

Rate Study Update

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

Sergey Tarasov, Principal

November 12, 2024





Presentation Overview

- Background
- Rate setting overview
- Revenue requirement summary
- Cost of service summary
- Question / discussion



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
 - » October 22nd, 2024: Parks & Public Works Council Committee – Cost of Service
 - » November 5th, 2024: Parks & Public Works Council Committee – Cost of Service Update
- Today's focus
 - » Updated revenue requirement scenario
 - » Cost-of-service summary
 - » Customer impacts



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

- 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?



Cost of Service Results

- Analysis determined the cost to serve some customer classes does not align with how revenue is currently collected
- Water
 - » Multi-family is paying more than its cost to serve
 - » Irrigation is paying less than its cost to serve
- Sewer
 - » Residential is paying a little more than its cost to serve
 - » Multi-family is paying more than its cost to serve
 - » High strength commercial is paying less than its cost to serve
- Other customer classes within cost of service range of reasonableness



Cost of Service Phase-In Proposal

- Phase-in customer classes towards cost of service over time

| Class | WATER - 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% |

| Class | SEWER - Annual Rate Adjustments | | | | | |
|---------------------|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| Residential | 18.50% | 6.00% | 2.50% | 2.50% | 2.50% | 2.50% |
| Multi Family | 7.00% | 2.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Commercial Low | 20.96% | 6.52% | 2.50% | 2.50% | 2.50% | 2.50% |
| Commercial High | 27.00% | 10.74% | 6.65% | 6.49% | 6.34% | 6.21% |
| Reclaimed Water | 21.96% | 7.52% | 3.50% | 3.50% | 3.50% | 3.50% |
| System Total | 19.00% | 6.50% | 3.00% | 3.00% | 3.00% | 3.00% |

