



# Cost of Service Update

SNOQUALMIE CITY HALL

Sergey Tarasov, Principal

October 22, 2024





# Presentation Overview

- Background
- Overview of rate setting process
- Rate study results
  - » Revenue requirement
  - » Cost of service
    - Phase-In
- Question / discussion
- Next steps





# Background

- Performed fiscal health review November 2023
  - » Modified 2024 rate implementation due to higher than anticipated inflation
- Comprehensive rate study commenced in 2024
  - » June 24<sup>th</sup>, 2024: City Council presentation – Rate Setting Fundamentals
  - » July 2<sup>nd</sup>, 2024: Parks & Public Works Council Committee – Revenue Requirement
  - » July 8<sup>th</sup>, 2024: City Council presentation – Revenue Requirement
- Today's focus
  - » Updated revenue requirement scenario
    - Includes the adopted 2025/2026 budget
  - » Cost-of-service analysis



# Overview of Rate Setting Process

## Fiscal Policies – Set the Management Foundation

**Step 1:**  
**Revenue Requirement**  
(defining overall needs)

Revenue

Debt

Reserves

O&M

Capital

**Step 2:**  
**Cost of Service**  
(equity evaluation)

Define Customer Classes

Allocate Costs

**Step 3:**  
**Design Rates**  
(collect target revenue)

Fixed Charge

Variable Charge



# Updated Revenue Requirement

Balance Sheet

Assets

Current Assets  
Cash  
Accounts

80,64  
\$1,332,75



# Revenue Requirement Summary

- Presented three scenarios to Council on July 8<sup>th</sup>

## 100% Cash

Scenario 1	Existing	2025	2026	2027	2028	2029	2030	Total
Avg. Residential Monthly Bill	\$ 177.46	\$ 322.01	\$ 335.19	\$ 350.05	\$ 366.81	\$ 378.59	\$ 391.75	
\$ Monthly Difference		\$ 144.55	\$ 13.18	\$ 14.86	\$ 16.76	\$ 11.78	\$ 13.16	
Overall Increase		81.45%	4.09%	4.43%	4.79%	3.21%	3.48%	
New Debt Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Note: Water bill is based on a 3/4" meter and 7ccf of usage

## Max Debt (52% of CIP)

Scenario 2	Existing	2025	2026	2027	2028	2029	2030	Total
Avg. Residential Monthly Bill	\$ 177.46	\$ 195.55	\$ 204.98	\$ 211.21	\$ 217.62	\$ 224.23	\$ 231.04	
\$ Monthly Difference		\$ 18.09	\$ 9.43	\$ 6.23	\$ 6.41	\$ 6.61	\$ 6.81	
Overall Increase		10.19%	4.82%	3.04%	3.04%	3.04%	3.04%	
New Debt Proceeds	\$ 11,110,000	\$ -	\$ 12,500,000	\$ -	\$ 14,800,000	\$ -	\$ -	\$ 38,410,000

Note: Water bill is based on a 3/4" meter and 7ccf of usage

## Hybrid (28% of CIP)

Scenario 3	Existing	2025	2026	2027	2028	2029	2030	Total
Avg. Residential Monthly Bill	\$ 177.46	\$ 202.01	\$ 230.80	\$ 264.63	\$ 273.02	\$ 282.03	\$ 288.34	
\$ Monthly Difference		\$ 24.55	\$ 28.78	\$ 33.83	\$ 8.39	\$ 9.01	\$ 6.31	
Overall Increase		13.84%	14.25%	14.66%	3.17%	3.30%	2.24%	
New Debt Proceeds	\$ 9,060,000	\$ -	\$ 3,150,000	\$ -	\$ 8,900,000	\$ -	\$ -	\$ 21,110,000

Note: Water bill is based on a 3/4" meter and 7ccf of usage



# Revenue Requirement Summary *(continued)*

- Council direction
  - » Continue forward with maximum debt scenario for sewer
  - » Develop one additional scenario for water / stormwater targeting debt levels between hybrid & max debt scenarios

