



Utility Rate Study



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Agenda

Background and Introduction

Utility Rate Setting Process

Water Results

- ❖ Revenue Requirement
- ❖ Cost of Service
- ❖ Rate Design

Sewer Results

- ❖ Revenue Requirement
- ❖ Cost of Service
- ❖ Rate Design
- ❖ Grinder Pump Charges

Decision Points and Next Steps



Public Utility Rate Methodology

- **Utility rate setting generally includes three key analytical steps:**

1

Revenue Requirement: Total amount of money the District must collect to pay expenditures to provide services while also meeting its financial requirements (e.g., debt service, financial reserves)

2

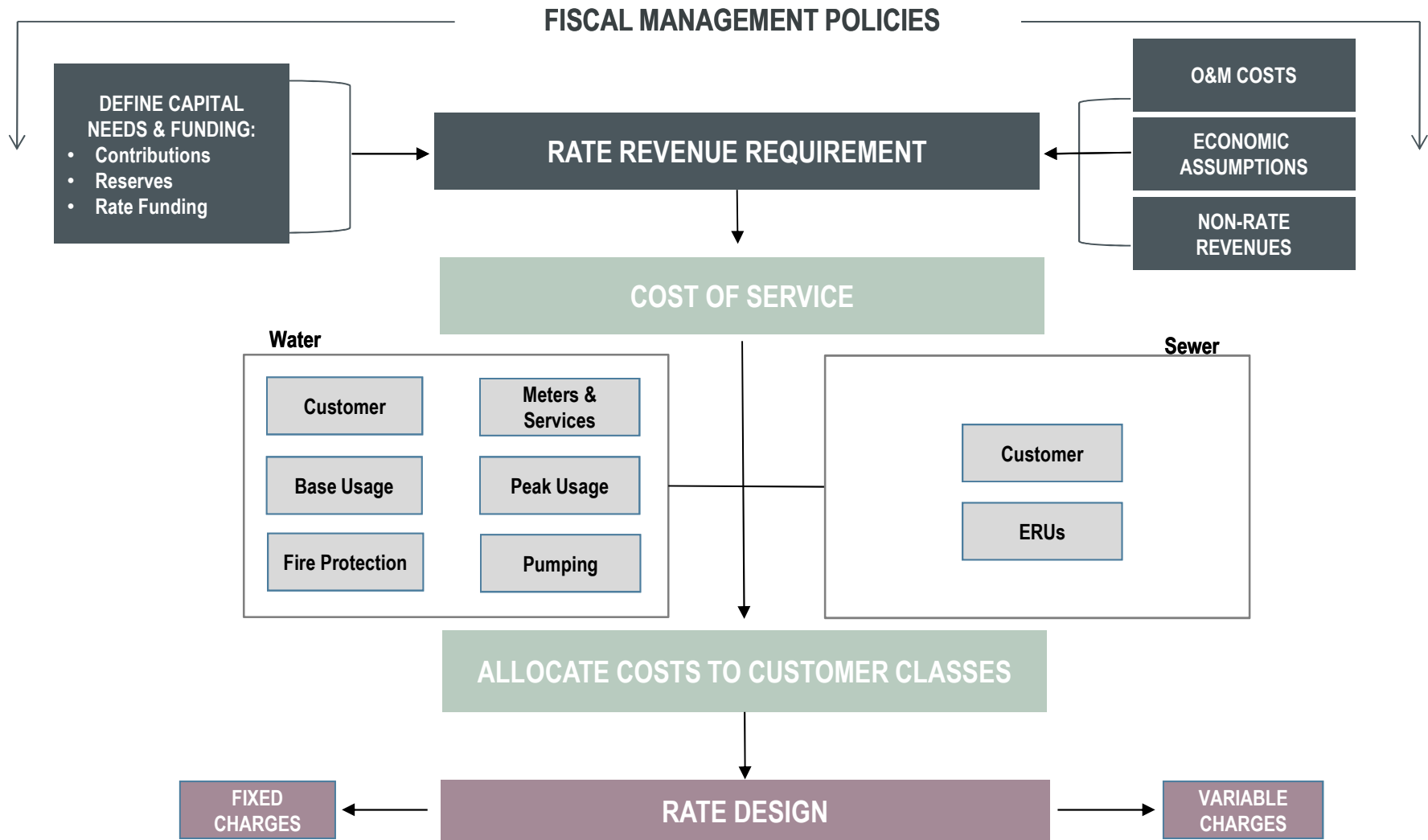
Cost of Service: The proportional allocation of the revenue requirement to the District's customer classes in proportion to the demands they place on the system.

3

Rate Design: A rate structure (fee for service) assessed to customers that will generate sufficient revenue, be reasonably commensurate with the cost to provide service, and support non-financial objectives.



Overview of Rate Setting Process





Study Data And Assumptions

Study Foundation	
Operating Costs	2022 adopted budget
Fund Balance	2022 beginning fund balance
Capital Expenditures	2020-2039 Capital Improvement Plan (CIP)
Revenue	Includes 2022 rate adjustment

Forecast Assumptions	
General Cost Inflation	5-year Seattle Consumer Price Index (CPI) trends (2.5%)
Wages	Based on staff input (2.5%)
Benefits	5-year Employment Cost Index (3.25%)
Capital Expenditures	5-year 20-city average Construction Cost Index (CCI) (4.0%)
Customer Growth	Port Orchard population projections (1.75%)