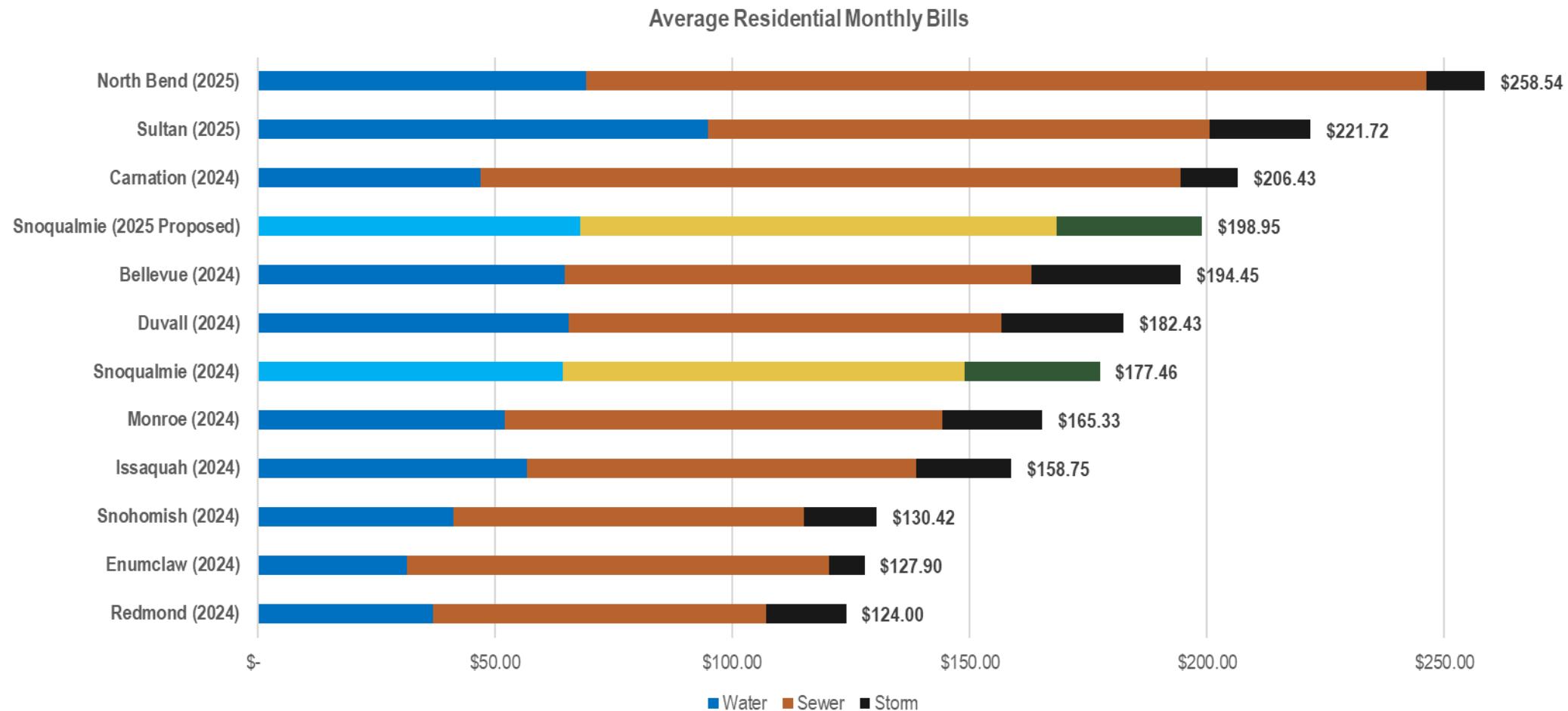


Bill Impacts

| 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 | \$ 752.16 | \$ 767.18 | \$ 774.61 | \$ 782.60 | \$ 791.18 | \$ 800.41 |
| \$ Change | 32.97 | 15.02 | 7.43 | 7.99 | 8.58 | 9.23 | |
| <i>Overall Increase</i> | | 4.58% | 2.00% | 0.97% | 1.03% | 1.10% | 1.17% |
| Avg. Commercial Low Monthly Bill | \$ 438.21 | \$ 493.71 | \$ 527.59 | \$ 554.47 | \$ 582.60 | \$ 610.58 | \$ 639.84 |
| \$ Change | 55.50 | 33.88 | 26.88 | 28.13 | 27.97 | 29.26 | |
| <i>Overall Increase</i> | | 12.67% | 6.86% | 5.09% | 5.07% | 4.80% | 4.79% |
| Avg. Commercial High Monthly Bill | \$ 2,643.56 | \$ 3,137.95 | \$ 3,429.51 | \$ 3,657.93 | \$ 3,895.40 | \$ 4,132.31 | \$ 4,378.17 |
| \$ Change | 494.39 | 291.56 | 228.42 | 237.46 | 236.91 | 245.86 | |
| <i>Overall Increase</i> | | 18.70% | 9.29% | 6.66% | 6.49% | 6.08% | 5.95% |



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
 - Postpone making cost of service adjustments?
 - Make cost of service adjustments all at once?
 - Phase-in cost of service adjustments?
- Rates effective January 1st, 2025
- Next steps: General Facilities Charges (GFCs)

Thank you! Questions?

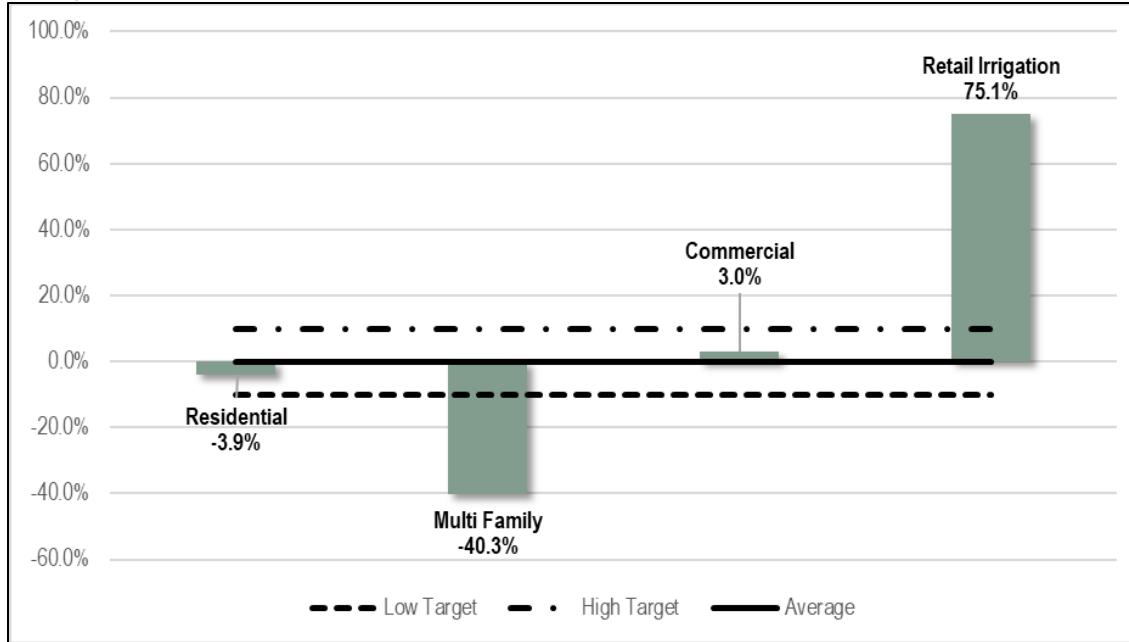
Sergey Tarasov, Principal
(425) 502-6452
sergeyt@fcsgroup.com