**(46% of CIP)**

Combined Utilities	Existing	2025	2026	2027	2028	2029	2030	Total
Avg. Residential Monthly Bill	\$ 177.46	\$ 199.38	\$ 212.13	\$ 221.96	\$ 232.31	\$ 242.60	\$ 253.41	
\$ Monthly Difference		21.92	12.76	9.83	10.35	10.29	10.81	
Overall Increase		12.35%	6.40%	4.63%	4.66%	4.43%	4.46%	
New Debt Proceeds		\$ 10,960,000	\$ -	\$ 10,200,000	\$ -	\$ 12,700,000	\$ -	\$ 33,860,000

# Cost of Service







# What is Cost of Service?

- An equitable distribution of cost share that considers utility specific data
  - » Measures of usage and demand
  - » Planning, engineering and design criteria
  - » Facility requirements
- Cost of Service analysis determines
  - » Total cost by class (equity)
  - » Unit costs (\$/usage; \$/customer)
- Fundamental question: Do cost differences exist to serve different customer classes of service?



# Classes of Service

- Current classes of service

- » Water

- Residential
- Multifamily
- Commercial
- Irrigation

- » Sewer

- Residential
- Multifamily
- Commercial (BOD/TSS)
  - Low (0-250 mg/l)
  - High (251+ mg/l)
- Reclaimed Water



# Cost of Service Process

- Allocates total utility cost by function

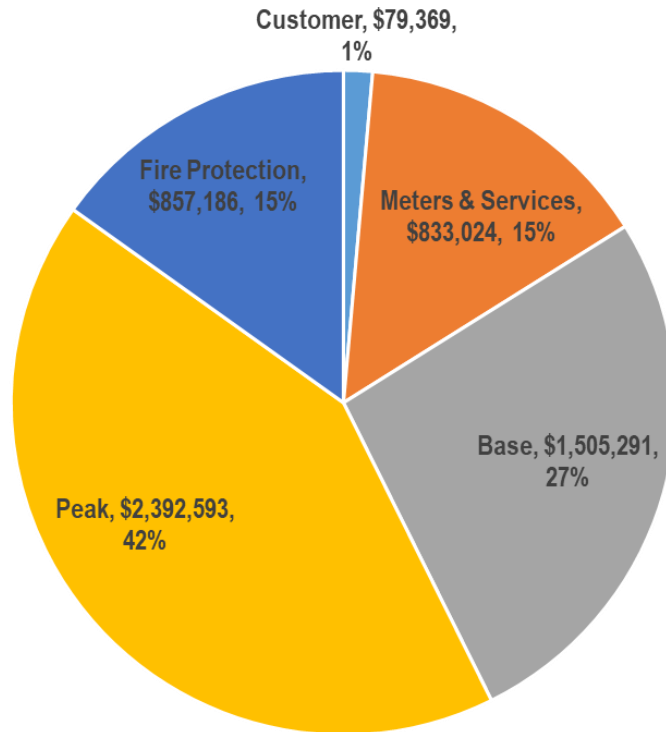
Water Utility Functions*	Sewer Utility Functions*
• Customer	• Customer
• Meters & Services	• Flow
• Base Demand (avg. use)	• BOD Strength
• Peak Demand (peak use)	• TSS Strength
• Fire Protection	• Reclaimed Water

- Develops allocation factors using customer facility requirements and usage characteristics
- Allocates costs to customer classes