Fiscal Policies Summary

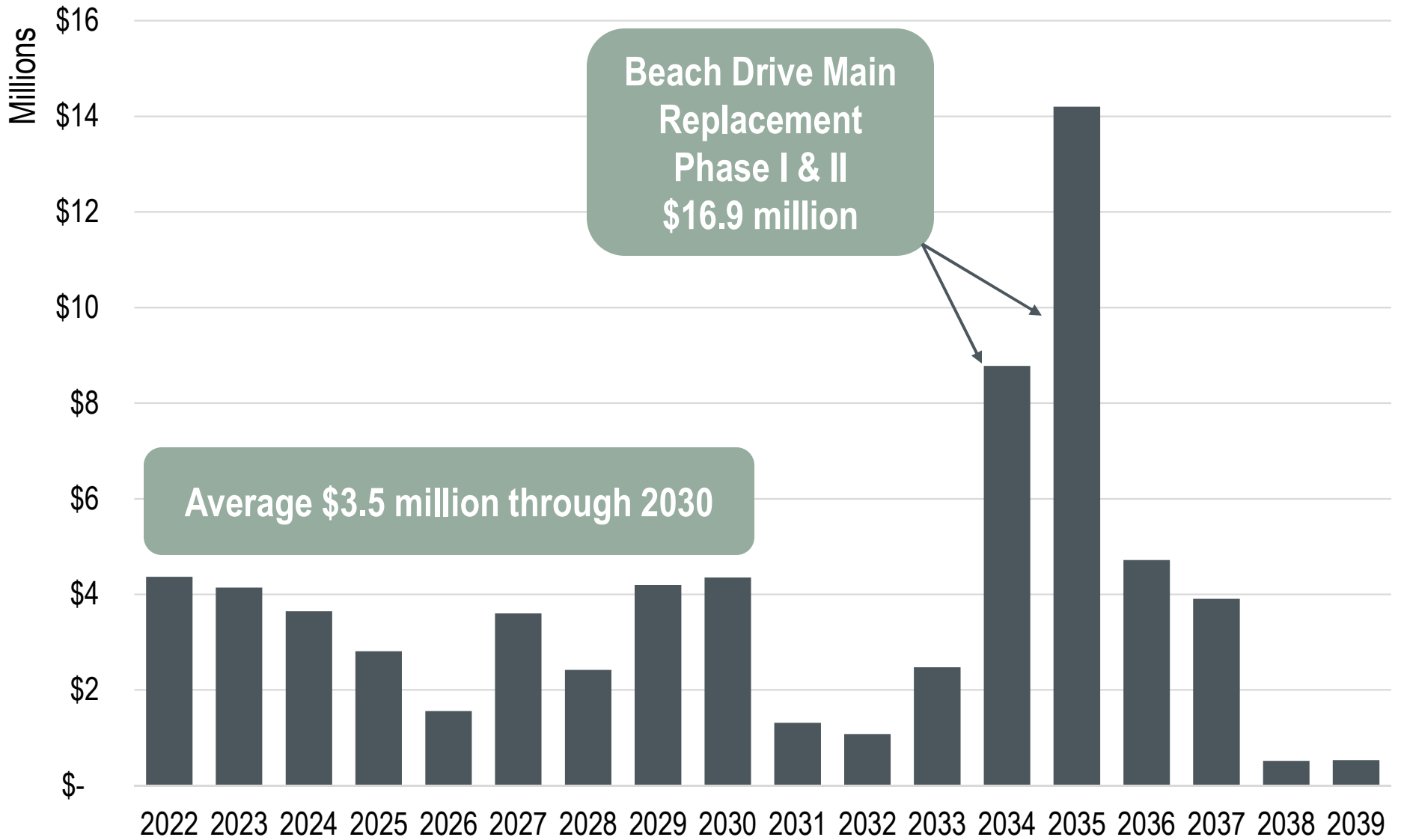
Policy	Purpose	Policy Target
Operating Reserve	Cushion to accommodate cash flow fluctuations	Water: 90 days of O&M Sewer: 55 days of O&M
Capital Reserve	To meet emergency repairs, unanticipated capital, and project cost overruns	Water: largest non-transmission asset Sewer: largest non-collection asset
Rate-Funded System Reinvestment (RFSR)	Reserve toward the accumulating replacement liability as assets age	Estimated replacement cost depreciation
Debt Service Coverage (DSC)	Compliance with existing debt covenants and maintain credit worthiness for future debt	Individual Utility: 1.75 Combined: 2.00
Revenue Sufficiency	Set rates to meet the total annual financial obligations of the utility and be self supporting	Rates set to cover O&M, debt service, fiscal policy achievement



