



**Utility Advisory Committee (UAC) Recommendation  
To the Bainbridge Island City Council  
Regarding Potential Divestiture of the Water Utility**

**FACTUAL BACKGROUND**

On January 19, 2010 the Council authorized the interim City Manager to meet with Kitsap Public Utility District (KPUD) to explore its interest in acquiring the City Water Utility and/or the City Sewer Utility. In February 2010, the KPUD was asked to explore the feasibility of acquiring and operating the two utilities. On April 8, 2010, the KPUD presented its Initial Feasibility Assessment to the City and advised the City that, should the process proceed, it would conduct a more detailed "due diligence" analysis as part of a detailed final proposal. On April 21, 2010, the KPUD made a formal presentation to the City Council of its initial proposal for the Water Utility. Subsequently, the Council forwarded the KPUD proposal to the UAC for review and potential recommendations. As part of its review of the KPUD proposal, the UAC invited KPUD officials to appear at one of its meetings and, on May 13, 2010, KPUD General Manager Dave Siburg and Assistant General Manager Bob Hunter made a similar presentation to the UAC and responded to members' questions and comments.

After considerable review and discussion, the UAC posed several substantive questions to the City Administration and the City retained outside counsel to advise the City on the process for potential transfer of the Water Utility and other related issues. Outside counsel presented his response in memorandum to the interim City Manager dated May 24, 2010. Subsequently, both the UAC and City Manager Brenda Bauer recommended that the Council engage a qualified and professional consultant to assist the UAC and the Council in evaluating the numerous issues involved in a potential transfer of the Water Utility.

During this period of time, the Council authorized the KPUD to undertake and provide a more in depth "due diligence" analysis of the Water Utility and to provide the Council with a more formal and detailed proposal for potential transfer and operation of the Water Utility. On August 30, 2010, the KPUD presented its Final Report.

In February 2011, GHD Consultants (GHD) was retained by the City to serve as its Utility Business Advisor and to present the City with a comprehensive analysis of various issues presented by potential divestiture of the Water Utility.

On May 18, 2011, GHD provided its preliminary report to the UAC. On June 1, 2011, after considerable discussion by the UAC, the UAC posed a number of additional questions to GHD. GHD responded in writing on July 22, 2011 and appeared at a UAC meeting on July 26, 2011 to respond to UAC members' questions. On August 19, 2011, GHD presented its Final Report to the City. On September 7, 2011, GHD made an oral presentation of its Report to a joint meeting of the Council and the UAC. The Final Report suggested, among other things, that the City could adequately operate the Water Utility under an "optimized scenario" that would charge rates competitive with the rates proposed by the KPUD.

On August 15, 2011, the UAC requested that the City Administration and Public Works Director address several issues including the feasibility of operating the Water Utility under the “optimized scenario” suggested by GHD. On August 23, 2011, City Staff provided the UAC with a written response and appeared at a UAC meeting at which they advised the UAC that the Water Utility could be successfully and competitively operated with an immediate 34% cut in water rates. Based upon the acknowledgment of City Staff, the UAC subsequently formally recommended to the Council that water rates be reduced across the board by 34%.

On September 7, 2011, the City Council approved Ordinance 2011-14 whereby it agreed to reduce water utility rates across the board by 34% in line with GHD’s Final Report. On October 5, 2011, the City Council adopted Resolution No. 2011-20 thereby updating the associated Water Rates schedules.

### **RANGE OF CONSIDERATIONS**

The issue of potential divestiture of the Water Utility has been extensively and hotly debated by the UAC. As part of the discussion, numerous competing financial analyses have been completed by UAC members and members of the public. Financial analyses also have been completed by GHD in its Final Report and by City Staff. Attached hereto are financial analyses completed by UAC members Randal Samstag, Bob Bosserman, and Arlene Buetow.

The issue of the validity of certain projects in the City’s current Water Utility Capital Improvement Plan was discussed by the UAC (and also remarked on by the KPUD). There was general agreement among the UAC members that, at a minimum, the projects related to the high school reservoir (scheduled for significant project expenditures in 2013 and 2014) should be revisited. In 2012, the City will update its Water System Plan and related CIP through 2017. After completion of the Water System Plan, it would be possible for the UAC to make a reasoned and well-founded determination regarding the application and/or disposition of non-allocated water fund reserves to specific capital projects, additional reserves and/or potential refunds.

Issues also have been raised and discussed extensively by the UAC concerning the impact that a reduction in water rates to a level competitive with the KPUD will have on the level of service currently provided by the City to its ratepayers. City Staff have acknowledged that the level of service will be decreased from current levels under a water rate structure competitive with the KPUD, but GHD and City Staff believe that the City can continue to provide a level of service comparable to what would be provided by the KPUD.

The UAC also hotly debated the importance of issues other than the lowest possible water rates. These issues include the impact on other City utilities of divestiture of the Water Utility, water resource management, ownership of local water rights, land use and growth management, environmental concerns, local involvement in capital improvement and water system planning, access to information from City Staff, and accountability and responsiveness to the ratepayers.

## **CONCLUSIONS**

After extensive discussion, the UAC passed the following recommendation by a 5-3 vote:

- (1) The City should retain the Water Utility for a period of at least two (2) years through the end of 2013;
- (2) The City Council should direct that the UAC be given a prominent oversight role in reviewing the operational expenses of the Water Utility to ensure that operating expenses are in line with revenues generated by water rates competitive with the rates quoted by the KPUD;
- (3) The City Council should direct the UAC to undertake, either on its own or in conjunction with outside consultants, a comprehensive review of the entire Water Utility rate structure to ensure that water rates are competitive (but not necessarily identical) with the rates quoted by KPUD across the entire spectrum of classes of ratepayers;
- (4) The City Council should direct that City Staff work with the UAC to develop the City's Water System Plan; and
- (5) Water Utility rates should be reduced across the board for all classes of ratepayers by a total of 45% (including the 34% rate reduction already passed by the Council), effective January 16, 2012.

## **BASIS FOR CONCLUSIONS**

The UAC believes that management of the Water Utility has been less than efficient for many years and this has resulted in ratepayers paying inordinately high water rates and the creation of a substantial reserve fund. Since the creation of the UAC in July 2009, it has worked tirelessly to reduce water rates and improve the efficiency of the Water Utility. A majority of the UAC believes that the Council, City Administration, and City Staff have succeeded over the last two (2) years in dramatically reducing Water Utility operating expenses.