www.fcsgroup.com





Cost of Service Results: Water

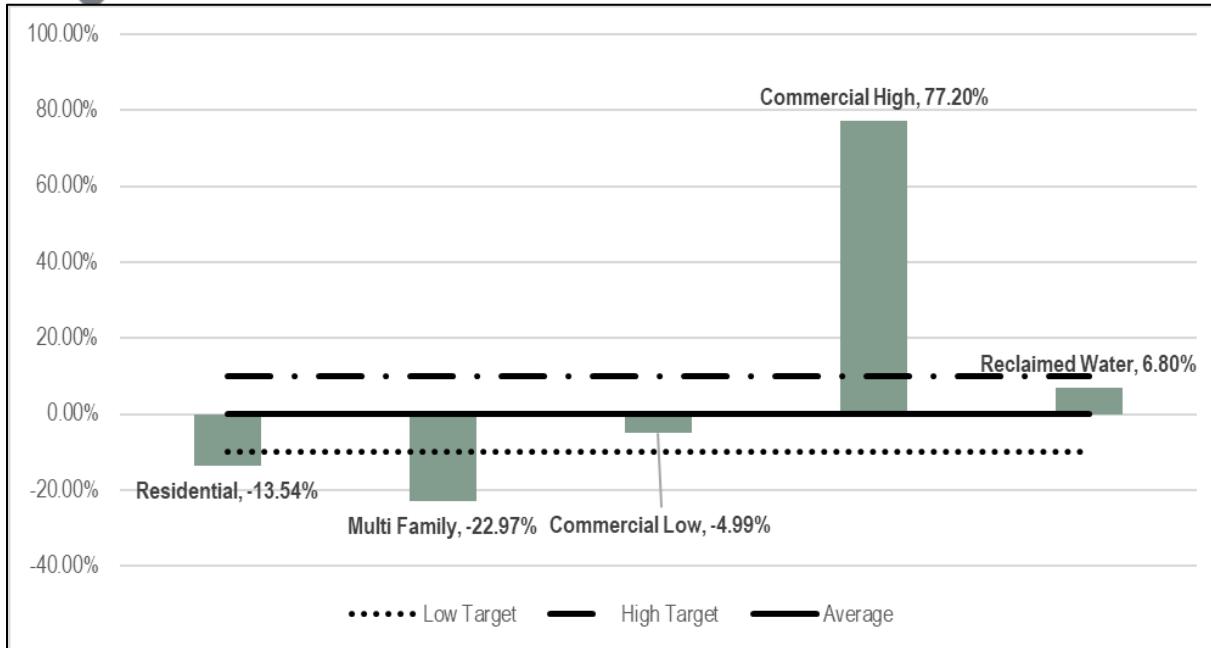


| Class | FY2025 COSA | | | | |
|-------------------|---------------------|---------------------|---------------|--------------|--|
| | Existing | COSA | \$ | % | |
| Residential | \$ 4,208,491 | \$ 4,046,166 | \$ (162,325) | -3.9% | |
| Multi Family | 400,656 | 239,244 | (161,412) | -40.3% | |
| Commercial | 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% | |

- 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



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