Water Utility Results



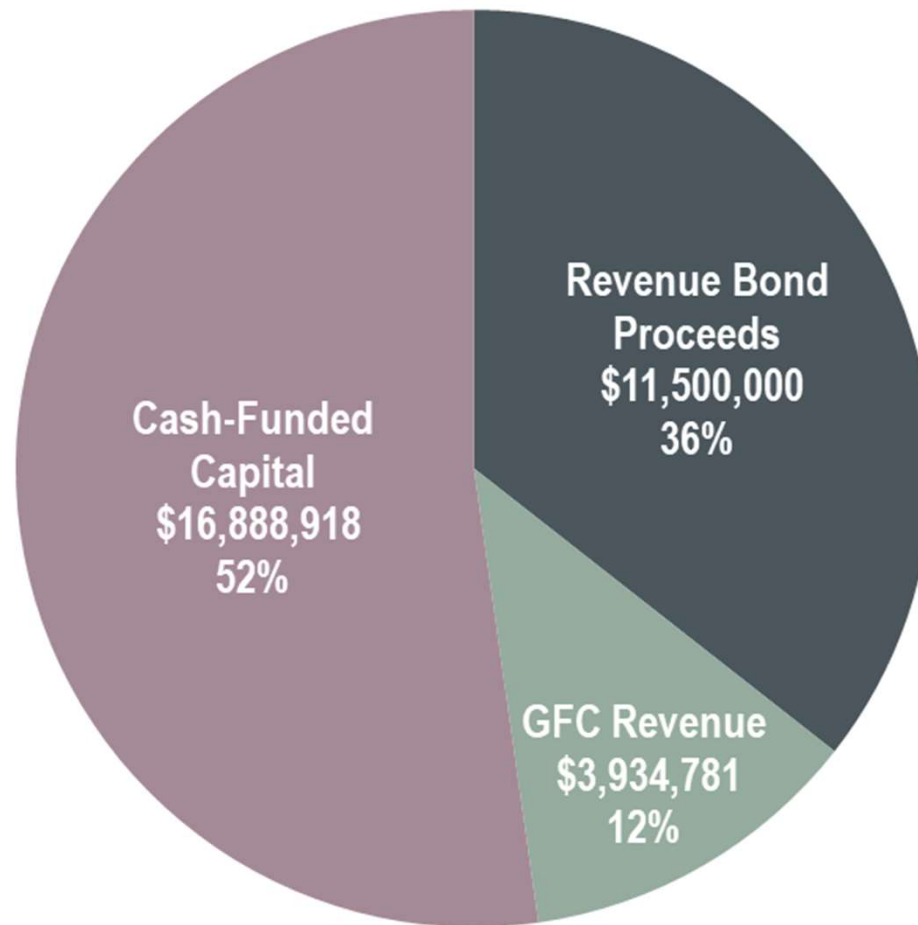
Water Capital Improvement Plan





2022-2030 Capital Financing Plan

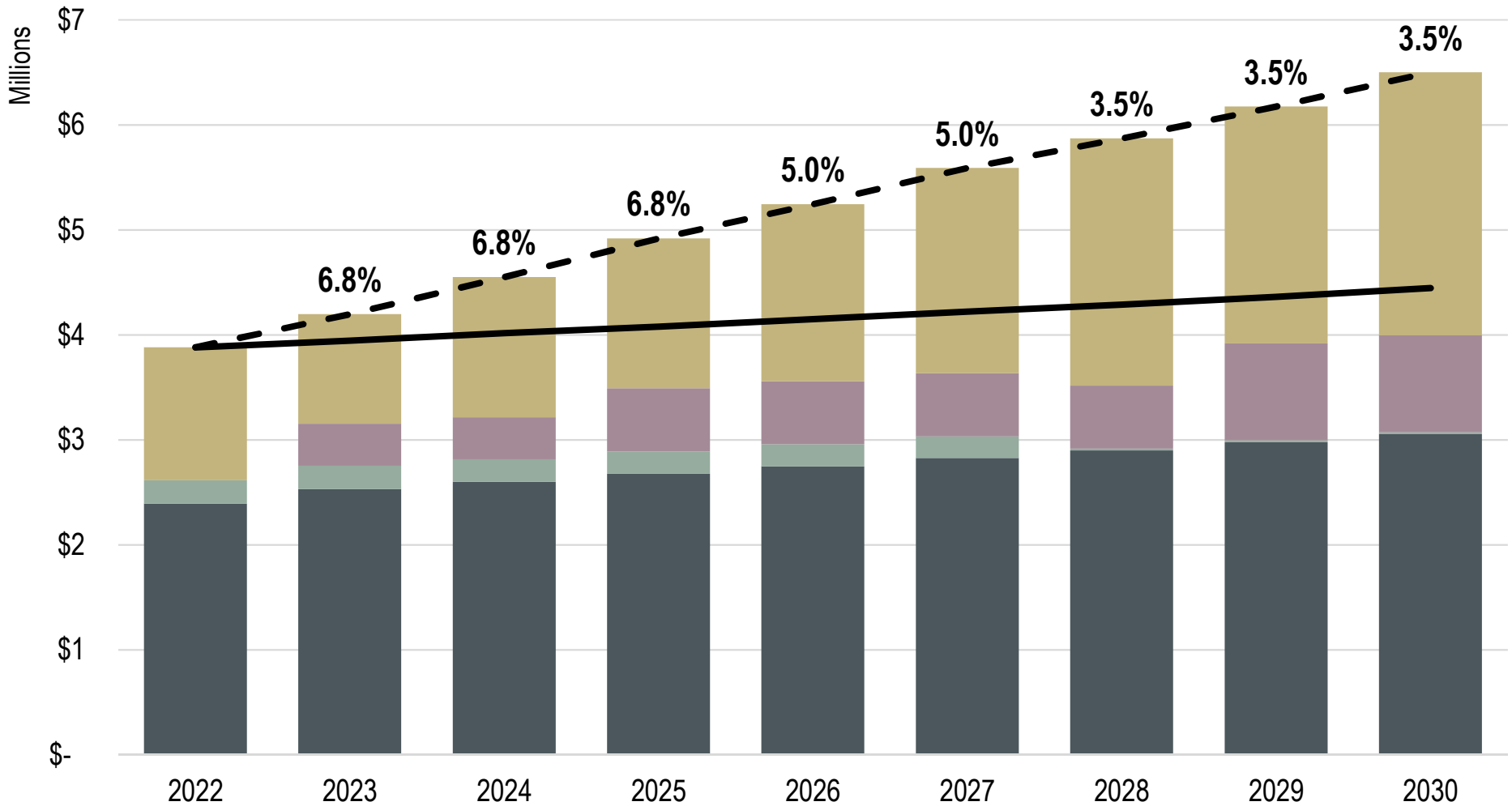
- \$32 million in capital projects funded with cash, revenue bonds, and GFCs



Three Revenue Bonds:
\$5.0 million in 2023
\$2.5 million in 2025
\$4.0 million in 2029