Current City Staff has appeared before the UAC and stated orally and in writing its belief that it can further reduce operating expenses by approximately \$200,000 in 2012 and financially operate the Water Utility at rates and service levels competitive with the KPUD (including a 2012 capital projects budget recommendation for \$166,948 largely for annual preventive maintenance).

The UAC has reviewed financial analyses prepared by GHD and the City Staff and also has reviewed financial analyses prepared by qualified and competent UAC members and is satisfied that the Water Utility can be operated by the City at rates competitive with (and in some cases lower than) the KPUD. A majority of the UAC believes City Staff has earned the right to prove to the Council, the ratepayers, and the rest of the community that it can do so.

However, the UAC also believes that meaningful oversight over the City's utilities' operational expenses is essential to ensure that the goals of this recommendation are met. In addition, the UAC believes that a comprehensive analysis and potential restructuring of water rates is necessary and appropriate to be undertaken in 2012 to accomplish the goals of this recommendation.

If the City demonstrates that it cannot operate the Water Utility in accordance with this recommendation, the UAC believes that the divestiture issue should be revisited.

**Majority Viewpoint submitted by Dan Mallove, Andy Maron, Randal Samstag, Bob Bosserman, and Sarah Lee.**

### **MINORITY VIEWPOINT**

It is the opinion of the minority and, the minority believes, the opinion of the majority of the 2,300 Winslow Water System Ratepayers that the Water Utility should be transferred to the KPUD. The minority believes this transfer is in the best interest of the ratepayers and the long-term management of the Island's water resources.

Since the UAC was formed and the City Council requested a Water Utility transfer proposal from the KPUD, the UAC repeatedly asked the City Administration and Public Works Director to provide a plan for operating the Water Utility at rates comparable to the KPUD rates. A plan was never offered although the staff has responded that they cannot operate the Utility at comparable rates.

#### **Comparable Water Rates**

The GHD Utility Business Advisor Report of August 2011 offered an "Optimized Solution" that required a rate reduction of 45% to become comparable to the KPUD's rates for residential customers using 1,000 cubic feet of water a month (250 gallons per day). However, if you are a commercial or residential customer that uses more than that amount, the City's consumption charges become punitive and are much greater than the KPUD charges for the same amount of water. Several UAC members spent considerable time trying to analyze the numbers in the report, but no matter how they tried to "spin" the results, the conclusion is that the City cannot compete.

Now, two years after the KPUD proposal, the City has offered a "band aid" approach by passing a 34% reduction in water rates. A current proposal of increasing the coverage of that "band aid" to a 45% reduction will be before the Council by the time this response is available. The proposal is that the UAC will take an additional two years to observe the Utility and determine if it can operate with the lower level of revenue. Then the question of the transfer will be revisited.

While this seems to be a reasonable approach, we believe that if the City is truly serious about competing with the KPUD than the KPUD rates should be adopted immediately, for all classes and all levels of consumption, and then the UAC could observe the Utility and see if the same level of service can be maintained without reducing the accumulated reserves. This would be a true "apples to apples" comparison.

It is a fact that the KPUD can serve its' 14,600 connections for a much lower costs per connection than the City of Bainbridge Island can serve its 2,300 connection. Because of this economy of scale, the KPUD charges each customer the same rate while still building a 1.5% capital account to fund future

projects. The City's ratepayers have been charged excessive rates to the point that by the end of 2011 4.8 million dollars will have accumulated in the Water Utility account. Financially, it is in the best interest of the ratepayers for the Water Utility to be transferred to the KPUD.

### **Water Resource Management**

The proponents of retaining the Water Utility argue that the City will lose control of the City's ability to protect and manage the Island's water resources. As you know, the City only controls the Winslow and Rockaway Beach water systems and has no control over the other private water systems or private exempt wells that serve the majority of the Island's 23,380 (2010 Census) population. These systems are operated under the guidance of the Washington State Department of Health (Health). The City does not have the authority or ability to control the level of service provided by these systems.

The Winslow Water System Comprehensive Plan is due for an update in 2012. Understand that this is not an Island wide water plan; it only pertains to the City's existing water utility. Health requires that a water purveyor protect the water wells that provide potable water by creating a Wellhead Protection Plan. Part of that plan requires delineation of each wells capture zone for 6-month, 1, 5 and 10 year pumping periods. Those areas are shown on a map and the purveyor must plan to protect those areas from potential sources of contamination. Obviously, the deep wells in the City's Fletcher Bay aquifer are less susceptible to contamination than the shallow aquifer High School well. These wellhead areas are usually protected through zoning changes administered through the local zoning authority, usually the City or County. The water purveyor, City or KPUD, would work cooperatively with the zoning authority, City, to protect those areas designated as wellhead protection areas according to the guidelines provided by Health. The City does not have to retain the water utility in order to protect the Island's aquifers by zoning. In fact, the City should be actively working with all Island water purveyors to make sure that current zoning protects their wellheads and associated drinking water resources.

The KPUD has been actively monitoring water levels in Kitsap County aquifers, including Bainbridge Island, since the 1970s. During that decade, they drilled many deep exploration wells looking for deeper sources of drinking water. The Fletcher Bay test well was a very successful well and the KPUD decided to develop a production well at the same location, which resulted in the Fletcher Bay water system subsequently purchased by the Winslow Water System.

The KPUD has continued to be very active with groundwater monitoring throughout the County and is the lead agency for the full county groundwater model being developed by the USGS, which will include the Bainbridge Island model that was completed earlier this year. This is a regional issue, not an Island specific issue. The KPUD has a hydro geologist on staff that is responsible for their monitoring program, groundwater protection and management plans. The KPUD is designated lead agency for development of the Kitsap County's Coordinated Water System Plan, Ground Water Monitoring Plan and consequently the establishment of a comprehensive, countywide water resource-monitoring program. The KPUD has the authority, personnel and experience necessary to provide groundwater management throughout Kitsap including Bainbridge Island. The City's activities to this end are redundant and pose undue burden on the ratepayers for this supposed local control.