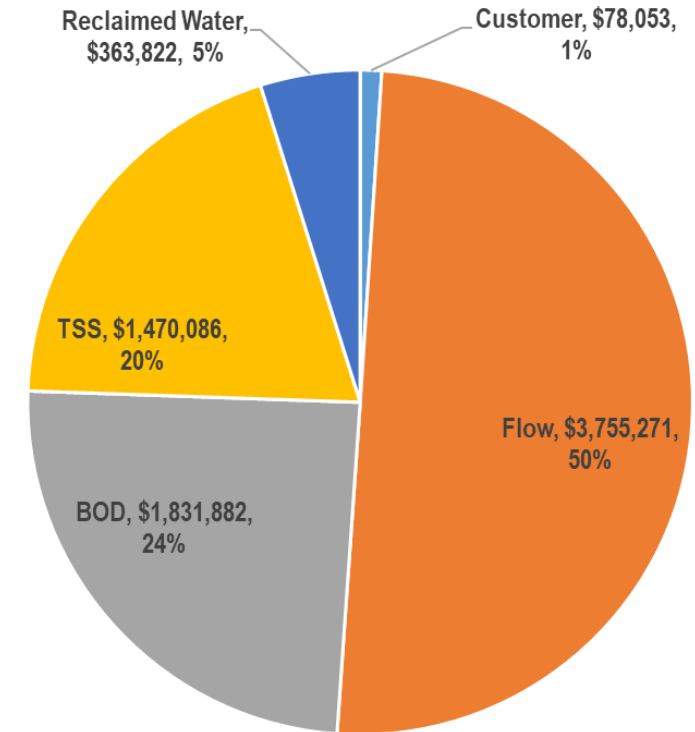
# Classification of Cost Shares

## Water



**2025 COSA:**  
**\$5,667,462**

## Sewer

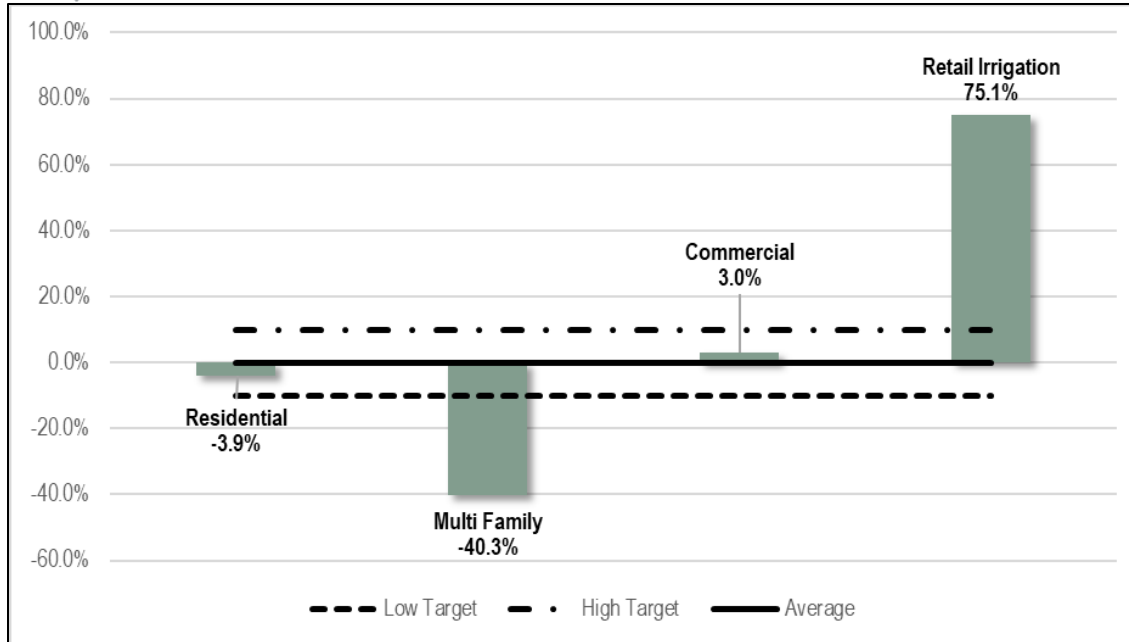


**2025 COSA:**  
**\$7,499,114**





# Cost of Service Results: Water



- Class results of  $\pm 10.0\%$  of average are considered to be within COSA
  - » Residential & Commercial within COSA range
  - » Multi-family & irrigation outside of COSA range
    - Multi-family is paying more than COSA
    - Retail irrigation is paying below COSA
- Findings are consistent with prior study

Class	FY2025 COSA				
	Existing	COSA	\$		%
Residential	\$ 4,208,491	\$ 4,046,166	\$ (162,325)		-3.9%
Multi Family	400,656	239,244	(161,412)		-40.3%
Commercial	653,449	673,294	19,845		3.0%
Retail Irrigation	404,865	708,758	303,893		75.1%
Total	\$ 5,667,462	\$ 5,667,462	\$ (0)		0.00%