Water Revenue Requirement



Operations and Maintenance
Rate Funded System Reinvestment

Existing Debt Service
Revenue At Current Rates

New Debt Service
Revenues After Rate Increase



Cost of Service Process

- **Step 1: Allocate test year (2023) revenue requirement to cost pools**



- **Step 2: Develop allocation factors using class specific information**

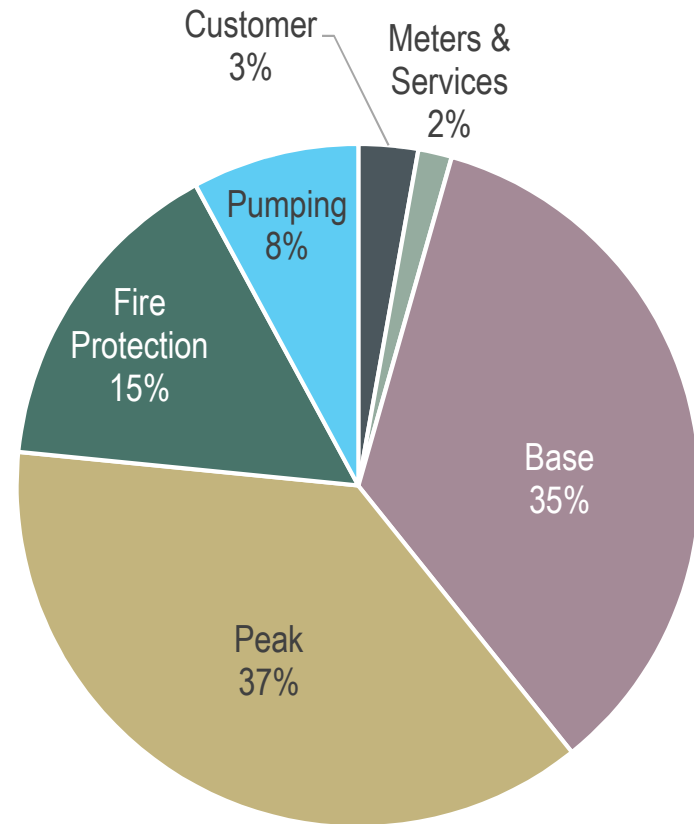


- **Step 3: Allocate costs to customer classes**



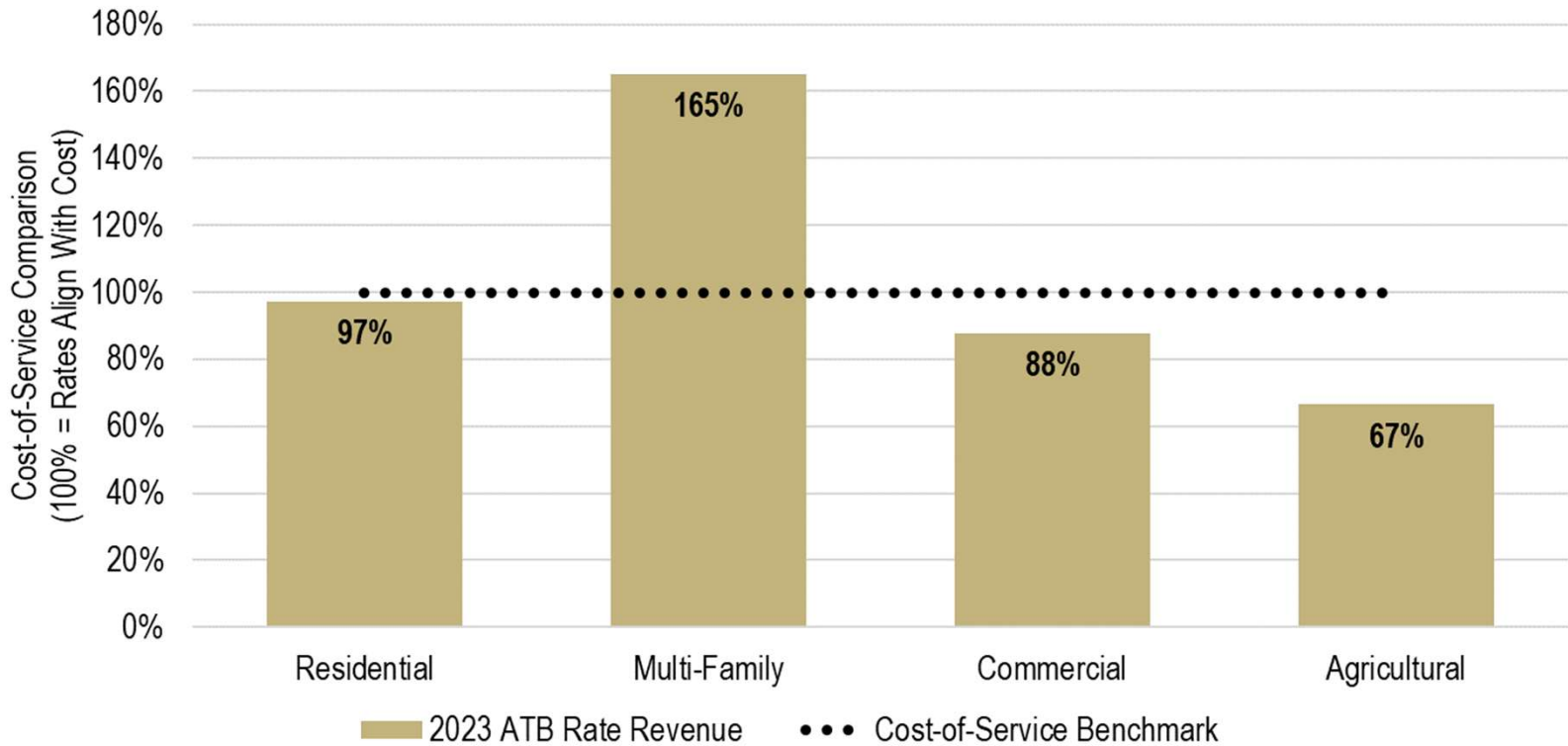
Cost Classification

Peak	Costs associated with meeting incremental peak demands
Base	Costs associated with meeting average demands
Customer	Fixed costs that do not vary with meter size or usage (e.g. utility billing)
Fire	Costs related to direct fire protection (hydrants) and oversizing facilities for fire flow (mains)
Meters & Services	Costs associated with installation, maintenances, and repairs of meters and services
Pumping	Costs associated with materials, equipment, labor to operate and maintain pumps and pumping stations





Cost-of-Service Results



- **Residential rates are within a reasonable range to cost**
- **Multi-Family rates are above cost-of-service**
- **Commercial and Agricultural rates are under-collecting relative to cost**



Proposed Rate Changes (2023-2027)

- **Guiding Principles**

- » Transition existing rates towards cost-of-service results
- » Increase revenue stability with higher fixed charges
- » Maintain uniform base rate charges for all customer class
- » Do not decrease rates from existing levels

	2023	2024	2025	2026	2027
Overall	6.80%	6.80%	6.80%	5.00%	5.00%
Fixed Charge (All Classes)	7.00%	7.00%	7.00%	7.00%	7.00%
Variable Charges					
Residential	6.0%	6.0%	3.0%	3.0%	3.0%
Multi-Family	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial	11.0%	11.0%	11.0%	5.0%	5.0%
Agricultural	16.5%	16.5%	16.5%	16.5%	16.5%