## **Impacts To The City**

Obviously if the Water Utility is transferred to the KPUD, the revenue the City has counted on for many years will stop. Some argue that this is another reason to retain the Utility. The UAC has expressed concern over the allocation plan used by the City that has provided a portion of 70 to 80 employee salaries over the years and other allocations such as utility taxes that target City utility ratepayers to subsidize the General Fund for the provision of Island wide services. While we understand that these allocation plans are not illegal under current State Law, we question if they are moral or ethical. The allocation plan does not provide a direct, justifiable benefit to the ratepayers, in all cases. The allocation plan has certainly contributed to the necessity for higher rates than would normally be expected for a Water Utility with only 2,300 ratepayers.

The loss of utility tax revenue and rate revenue because of the reduction of rates by 34% or 45% is not a concern of the Water Utility ratepayers. It is a City management challenge as is the change in personnel requirements. The KPUD has said that a couple of the Water Utility workers will likely be hired by them in event of a transfer. The rest of the positions would be eliminated as the service would no longer be required.

While transition costs to transfer the Utility to the KPUD are expected. We believe those costs identified in the UBA report are excessive and clearly unsubstantiated.

The KPUD has expressed a willingness to assist the City with billing for sewer services since they are tied to water consumption. This would be a win-win for the City providing even greater cost savings.

## **Capital Improvement Plan**

The Water Utility will have approximately 4.8 million dollars available to pay for Water Utility capital improvements including an appropriate level of reserve. The KPUD rates accrue 1.5% each billing period that goes into a capital improvement account. If the KPUD assumes control of the Water Utility, the 4.8 million goes with the Utility, as funds dedicated to the full benefit and use of the ratepayers. Any excess reserves will remain available for a refund to the ratepayers. With those monies and the existing KPUD rate structure the KPUD's capital reserves will be fully funded within 5 years thereby eliminating the need for a capital improvement surcharge.

The City's current capital improvement plan for the Water Utility has many projects that were originally developed in July 2005 in the "Winslow Water System Water Resource Management Plan." They were part of a 20-year water resource plan and were not expected to be funded and completed within a specified time. Now that development and population growth has stagnated, the need for many of the listed projects can be deferred indefinitely.

## **Summary**

- The minority believes the Water Utility should be transferred to the KPUD.

- The KPUD has several decades of history of groundwater monitoring and water resource management with a staff hydro geologist and is currently the lead agency for a countywide groundwater model being developed by the USGS.
- The KPUD is willing to work with the City to protect the ground water resources throughout the Island through the City's zoning and land use authority.
- The impacts to City revenues, operating costs and personnel challenges are City management problems and not a ratepayer concern.

It is time for the City to do what is right for the ratepayers and the Island's water resources and transfer the water utility to the KPUD.

**Minority Viewpoint submitted by Arlene Buetow, Doug Dow, and David Ward.**

Adopted by the Utility Advisory Committee on October 25, 2011.

  
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Dan Mallove Chair, Utility Advisory Committee

Dated: October 27, 2011

**COBI Water Rate Check**  
**Randal Samstag, P.E.**  
**Utility Advisory Committee (UAC) Member**

The Utility Business Advisor (UBA) Final Report from August 2011 identified estimated average monthly water rates for a single family residence using 1000 cubic feet (cf) of water per month as follows:

- COBI Existing - \$64.89
- COBI Current w/ Rate Adjustment – \$39.46
- COBI Optimized - \$32.36
- KPUD Own - \$35.43
- WWSC Own - \$47.54

Because of the contentious nature of this issue, I have tried to verify these rates using the following methodology:

- Water rates for 2011 based on Figure 2-5 of the UBA Final Report.
- Water rates for COBI 2012 and 2013 based on a 34% or a 45% reduction in COBI water sales revenue from 2011 and other costs from 2011.
- Water rates for KPUD for 2012 and 2013 based on the attached rate structure received from Bob Hunter of KPUD
- Comparison of COBI budgets with rate cuts
- Comparison of rates with water consumption
- Check on revenue calculation spreadsheet developed by Kevin Delorey (Water Rate Balderdash).

### ***2011 Rate Check***

For the 2011 rate check I relied on Figure 2-5 in the UBA Report. These calculations are shown in Table 1. The resulting rates agree with the UBA report calculations summarized on Page 21 of the UBA Report. Note that the usage charges for the KPUD given in Figure 2-5 are for two months of use. To compute a monthly charge I therefore reduced the break-point usage quantities by two. Based on a question from Doug Dow of the UAC about the appropriateness of the UBA Report assumption that a capital surcharge be included in the KPUD rate, I have shown KPUD rates with and without the surcharge. These rate comparisons are based on an average single family household usage rate of 1000 cf.

### ***2012 Rate Comparisons***

My comparisons for the 2012 rates are shown in Tables 2 and 3. These rates reflect, respectively, a 34% and 45% cut in the COBI 2011 rates. Rates for KPUD are based on the rate schedule received from Bob Hunter of the KPUD. KPUD rates for 2012 are

scheduled to increase 5% over the rates from 2011. This comparison shows that the 34% reduced COBI rate (Table 2) is less than the KPUD rate with the surcharge, but 16 percent more than the KPUD rate without the surcharge. For the 45% COBI rate reduction (Table 3) the COBI rate is 4% less than the KPUD rate with no surcharge and 23% less than the KPUD rate with the surcharge. The comparisons are shown graphically in Figure 1.

### ***2013 Rate Comparisons***

Since KPUD has provided rates for 2013, which are scheduled to increase by 5% over 2012 rates, I have done the same comparison for 2013 rates. Table 4 presents the comparison between the 2013 COBI rate, assuming a 45% reduction over 2011, compared to the KPUD and WWSC rates. The COBI rate is 9 percent less than the KPUD rate with no surcharge and 29 percent less than the KPUD rate with the surcharge.

