

Cost of Service Update

A series of three large, overlapping arrows pointing to the right, located in the top right corner of the slide.

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 24th, 2024: City Council presentation – Rate Setting Fundamentals
 - » July 2nd, 2024: Parks & Public Works Council Committee – Revenue Requirement
 - » July 8th, 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

80,642
42
342
295
\$1,332,75

Balance Sheet

Assets

Current Assets
Cash



Revenue Requirement Summary

- Presented three scenarios to Council on July 8th

**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





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

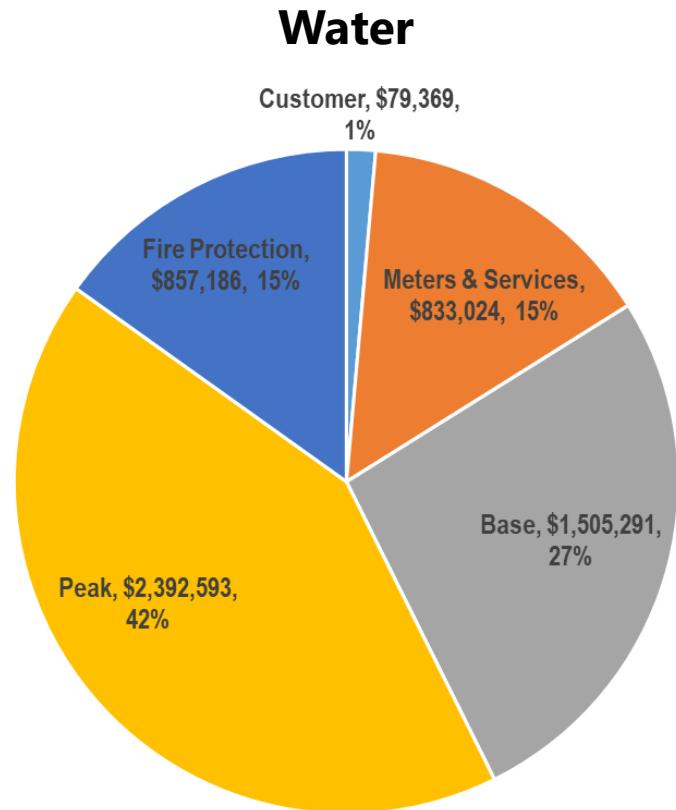
- Allocates total utility cost by function

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

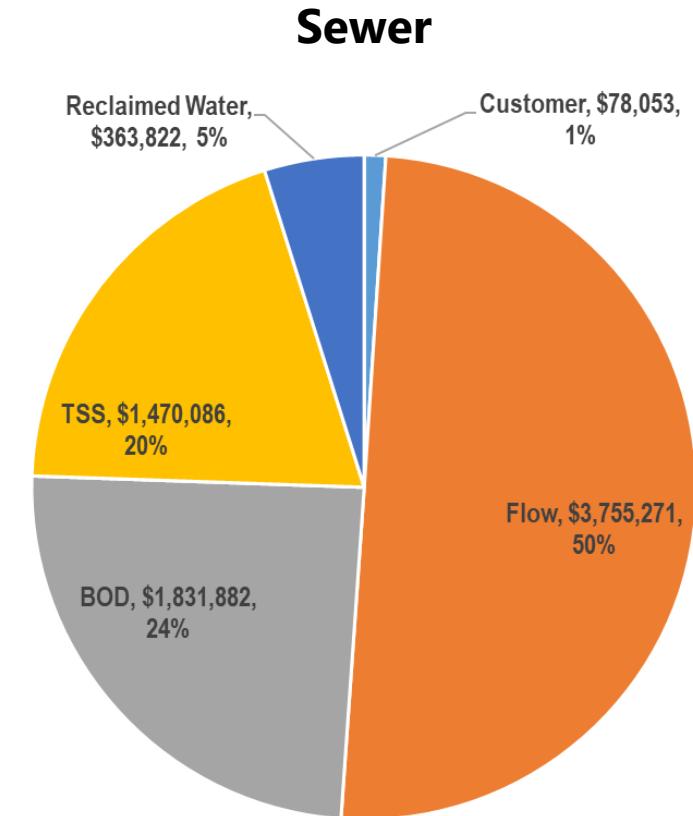
- Develops allocation factors using customer facility requirements and usage characteristics
- Allocates costs to customer classes