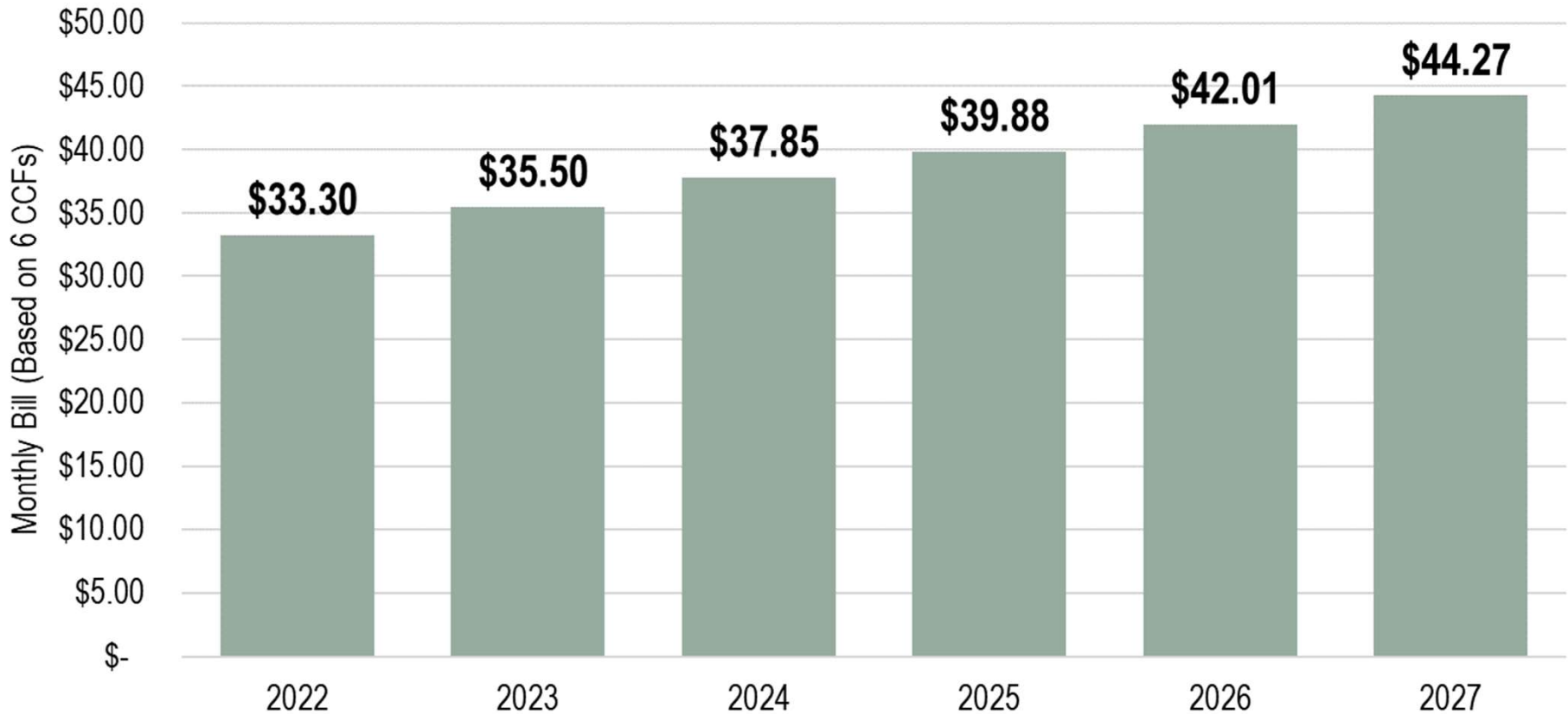


Proposed Rate Schedule

	Existing	Proposed	Proposed	Proposed	Proposed	Proposed
	2022	2023	2024	2025	2026	2027
Overall Revenue Increase		6.80%	6.80%	6.80%	5.00%	5.00%
Base Rate						
5/8", 3/4"	\$ 19.26	\$ 20.61	\$ 22.05	\$ 23.59	\$ 25.24	\$ 27.01
1"	35.90	38.41	41.10	43.98	47.06	50.35
1.5"	64.11	68.60	73.40	78.54	84.04	89.92
2"	98.74	105.65	113.05	120.96	129.43	138.49
3"	194.88	208.52	223.12	238.74	255.45	273.33
4"	301.29	322.38	344.95	369.10	394.94	422.59
6"	588.49	629.68	673.76	720.92	771.38	825.38
Volume Charge: per ccf of water usage						
<i>Single-Family (BiMonthly)</i>						
Block 1	\$ 2.31	\$ 2.45	\$ 2.60	\$ 2.68	\$ 2.76	\$ 2.84
Block 2	2.67	2.83	3.00	3.09	3.18	3.28
Block 3	3.10	3.29	3.49	3.59	3.70	3.81
<i>Multi-Family (Monthly)</i>						
Block 1	\$ 3.26	\$ 3.26	\$ 3.26	\$ 3.26	\$ 3.26	\$ 3.26
Block 2	3.77	3.77	3.77	3.77	3.77	3.77
Block 3	4.36	4.36	4.36	4.36	4.36	4.36
<i>Commercial (Monthly)</i>						
Block 1	\$ 2.54	\$ 2.82	\$ 3.13	\$ 3.47	\$ 3.64	\$ 3.82
Block 2	2.95	3.27	3.63	4.03	4.23	4.44
Block 3	3.41	3.79	4.21	4.67	4.90	5.15
<i>Agricultural/Irrigation (Monthly)</i>						
Block 1	\$ 3.26	\$ 3.80	\$ 4.43	\$ 5.16	\$ 6.01	\$ 7.00
Block 2	3.77	4.39	5.11	5.95	6.93	8.07
Block 3	4.36	5.08	5.92	6.90	8.04	9.37



Residential Monthly Rate Impact

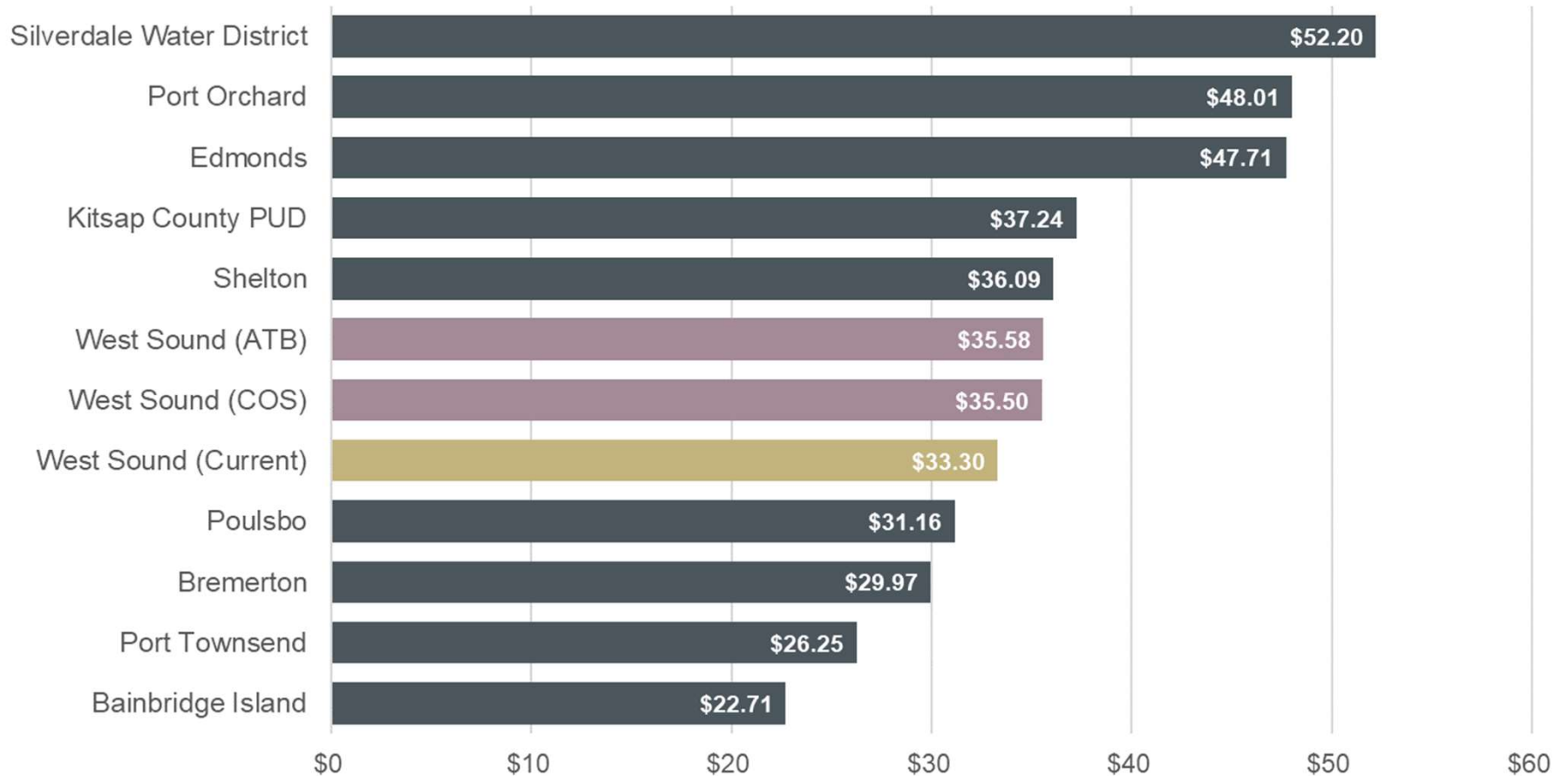


Note: The District bills on a bi-monthly basis. For purposes of the rate survey (next slide), calculated rates in this slide are expressed on a monthly basis.