**Table 1 Rate Comparison Based on UBA 2011 Rates**

<b>Description</b>	<b>COBI 2011</b>	<b>KPUD (2011 w/ Surcharge)</b>	<b>KPUD (2011 w/o Surcharge)</b>	<b>WWSC (UBA Report)</b>	<b>Source</b>
Consumption (cf/Month)	1000	1000	1000	1000	
Residential Base Rate (\$/Month/ERU)	\$ 27.98	\$ 21.52	\$ 21.52	\$ 17.43	GHD Figure 2-5
Capital Surcharge (\$/Month/ERU)	\$ -	\$ 6.27	\$ -	\$ -	GHD Figure 2-5
Variable Rate (\$/100 cf)	Units	Units	Units	Units	
	0 \$ 2.82	0 \$ 0.92	0 \$ 0.92	0 \$ 2.38	GHD Figure 2-5
	500 \$ 2.82	700 \$ 0.92	700 \$ 0.92	653 \$ 2.38	GHD Figure 2-5
	1200 \$ 4.58	1500 \$ 1.32	1500 \$ 1.32	2056 \$ 2.84	GHD Figure 2-5
	3000 \$ 6.46	2500 \$ 1.66	2500 \$ 1.66	2057 \$ 3.22	GHD Figure 2-5
	>3000 \$ 8.80	>2500 \$ 4.12	>2500 \$ 4.12		
Sum	\$ 64.98	\$ 38.19	\$ 31.92	\$ 42.83	
State Tax (5%)	\$ -	\$ 1.91	\$ 1.60	\$ 2.14	
Local Tax (6%)	\$ -	\$ 2.29	\$ 1.92	\$ 2.57	
Total Residential Rate (\$/month)	\$ 64.98	\$ 42.39	\$ 35.43	\$ 47.54	
Relative Cost	1.83	1.20	1.00	1.34	

**Table 2 Rate Comparison Based on 2012 Rates (34% COBI Reduction)**

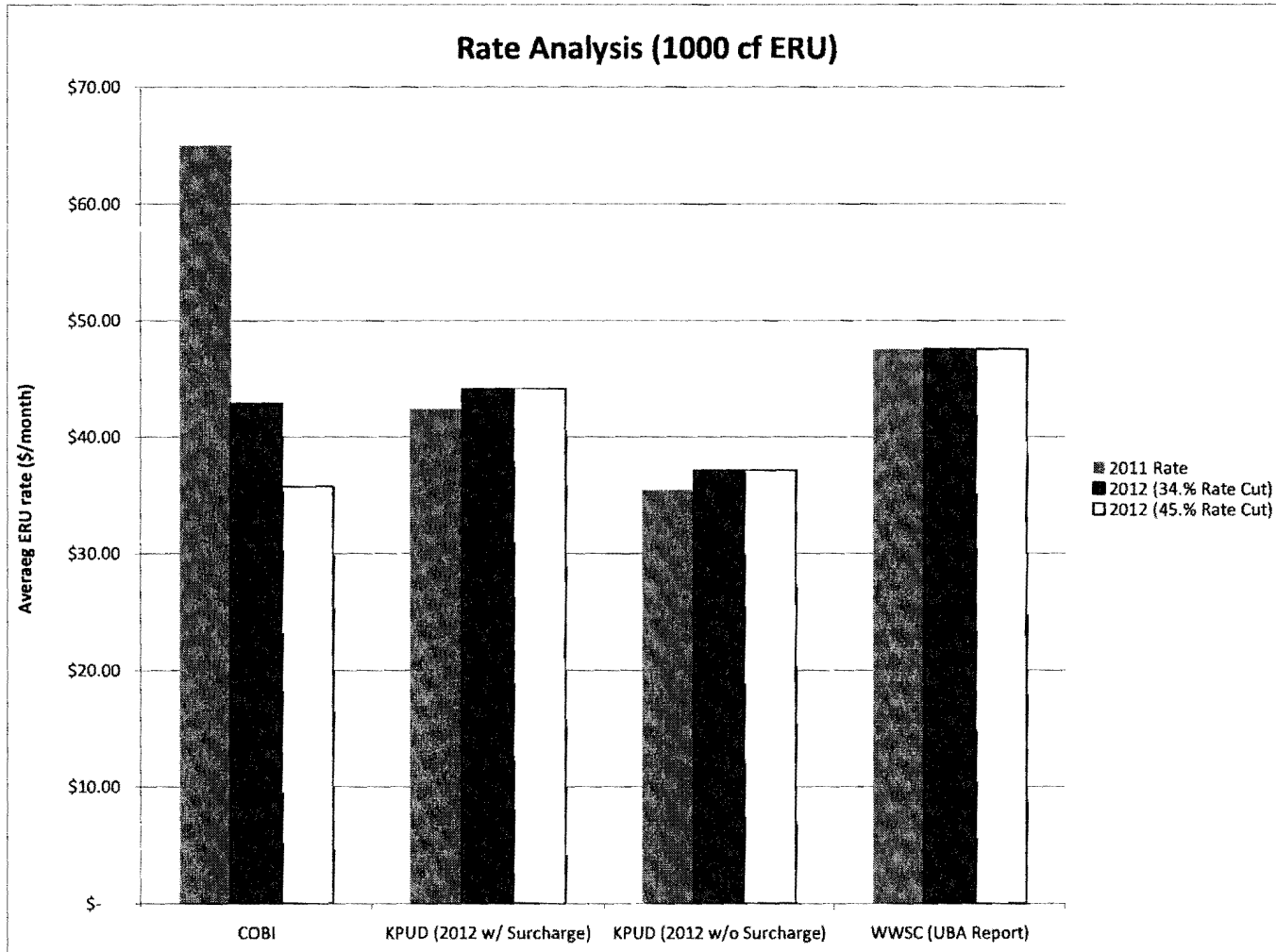
Description	COBI (2012 34% Reduction)		KPUD (2012 w/ Surcharge)		KPUD (2012 w/o Surcharge)		WWSC (UBA Report)		Source
	1000		1000		1000		1000		
Consumption (cf/Month)									
Residential Base Rate (\$/Month/ERU)	\$	18.47	\$	22.75	\$	22.75	\$	17.43	GHD Figure 2-5 & KPUD Rates
Capital Surcharge (\$/Month/ERU)	\$	-	\$	6.27	\$	-	\$	-	GHD Figure 2-5
Variable Rate (\$/100 cf)	Units		Units		Units		Units		
	0	\$ 1.86	0	\$ 0.95	0	\$ 0.95	0	\$ 2.38	GHD Figure 2-5 & KPUD Rates
	500	\$ 1.86	700	\$ 0.95	700	\$ 0.95	653	\$ 2.38	GHD Figure 2-5 & KPUD Rates
	1200	\$ 3.02	1500	\$ 1.35	1500	\$ 1.35	2056	\$ 2.84	GHD Figure 2-5 & KPUD Rates
	3000	\$ 4.26	2500	\$ 1.70	2500	\$ 1.70	2057	\$ 3.22	GHD Figure 2-5 & KPUD Rates
	>3000	\$ 5.81	>2500	\$ 4.24	>2500	\$ 4.24			
Sum		\$ 42.89		\$ 39.72		\$ 33.45		\$ 42.83	
State Tax (5%)		\$ -		\$ 1.99		\$ 1.67		\$ 2.14	
Local Tax (6%)		\$ -		\$ 2.38		\$ 2.01		\$ 2.57	
Total Residential Rate (\$/month)		\$ 42.89		\$ 44.09		\$ 37.13		\$ 47.54	
Relative Cost		1.16		1.19		1.00		1.28	