Classification of Cost Shares



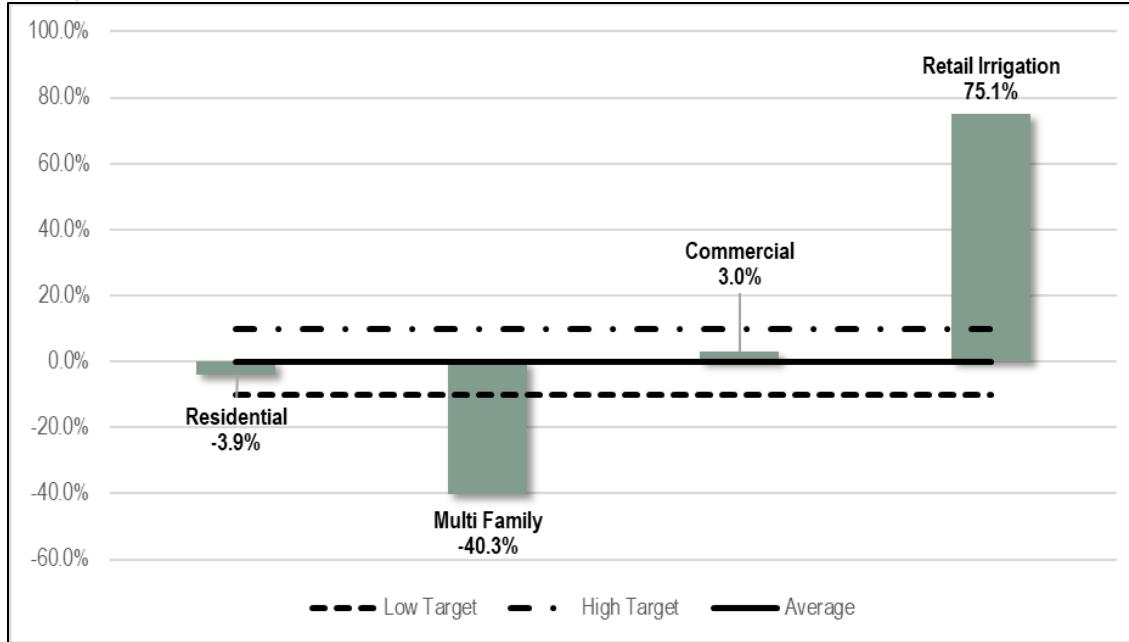
2025 COSA:
\$5,667,462



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%	



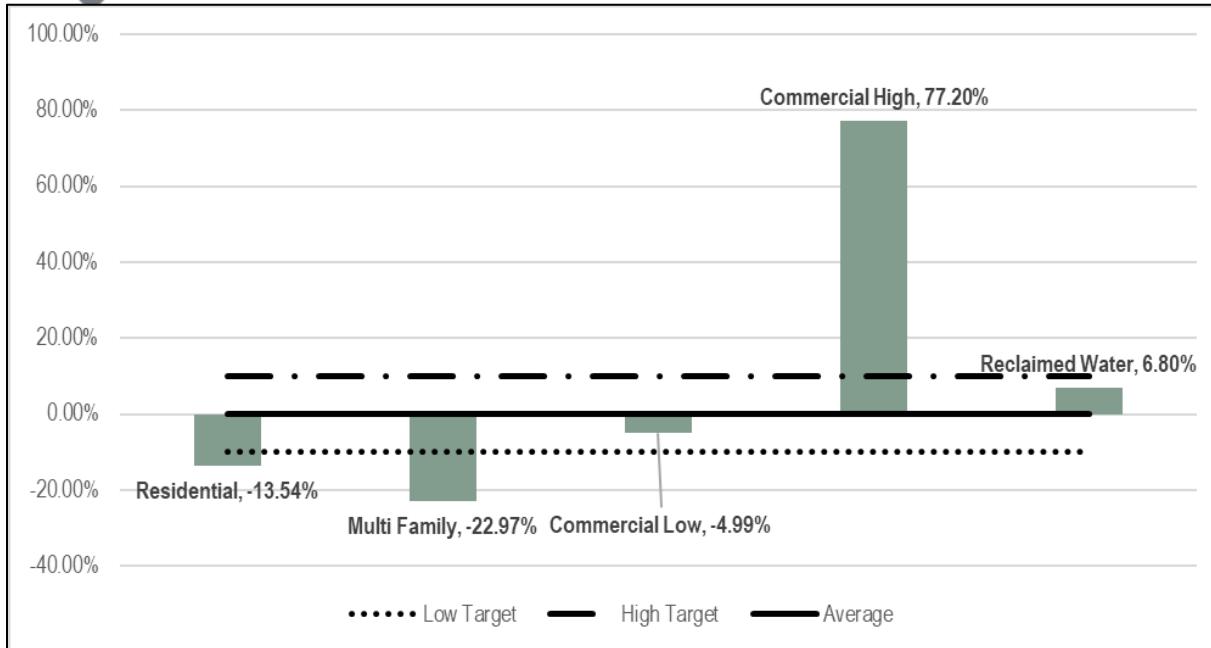
Cost of Service Phase-In: Water

- 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%
System Total	5.75%	5.75%	5.75%	5.75%	5.00%	5.00%



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



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%
System Total	19.00%	6.50%	3.00%	3.00%	3.00%	3.00%