Water Rate Survey

Single Family: Monthly Water Bills



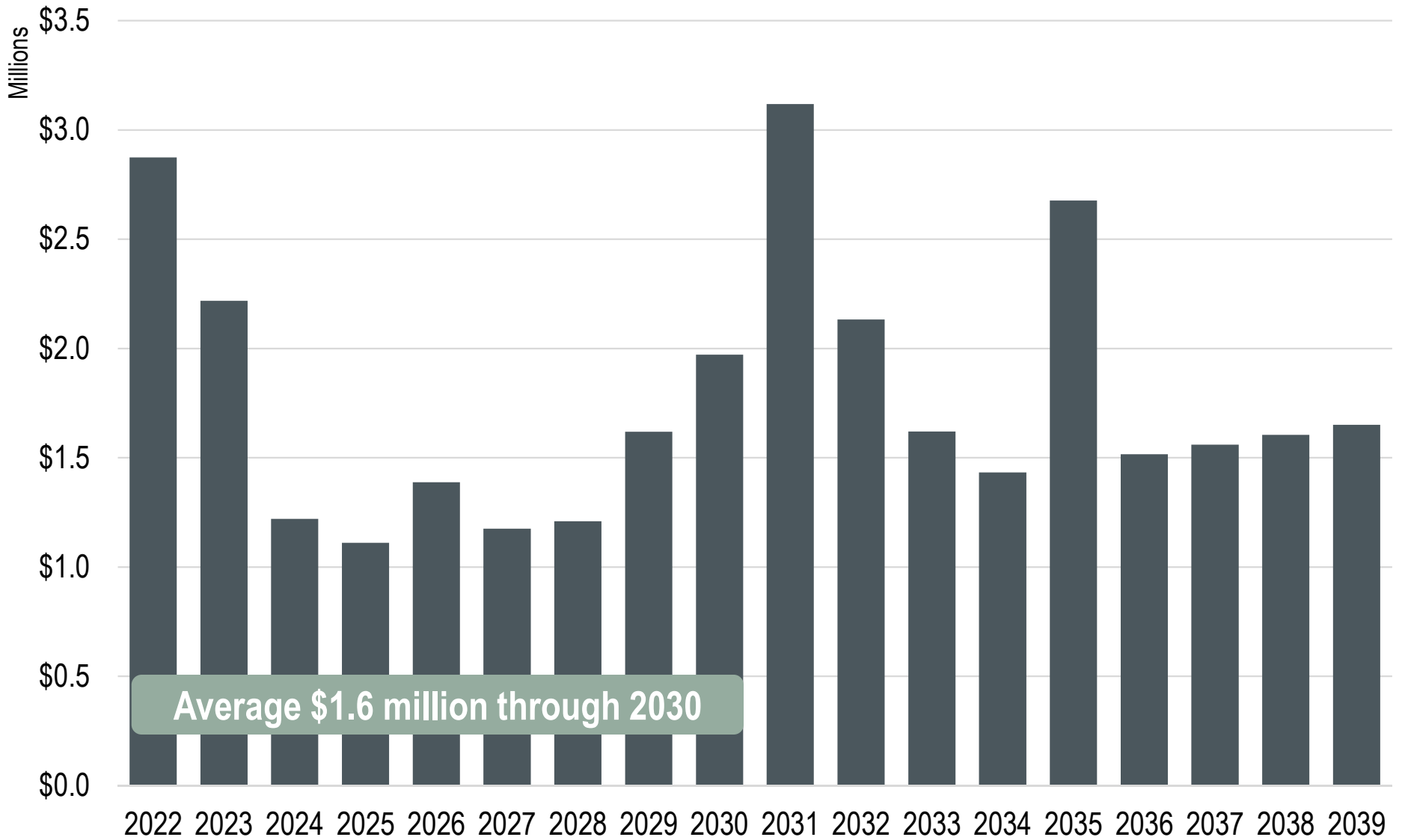
Assumes 6 CCF monthly water use for comparison