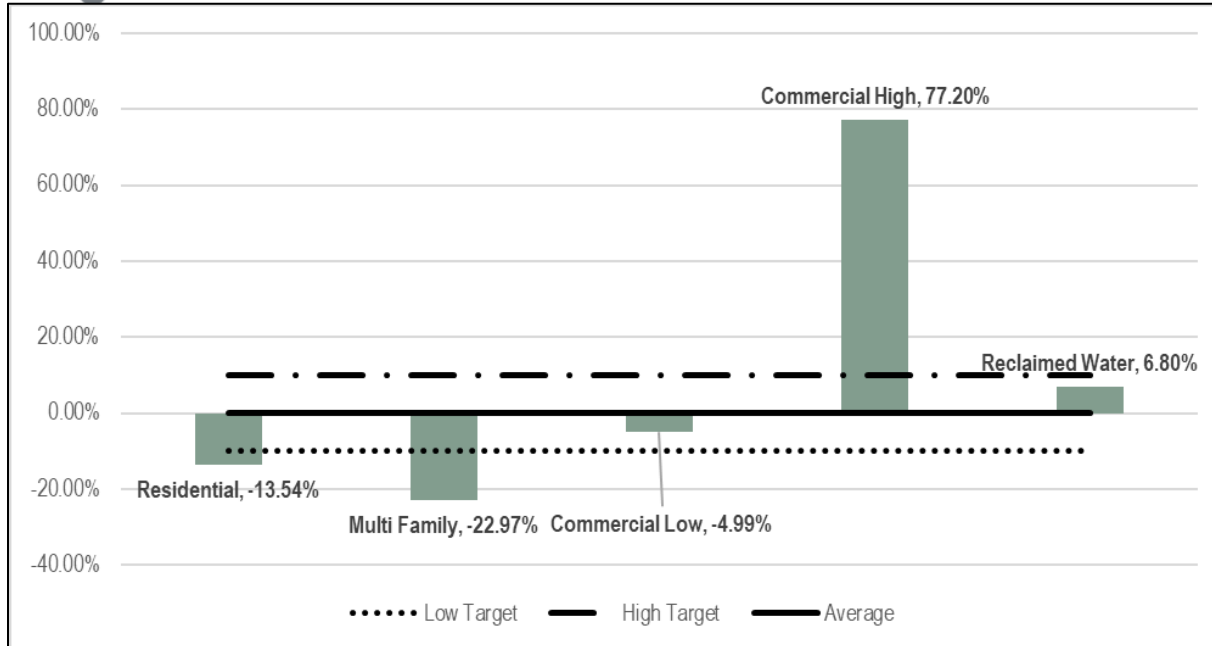
## Cost of Service Phase-In: Water

- Consistent with prior rate study, continue to make progress towards cost of service
  - » Set residential equal to system average increase
  - » Freeze multi-family allowing them to grow into their rate over time
  - » Slight adjustments to commercial to align with cost of service
  - » Progress irrigation towards cost of service with above average increases

Class	Annual Rate Adjustments					
	2025	2026	2027	2028	2029	2030
Residential	5.75%	5.75%	5.75%	5.75%	5.00%	5.00%
Multi Family	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial	6.95%	6.67%	6.40%	6.14%	4.96%	4.77%
Irrigation	9.50%	9.50%	9.50%	9.50%	8.50%	8.50%
<b>System Total</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.75%</b>	<b>5.00%</b>	<b>5.00%</b>



# Cost of Service Results: Sewer



- Class results of  $\pm 10.0\%$  of average are considered to be within COSA
  - » Residential & multi family are paying more than COSA
  - » Commercial low & reclaimed water within COSA
  - » Commercial high is paying below COSA
- Findings are consistent with prior study

Class	FY2025 COSA				
	Existing	COSA	\$	%	
Residential	\$ 4,914,776	\$ 4,249,385	\$ (665,391)	-13.54%	
Multi Family	671,159	517,017	(154,142)	-22.97%	
Commercial Low	508,179	482,835	(25,343)	-4.99%	
Commercial High	1,064,358	1,886,054	821,696	77.20%	
Reclaimed Water	340,642	363,822	23,180	6.80%	
<b>Total</b>	<b>\$ 7,499,114</b>	<b>\$ 7,499,114</b>	<b>\$ 0</b>	<b>0.00%</b>	