**Table 3 Rate Comparison Based on 2012 Rates (45% COBI Reduction)**

<b>Description</b>	<b>COBI (2012 45% Reduction)</b>		<b>KPUD (2012 w/ Surcharge)</b>		<b>KPUD (2012 w/o Surcharge)</b>		<b>WWSC (UBA Report)</b>		<b>Source</b>
Consumption (cf/Month)	1000		1000		1000		1000		
Residential Base Rate (\$/Month/ERU)	\$	15.39	\$	22.75	\$	22.75	\$	17.43	GHD Figure 2-5 & KPUD Rates
Capital Surcharge (\$/Month/ERU)	\$	-	\$	6.27	\$	-	\$	-	GHD Figure 2-5
Variable Rate (\$/100 cf)	Units		Units		Units		Units		
	0	\$ 1.55	0	\$ 0.95	0	\$ 0.95	0	\$ 2.38	GHD Figure 2-5 & KPUD Rates
	500	\$ 1.55	700	\$ 0.95	700	\$ 0.95	653	\$ 2.38	GHD Figure 2-5 & KPUD Rates
	1200	\$ 2.52	1500	\$ 1.35	1500	\$ 1.35	2056	\$ 2.84	GHD Figure 2-5 & KPUD Rates
	3000	\$ 3.55	2500	\$ 1.70	2500	\$ 1.70	2057	\$ 3.22	GHD Figure 2-5 & KPUD Rates
	>3000	\$ 4.84	>2500	\$ 4.24	>2500	\$ 4.24		\$	
Sum	\$	35.74	\$	39.72	\$	33.45	\$	42.83	
State Tax (5%)	\$	-	\$	1.99	\$	1.67	\$	2.14	
Local Tax (6%)	\$	-	\$	2.38	\$	2.01	\$	2.57	
Total Residential Rate (\$/month)	\$	35.74	\$	44.09	\$	37.13	\$	47.54	
Relative Cost		1.00		1.23		1.04		1.33	

**Table 4 Rate Comparison Based on 2013 Rates (45% COBI Reduction)**

Description	COBI (2013 45% Reduction)		KPUD (2013 w/ Surcharge)		KPUD (2013 w/o Surcharge)		WWSC (UBA Report)		Source
	1000		1000		1000		1000		
Consumption (cf/Month)									
Residential Base Rate (\$/Month/ERU)	\$	15.39	\$	24.05	\$	24.05	\$	17.43	GHD Figure 2-5 & KPUD Rates
Capital Surcharge (\$/Month/ERU)	\$	-	\$	6.27	\$	-	\$	-	GHD Figure 2-5
Variable Rate (\$/100 cf)	Units		Units		Units		Units		
	0	\$ 1.55	0	\$ 0.98	0	\$ 0.98	0	\$ 2.38	GHD Figure 2-5 & KPUD Rates
	500	\$ 1.55	700	\$ 0.98	700	\$ 0.98	653	\$ 2.38	GHD Figure 2-5 & KPUD Rates
	1200	\$ 2.52	1500	\$ 1.40	1500	\$ 1.40	2056	\$ 2.84	GHD Figure 2-5 & KPUD Rates
	3000	\$ 3.55	2500	\$ 1.76	2500	\$ 1.76	2057	\$ 3.22	GHD Figure 2-5 & KPUD Rates
	>3000	\$ 4.84	>2500	\$ 4.37	>2500	\$ 4.37		\$	
Sum		\$ 35.74		\$ 41.38		\$ 35.11		\$ 42.83	
State Tax (5%)		\$ -		\$ 2.07		\$ 1.76		\$ 2.14	
Local Tax (6%)		\$ -		\$ 2.48		\$ 2.11		\$ 2.57	
Total Residential Rate (\$/month)		\$ 35.74		\$ 45.93		\$ 38.97		\$ 47.54	
Relative Cost		1.00		1.29		1.09		1.33	



**Figure 1 Graphical Presentation of 2012 Rate Comparisons**

## ***2012 Budget Analysis***

The question has been asked whether the 34% and 45% rate cuts would permit the COBI water budget to remain in balance without withdrawing from capital reserves. Table 5 presents an analysis of this condition. It shows that for 2012 with a 34 percent cut from the 2011 rate and 6.5 full-time equivalent employees (FTE) charged to the water utility, the water budget would be in surplus by nearly \$100,000. For the 45 percent rate cut the budget would be just in balance with an FTE count of approximately 5 persons.

## ***Impact of Water Consumption***

The analysis in the UBA report and above has been based on an average single family residence water consumption of 1000 cf per household per month. Since the COBI and KPUD rate structures are different, I did an analysis of the impact of household consumption on the rate. This is shown in Figure 2. The comparison was undertaken under the same assumptions as Table 2 above, namely 34% reduction in the 2011 COBI rate and 2012 scheduled rates for the KPUD. The figure shows that although both rate structures are progressive, in that both penalize increased water use, the COBI rate structure is more punitive to large users than the KPUD rate. The COBI rate for a household that used 400 cf per month would be \$25.91 per month compared to \$36.43 for the KPUD with the capital surcharge and \$29.47 for the KPUD without the capital surcharge. The COBI rate for a household that used 3000 cf per month would be over \$120 per month compared to the KPUD rate of approximately \$85 per month.