Sewer Utility Results



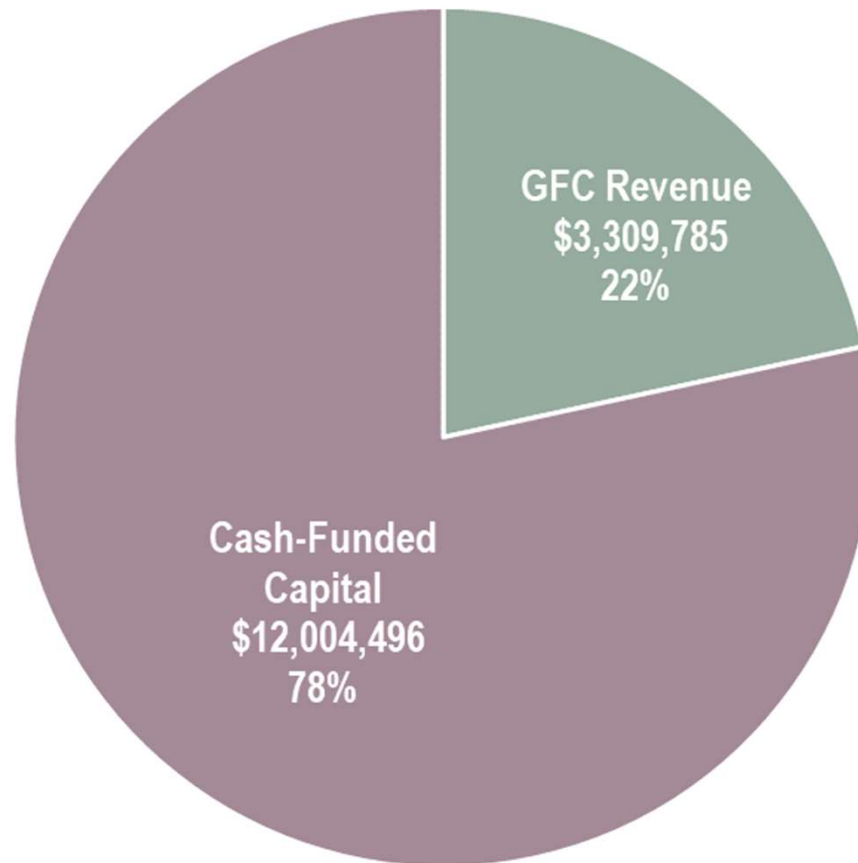
Sewer Capital Improvement Plan





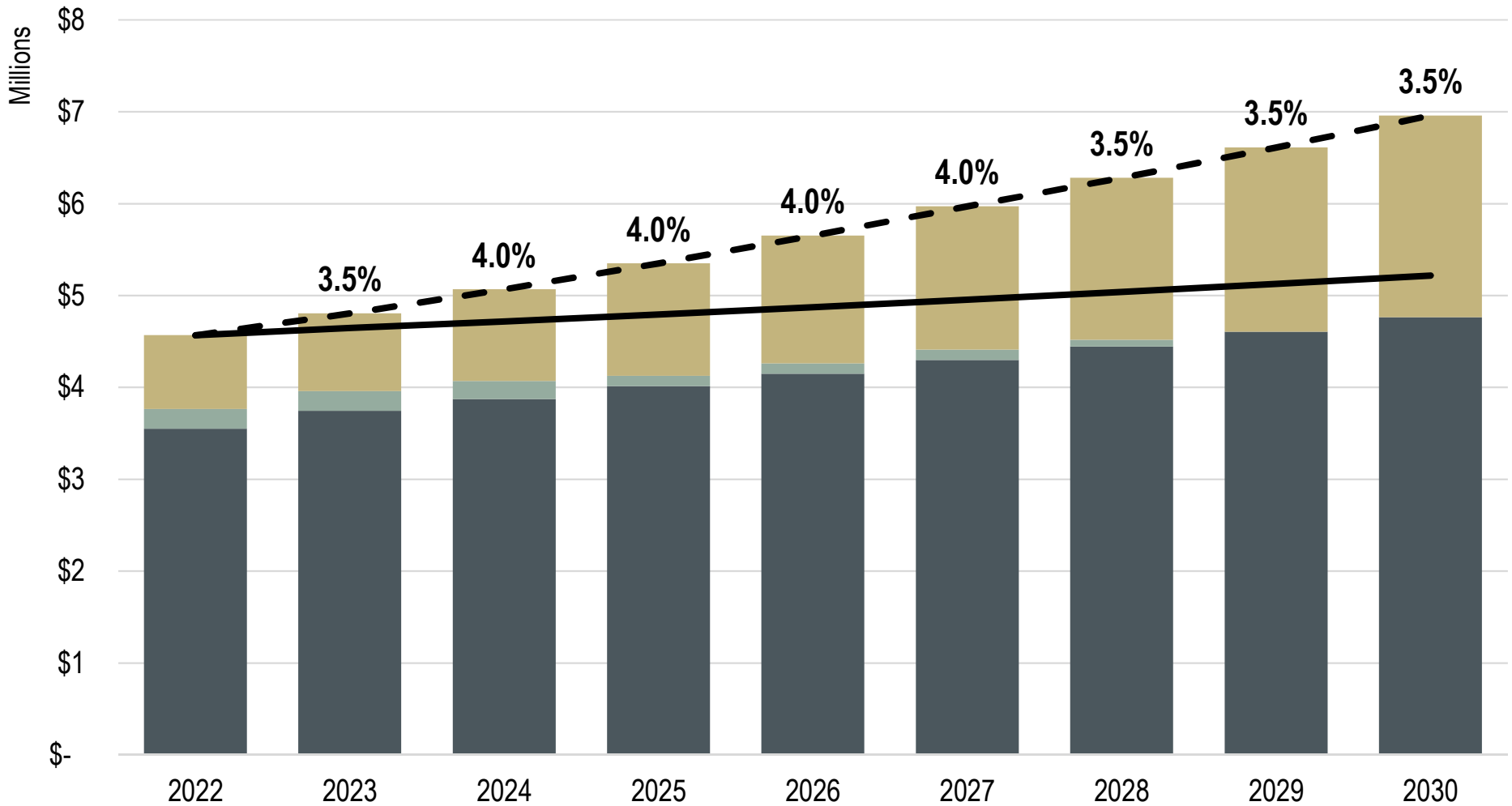
2022-2030 Capital Financing Plan

- **\$15 million in capital projects funded with cash and GFCs (no new debt)**





Sewer Revenue Requirement



Operations and Maintenance

Existing Debt Service

New Debt Service

Rate Funded System Reinvestment

Revenue At Current Rates

Revenues After Rate Increase



Cost of Service Process

- **Step 1: Allocate test year (2023) revenue requirement to cost pools**



- **Step 2: Develop allocation factors using class specific information**



- **Step 3: Allocate costs to customer classes**



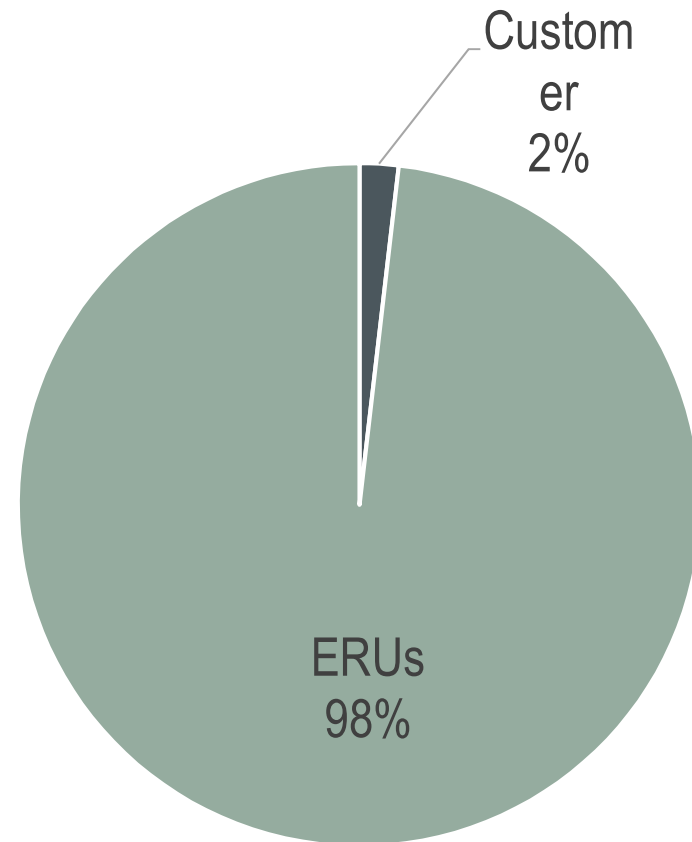
Cost Classification

Customer

Fixed costs that do not vary with meter size or usage (e.g. utility billing)