## Cost of Service Phase-In: Sewer

- Consistent with prior rate study, Continue to make progress towards cost of service
  - » Residential & commercial low are increased below system average
  - » Multi-family increased below system average in 2025 and 2026
    - 2027 and thereafter rates are frozen allowing the class to grow into their rate over time thereafter
  - » Progress commercial high and reclaimed water towards cost of service with above average increases

Class	Annual Rate Adjustments					
	2025	2026	2027	2028	2029	2030
Residential	18.50%	6.00%	2.50%	2.50%	2.50%	2.50%
Multi Family	14.00%	4.00%	0.00%	0.00%	0.00%	0.00%
Commercial Low	18.50%	6.00%	2.50%	2.50%	2.50%	2.50%
Commercial High	24.54%	10.23%	6.85%	6.68%	6.52%	6.37%
Reclaimed Water	19.50%	7.00%	3.50%	3.50%	3.50%	3.50%
<b>System Total</b>	<b>19.00%</b>	<b>6.50%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>3.00%</b>



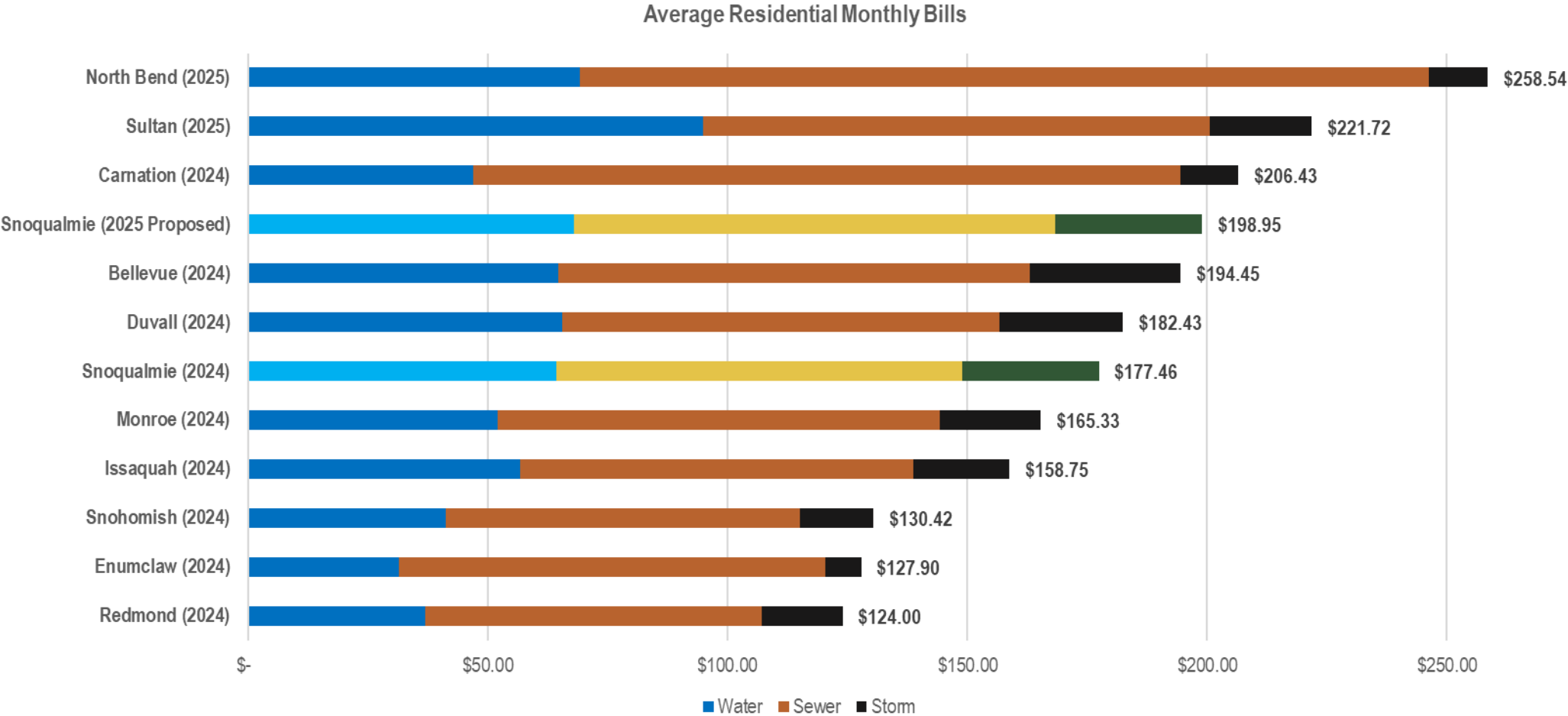


# Bill Impacts

Combined Utilities	Existing	2025	2026	2027	2028	2029	2030
<b>Avg. Residential Monthly Bill</b>	<b>\$ 177.46</b>	<b>\$ 198.95</b>	<b>\$ 211.18</b>	<b>\$ 220.45</b>	<b>\$ 230.20</b>	<b>\$ 239.88</b>	<b>\$ 250.03</b>
<b>\$ Change</b>		<b>21.49</b>	<b>12.23</b>	<b>9.27</b>	<b>9.76</b>	<b>9.67</b>	<b>10.16</b>
<i>Overall Increase</i>		12.11%	6.15%	4.39%	4.43%	4.20%	4.23%
<b>Avg. Multi-Family Monthly Bill</b>	<b>\$ 719.19</b>	<b>\$ 778.70</b>	<b>\$ 802.90</b>	<b>\$ 810.33</b>	<b>\$ 818.31</b>	<b>\$ 826.90</b>	<b>\$ 836.12</b>
<b>\$ Change</b>		<b>59.51</b>	<b>24.20</b>	<b>7.43</b>	<b>7.99</b>	<b>8.58</b>	<b>9.23</b>