Table 5 COBI Budget Analysis for 2012

Item	2009	2010	2011	2012 (34.0% Rate Cut)	2012 (45.0% Rate Cut)	Remarks
1000 cf ERU Charge	\$ 42.89	\$ 42.89	\$ 42.89	\$ 28.31	\$ 23.59	
Average # of 1000 cf ERU	4,537	4,364	4,555	4,555	4,555	Based on 2011
<b>Revenues</b>						
Water Sales	\$ 2,334,687	\$ 2,245,857	\$ 2,344,162	\$ 1,547,147	\$ 1,289,289	
Other Misc	\$ 574	\$ 107,948				
Other Utility Fees	\$ 7,280	\$ 51,591	\$ 7,360	7,360	7,360	Based on 2011
Engineering Fees	\$ 513	\$ 500	\$ -	0	0	Based on 2011
Investment Interest	\$ 52,733	\$ 11,018	\$ 92,000	92,000	92,000	Based on 2011
Capital Contrib	\$ 33,671	\$ 22,144	\$ 35,000	35,000	35,000	Based on 2011
Misc	\$ 39,724	\$ 32,651	\$ -	0	0	Based on 2011
Total Revenue	\$ 2,469,182	\$ 2,471,709	\$ 2,478,522	\$ 1,681,507	\$ 1,423,649	
<b>Expenses</b>						
<b>Operating Expenses</b>						
FTE	<b>10.20</b>	<b>7.50</b>	<b>6.50</b>	<b>6.50</b>	<b>5.07</b>	
Salaries and Benefits	\$ 890,618	\$ 689,136	\$ 583,639	\$ 599,091	\$ 467,291	
Salaries Overtime	\$ 12,516	\$ 9,129	\$ 15,452	15,452	15,452	Based on 2011
FTE Cost (\$/month/FTE/Connection)	\$ 1.63	\$ 1.78	\$ 1.69	1.69	1.69	Based on 2011
Staff Separation	\$ 15,340	\$ 20,523	\$ -	0	0	Based on 2011
Supplies	\$ 47,280	\$ 46,139	\$ 61,835	61,835	61,835	Based on 2011
Professional	\$ 214,260	\$ 138,999	\$ 48,300	48,300	48,300	Based on 2011
Other Services	\$ 257,259	\$ 262,819	\$ 248,922	248,922	248,922	Based on 2011
Intergovernmental	\$ 5,072	\$ 4,257	\$ 5,000	5,000	5,000	Based on 2011
5% State Excise Tax	\$ 110,185	\$ 98,282	\$ 128,873	\$ 77,357.35	\$ 64,464.46	% of water sales
6% City Utility Tax	\$ 176,214	\$ 148,303	\$ 146,170	\$ 92,828.82	\$ 77,357.35	% of water sales

**Table 5 COBI Budget Analysis for 2012**

Total Operating Expenses	\$ 1,728,746	\$ 1,417,589	\$ 1,238,193	\$ 1,148,788	\$ 988,623
Debt Expense					
GO Bond	\$ 133,041	-			
Total Debt Expense	\$ 133,041	\$ -	\$ -	\$ -	\$ -
Capital Expense					
Capital Salaries, Supplies, Services	\$ 295,711	\$ 87,387	\$ 18,793	\$ -	\$ -
Capital Projects	\$ 8,443		\$ 880,118	\$ 435,000	\$ 435,000
Capital Equipment			\$ 241,874	\$ -	\$ -
Total Capital	\$ 304,154	\$ 87,387	\$ 1,140,785	\$ 435,000	\$ 435,000
Total Expense	\$ 2,165,941	\$ 1,504,976	\$ 2,378,978	\$ 1,583,788	\$ 1,423,623
Net of Revenue Minus Expense	\$ 303,241	\$ 966,733	\$ 99,544	\$ 97,719	\$ 26