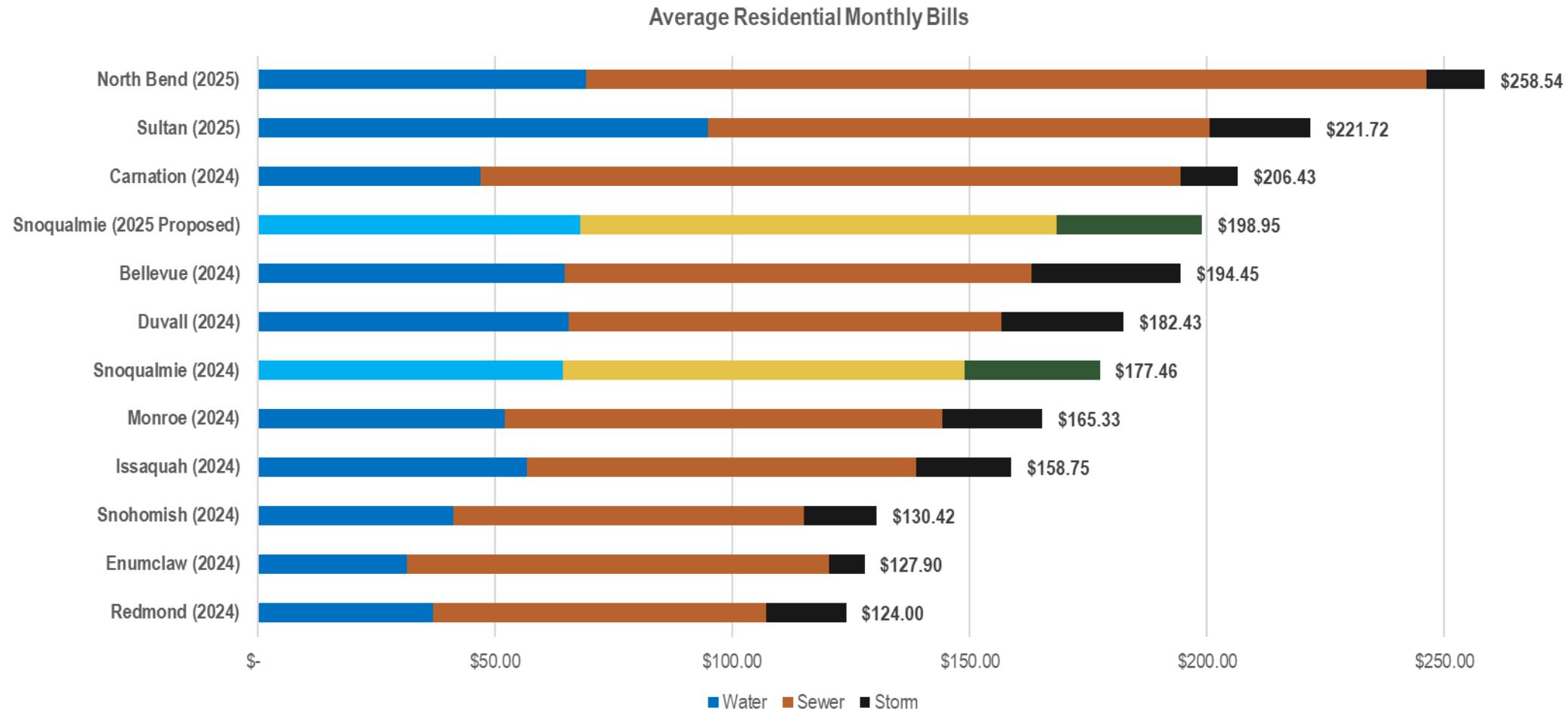


Bill Impacts

Combined Utilities	Existing	2025	2026	2027	2028	2029	2030
Avg. Residential Monthly Bill	\$ 177.46	\$ 198.95	\$ 211.18	\$ 220.45	\$ 230.20	\$ 239.88	\$ 250.03
\$ Change	21.49	12.23	9.27	9.76	9.67	10.16	
<i>Overall Increase</i>		12.11%	6.15%	4.39%	4.43%	4.20%	4.23%
Avg. Multi-Family Monthly Bill	\$ 719.19	\$ 778.70	\$ 802.90	\$ 810.33	\$ 818.31	\$ 826.90	\$ 836.12
\$ Change	59.51	24.20	7.43	7.99	8.58	9.23	
<i>Overall Increase</i>		8.27%	3.11%	0.93%	0.99%	1.05%	1.12%
Avg. Commercial Low Monthly Bill	\$ 438.21	\$ 489.46	\$ 522.00	\$ 548.74	\$ 576.73	\$ 604.56	\$ 633.67
\$ Change	51.25	32.54	26.74	27.99	27.83	29.11	
<i>Overall Increase</i>		11.70%	6.65%	5.12%	5.10%	4.83%	4.82%
Avg. Commercial High Monthly Bill	\$ 2,643.56	\$ 3,100.09	\$ 3,377.66	\$ 3,607.06	\$ 3,845.54	\$ 4,083.50	\$ 4,330.46
\$ Change	456.53	277.57	229.40	238.48	237.96	246.96	
<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 1st, 2025
- Next steps: General Facilities Charges (GFCs)

Thank you! Questions?

Sergey Tarasov, Principal
(425) 502-6452
sergeyt@fcsgroup.com

www.fcsgroup.com

