

System Participation Fee - Results

EXISTING COST BASIS		Notes
Plant-in-Service		
Utility Capital Assets	\$ 11,276,949	Original cost of plant-in-service as of 2003
less: Assets Serving SD7 Customers Only	(784,030)	Original cost of plant-in-service as of 2003
less: Contributed Capital	(4,367,816)	CIAC, Grants, and other contributed capital
plus: Interest on Non-Contributed Plant	2,612,021	Interest on assets up to a maximum 10-year period
Existing Cash Balances	\$ 2,631,000	Beginning cash balances for year 2005
less: Debt Principal Outstanding	(1,679,085)	Principal outstanding on existing debt
less: Net Debt Principal Outstanding	-	Debt principal outstanding, net of cash reserves
Total Existing Cost Basis	\$ 8,737,124	
FUTURE COST BASIS		
Capital Improvement Plan		
Total Future Projects	\$ 16,008,400	Total projects identified in the 10-year CIP
less: Repair & Replacement Projects	(3,588,690)	Not eligible for recovery through SPF
less: Assessment-Funded Future Projects	(2,993,000)	Not eligible for recovery through SPF
Total Future Cost Basis	\$ 9,426,710	
CUSTOMER BASE		
Existing Equivalent Residential Units	3,268	Existing equivalent residential units as of 2005
Future Equivalent Residential Units (Incremental)	561	Estimated growth in equivalent residential units (2005-2014)
Total Customer Base	3,829	
RESULTING CHARGE		
Total Cost Basis	\$ 18,163,834	
Total Customer Base	3,829	
TOTAL CHARGE PER EQUIVALENT RESIDENTIAL UNIT	\$ 4,744	Maximum Allowable SPF per ERU [1]

[1] Applies to Winslow Service Area Only

Study Recommendations

- ❑ Adopt proposed service area cost of service rates to become effective January 1 of each year 2006 through 2009 (in lieu of automatic CPI-related adjustment)
- ❑ After 2009, continue policy of automatic “minimum” annual adjustments (January 1) tied to the Consumer Price Index
- ❑ Adopt proposed SPF of \$4,744 per ERU