Based on UBA  
Report

### Comparison of Rates at Different Consumption Levels

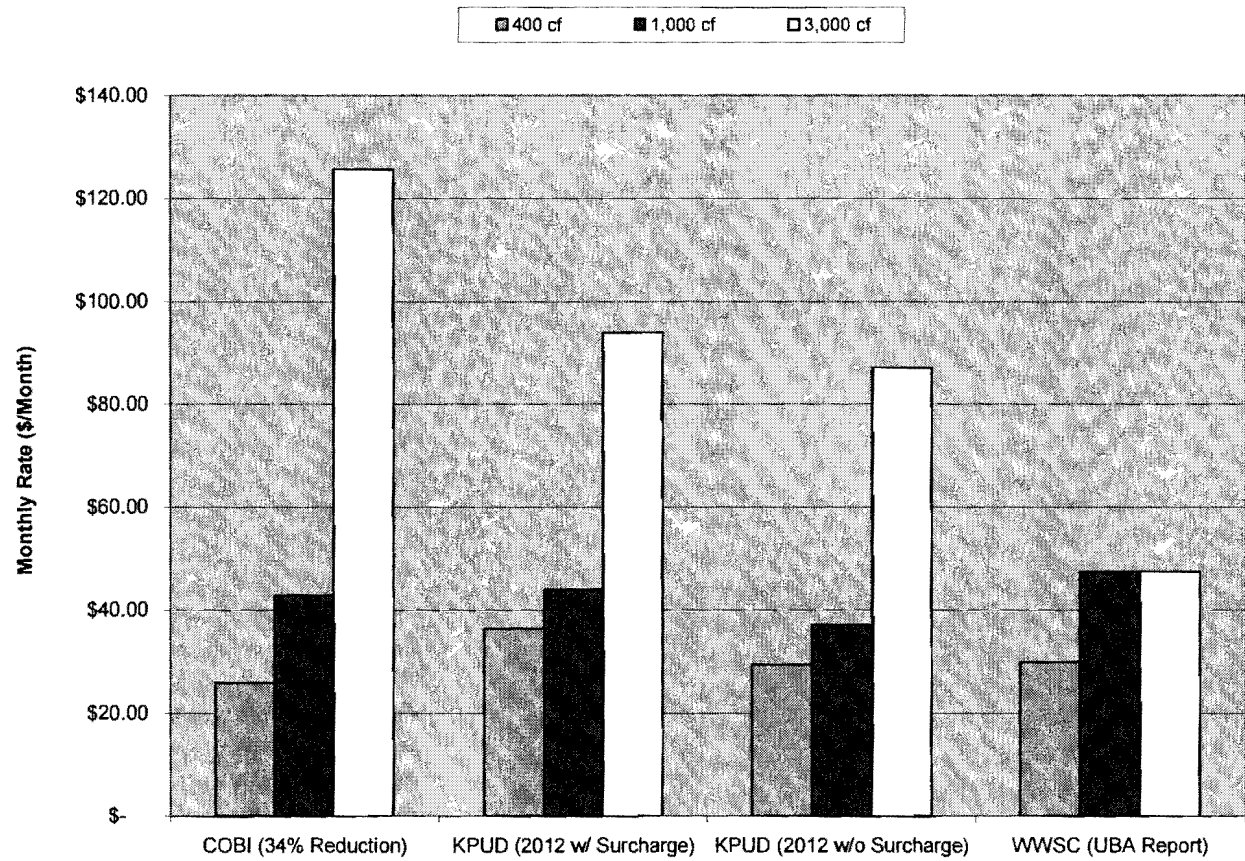


Figure 2 2012 Rate Comparisons at Different Consumption Levels

## ***Check on Kevin Delorey Rate Calculations***

Kevin Delorey, manager of the Harbor Square development, has prepared a rate comparison. I did a check on this comparison, using a spreadsheet provided by Arlene Buetow of the UAC. Table 6 presents Kevin's rate comparison. The assumptions in Kevin's comparison are itemized as notes. Kevin's calculations indicate that the COBI rates would be 53 percent greater than the KPUD rates without the 6 percent City tax and 49 percent greater including the 6 percent tax. Kevin shows the rate with and without the 6 percent local tax. In my view, the appropriate comparison is either with the local tax included for both utilities or not. In subsequent tables I have compared the rates with the local tax included for both.

Table 7 presents my re-working of Kevin's table for the 2012 rates. In his table Kevin incorrectly assumed that the KPUD usage rate was for one month, rather than two. His calculations for the various occupancies in excess of the minimum tier consumption level for the KPUD of 700 cf per month were therefore underestimated, since they did not include the influence of the rate in the second tier. I have also corrected the rates based on the 2012 KPUD scheduled rates. Table 7 shows a comparison with the COBI rate in 2012 assuming a 45 percent reduction in the COBI rate. The result is that the average COBI rate with the City utility tax is 5 percent greater than the KPUD rate. Note that the single family collection of \$63,100 per month for COBI is less than the KPUD amount of \$69,400 per month. Based on Kevin's user calculations two thirds of rate payers would have a lower rate under the reduced COBI rate. This is consistent with the analysis in Table 3 above.

Finally Table 8 presents a comparison of COBI collections based on a 45 percent reduction with the KPUD at the 2013 scheduled rates. The table indicates that the average collections would be identical. Single family residences (2/3 of the total) would have a 6 percent lower rate with the COBI rate.

## ***Conclusions***

Comparisons of the UBA report results have been checked and compared to calculations by Kevin Delorey. Additional work needs to be done to evaluate the proposed rate structure for COBI in future years. But the analysis that I have done confirms in general the results from the UBA report that a 45 percent COBI rate reduction could be implemented without withdrawing funds from the capital reserve and would be in the worst case, identical to the future 2013 scheduled KPUD rate. Two thirds of rate payers would have up to a 6 percent lower rate under this COBI scenario. Furthermore, my analysis indicates that, for a 34 percent rate reduction, water users that conserved water could save a considerable amount with the COBI rate structure compared to the KPUD rate structure. Large water users, on the contrary, would be penalized more under the COBI rate than under the KPUD rate.







2011

The District uses a Basic Charge to cover a portion of fixed costs that must be met whether any water is consumed or not and a Commodity Charge that reflects increasing block rates that not only covers the remaining portion of fixed costs, it is also concurrent with increasing consumption to cover variable costs associated with commodity production. Table 2-1 lists the Basic Service charge by meter size from 2007 through 2014.

Table 2-1  
Basic Service Charge by Meter Size

	Ratio	2007 Basic Charge	2008 Basic Charge	2009 Basic Charge	2010 Basic Charge	2011 Basic Charge	2012 Basic Charge	2013 Basic Charge	2014 Basic Charge
5/8"	1	\$17.21	\$17.73	\$18.26	\$19.36	\$20.52	\$21.75	\$23.05	\$23.75
1"	1.6	\$27.54	\$28.37	\$29.22	\$30.98	\$32.83	\$34.80	\$36.88	\$38.00
1 1/2"	2.6	\$44.75	\$46.10	\$47.48	\$50.34	\$53.35	\$56.55	\$59.93	\$61.75
2"	3.6	\$61.96	\$63.83	\$65.74	\$69.70	\$73.87	\$78.30	\$82.98	\$85.50
3"	7	\$120.47	\$124.11	\$127.82	\$135.52	\$143.64	\$152.25	\$161.35	\$166.25
4"	10	\$172.10	\$177.30	\$182.60	\$193.60	\$205.20	\$217.50	\$230.50	\$237.50
6"	15	\$258.15	\$265.95	\$273.90	\$290.40	\$307.80	\$326.25	\$345.75	\$356.25

The price per 100 cubic feet (CCF) within each block is listed in Table 2-3.

Table 2-2  
Commodity Charges

Block	2007 Price/CCF	2008 Price/CCF	2009 Price/CCF	2010 Price/CCF	2011 Price/CCF	2012 Price/CCF	2013 Price/CCF	2014 Price/CCF
1st	\$0.85	\$0.87	\$0.87	\$0.90	\$0.92	\$0.95	\$0.98	\$0.98
2nd	\$1.20	\$1.24	\$1.24	\$1.28	\$1.32	\$1.35	\$1.40	\$1.40
3rd	\$1.51	\$1.56	\$1.56	\$1.61	\$1.66	\$1.70	\$1.76	\$1.76
4th	\$3.25	\$3.50	\$3.75	\$4.00	\$4.12	\$4.24	\$4.37	\$4.37

Commodity charges are charged by block and per one hundred cubic feet (rounded downward to the nearest 100 cubic feet). One hundred cubic feet equates to 748 gallons. Four blocks are used and tied to billing periods (currently bi-monthly). The Volume of water in each block is contingent on meter size. Table 2-3 lists the volume of water associated with each block by meter size.