<i>Overall Increase</i>		8.27%	3.11%	0.93%	0.99%	1.05%	1.12%
<b>Avg. Commercial Low Monthly Bill</b>	<b>\$ 438.21</b>	<b>\$ 489.46</b>	<b>\$ 522.00</b>	<b>\$ 548.74</b>	<b>\$ 576.73</b>	<b>\$ 604.56</b>	<b>\$ 633.67</b>
<b>\$ Change</b>		<b>51.25</b>	<b>32.54</b>	<b>26.74</b>	<b>27.99</b>	<b>27.83</b>	<b>29.11</b>
<i>Overall Increase</i>		11.70%	6.65%	5.12%	5.10%	4.83%	4.82%
<b>Avg. Commercial High Monthly Bill</b>	<b>\$ 2,643.56</b>	<b>\$ 3,100.09</b>	<b>\$ 3,377.66</b>	<b>\$ 3,607.06</b>	<b>\$ 3,845.54</b>	<b>\$ 4,083.50</b>	<b>\$ 4,330.46</b>
<b>\$ Change</b>		<b>456.53</b>	<b>277.57</b>	<b>229.40</b>	<b>238.48</b>	<b>237.96</b>	<b>246.96</b>
<i>Overall Increase</i>		17.27%	8.95%	6.79%	6.61%	6.19%	6.05%



# Combined Rate Survey



Notes: assumes 7ccf for water & sewer bills where applicable | some jurisdictions assess utility taxes on-top of customer bill | Bellevue excludes capital recovery charge



## Next Steps

- Direction / feedback
  - » Revenue requirement – implement proposed increases
  - » Cost-of-service
    - Continue to phase-in water / sewer towards cost-of-service
    - Other?
      - Defer cost of service – apply increases on an across-the-board basis
      - Implement cost of service all at once
      - Adjust the phase-in period – shorter or longer phase-in
- Rates effective January 1<sup>st</sup>, 2025
- Next steps: General Facilities Charges (GFCs)

# Thank you! Questions?

Sergey Tarasov, Principal  
(425) 502-6452  
[sergeyt@fcsgroup.com](mailto:sergeyt@fcsgroup.com)

[www.fcsgroup.com](http://www.fcsgroup.com)