Table 2-3  
2011 Bi-Monthly Block Volumes by Meter Size

	Ratio	From	To	From	To	From	To	From
5/8"	1	0	1,400	1,401	2,400	2,401	4,000	4,001
1"	1.6	0	2,200	2,201	3,800	3,801	6,400	6,401
1 1/2"	2.6	0	3,600	3,601	6,200	6,201	10,400	10,401
2"	3.6	0	5,000	5,001	8,600	8,601	14,400	14,401
3"	7	0	10,000	10,001	16,800	16,801	28,000	28,001
4"	10	0	14,000	14,001	24,000	24,001	40,000	40,001
6"	15	0	21,000	21,001	36,000	36,001	60,000	60,001

# BOB BOSSERMAN ANALYSIS

**2012 Proposed Water Budget (revised to reflect 45% discount in rates and \$200K reduction in personnel costs)**

**2011 Projected water charges                    \$2,370,301    As of July 20111**

	<b>2012 Proposed</b>		<b>2012</b>
Water Charges	34.61%		(at 45%)
	of projected 2011		of projected 2011

**Revenues**

Water Charges	<b>\$1,550,000</b>		<b>\$1,303,666</b>
Connections	\$32,507		\$32,507
Miscellaneous	\$35,700		\$35,700
Interest On Investments	\$93,840		\$93,840
Total Revenues	<b>\$1,712,047</b>		<b>\$1,465,713</b>

**Operating Expenses**

Salaries	\$502,666	Minus \$125K	\$377,666
Benefits	\$195,776	Minus \$75K	\$120,776
Supplies	\$43,318		\$43,318
Professional Services	\$182,121		\$182,121
Other Services & Charges	\$265,725		\$265,725
Intergovernmental Services	\$229,550		\$229,550
Total Operating Expenses	<b>\$1,419,156</b>		<b>\$1,219,156</b>

**Non-Operating Expenses**

Capital Equipment	\$5,000		\$5,000
Capital Projects	\$166,948		<b>\$166,948</b>

Total Expenses	<b>\$1,591,104</b>		<b>\$1,391,104</b>
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Net contribution/(withdrawal)	<b>\$120,943</b>		<b>\$74,609</b>
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**Water Utility Only**

	<b>2012</b>		
Water Mains Upgrade - Annual	\$136,416	Maintenance	
Water & Sewer Telemetry Upgrade Program	\$30,532	Maintenance	
	<b>\$166,948</b>		

Taylor Ave Well Rehabilitation and future aquifer resource planning.	\$135,941	Deferred to year?	
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	<b>\$302,889</b>	From 2011-2016 CIP	
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# BOB BOSSERMAN ANALYSIS

## WATER RATE COMPARISON

KPUD					
2011			2012		
Matches Page 42 of Consultants report			Base		\$21.72
Base		\$21.52	Base	Floridation	\$1.00
Usage	700	0.92	Usage	700	0.95
	300	1.32		300	1.35
		<u>\$31.92</u>			<u>\$33.42</u>
Total pre-tax		\$31.92	Total pre-tax		\$33.42
State Tax	5.03%	\$1.61	State Tax	5.029%	\$1.68
City Tax	6.00%	\$1.92	City Tax	6.00%	\$2.01
Total cost		<u><u>\$35.44</u></u>	Total cost		<u><u>\$37.11</u></u>

## COBI

2011

Note: 11.3% state and local taxes are imbedded in each rate component  
 Aggregate Base, Usage and taxes \$64.98 Matches Page 42 of Consultants report

Base			\$27.98
Usage	500	2.82	\$14.10
	500	4.58	<u>\$22.90</u>
			<u>\$64.98</u>

## So how much a of a discount would it take to reach 2012 KPUD rates?

### COBI RATE Discount COBI RATE

2011	Discount	2012	
\$64.98	42.89%	\$37.11	KPUD Rate Parity
64.98	45.00%	\$35.74	Suggested rate reduction effective

**Arlene Buetow 10-18-2011 Comments to UAC Committee Regarding 45% Rate Reduction**

**UBA Recommended Reserves**

3 month cash flow	\$310,00
debt reserve	-0-
emergency reserves 2.5% of fixed assets	\$435,000
rate stability reserves, 10% of water sales at \$2.35M	<u>\$235,000</u>
	\$980,000

CAPITAL NEEDS AS PER COBI WATER SYSTEM PLAN	\$5,381,000	2011-2011
Plus Winslow Way	<u>\$ 750,000</u>	
	\$6,131,000	

CAPITAL NEEDS AS PER COBI CIP and FCA	\$5,078,655	2012-2017
Plus Winslow Way	<u>\$ 0</u>	
	\$5,078,655	

**\*COBI Average Capital Reserve Requirements over the 6 year period \$846,442/year**

**COBI 2012 Budget TOTAL WATER OPERATING FUND**

Total Revenues (as 6.5 FTE Staffing) \$1,712,047

Total Operating Expenditures (6.5FTE) \$1,419,157

credit to remove 2.0 FTE as per Brenda (\$ 200,000)

Adjusted Expenditures \$ 1,219,157

**\* Annual Revenue less Expenditures or**

**Remainder available for Capital \$462,890 \$462,890/2012**

Average Capital Needs over the 6 year (\$846,442/year)

**\*Resulting Buy Down capital reserves in 2012 alone (\$399,552)**

**\*KPUD CAPITAL REQUIREMENTS IDENTIFIED FOR 2011 - 2014 Planning Period**

**\$2,135,718**

KPUD Projected Rates 2012 SFR / Assuming 1,000 cu ft per month

Base \$21.72 + \$1 fluoridation surcharge +\$9/useage = \$31.72

plus WS & COBI Utility Taxes \$ 3.48

\*\$35.20

\* Yes the rates are substantially the same

COBI Projected Rate @ 45% reduction from 2011 rate \*\$35.94

**\* Difference is that in the same time period KPUD contributes 1.5% to capital reserves/year and \$4.8 mil - \$2.1 mil = \$2.7 mil in capital reserves are retained thru 2017.**

**\* and COBI buys down capital reserves at an average annual rate of 12% and fully exhausts such by 2019.**