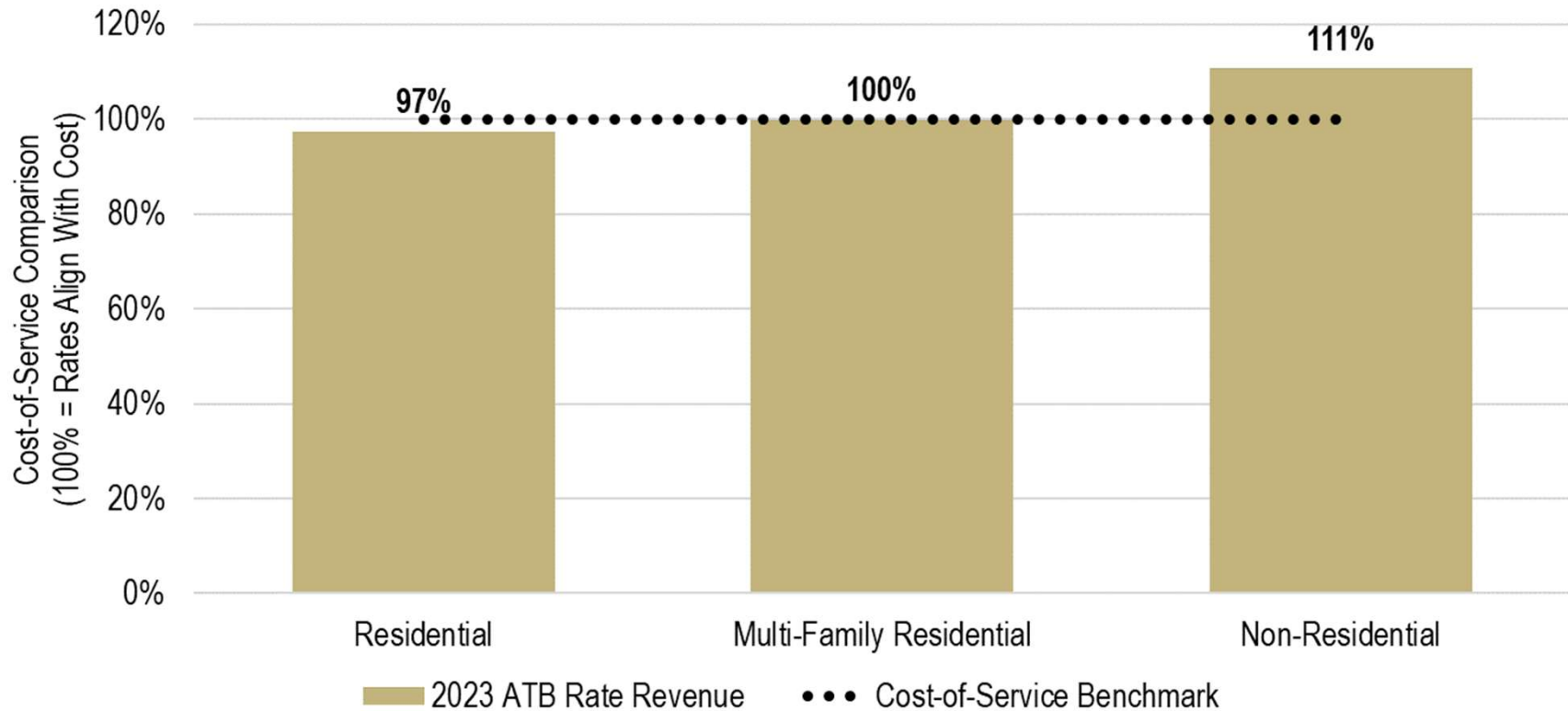
ERUs

Costs that vary based on sewer flow (District is assessed treatment costs from SKWRF on an ERU basis)





Cost-of-Service Results



- **Residential and Multi-Family rates are within a reasonable range to cost**
- **Non-Residential rates are above cost-of-service**

Proposed Rate Changes (2023-2027)

- **Guiding Principles**

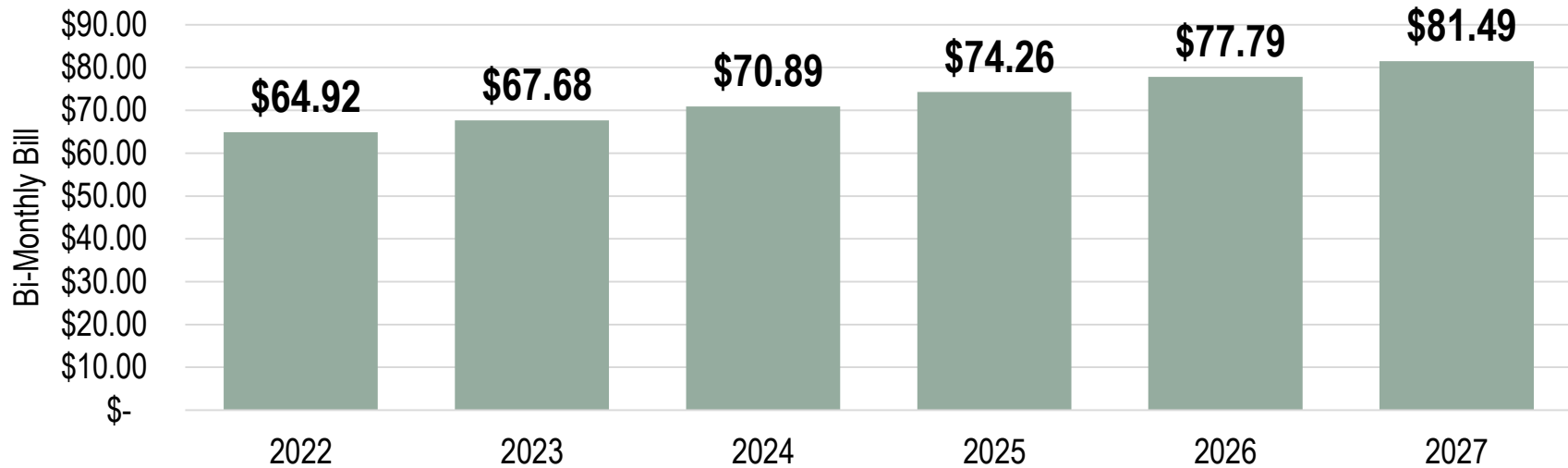
- » Transition existing rates towards cost-of-service results
- » Adjust fixed and variable charges equally
- » Do not decrease rates from existing levels

Class	2023	2024	2025	2026	2027
Residential	4.25%	4.75%	4.75%	4.75%	4.75%
Multi-Family Residential	4.00%	4.50%	4.50%	4.50%	4.75%
Non-Residential	0.00%	1.00%	1.00%	1.00%	0.00%



Proposed Rate Schedule

Residential Monthly Bill Impact



	Existing 2022	Proposed 2023	Proposed 2024	Proposed 2025	Proposed 2026	Proposed 2027
Fixed Charge by Class						
Residential (BiMonthly)	\$ 64.92	\$ 67.68	\$ 70.89	\$ 74.26	\$ 77.79	\$ 81.49
Multifamily up to Tri-Plex (BiMonthly)	64.92	67.52	70.56	73.74	77.06	80.72
Non-Residential (Monthly)	49.81	49.81	50.31	50.81	51.32	51.32
Public Parks - Veterans Memorial Park (Monthly)	64.92	64.92	65.57	66.23	66.89	66.89
Public Parks - South Kitsap Community Park (Monthly)	133.43	133.43	134.76	136.11	137.47	137.47
Golf Course - Village Greens (Monthly)	133.43	133.43	134.76	136.11	137.47	137.47
Volume Charge: per ccf of water usage (Non-Residential Only)	\$ 8.23	\$ 8.23	\$ 8.31	\$ 8.39	\$ 8.47	\$ 8.47



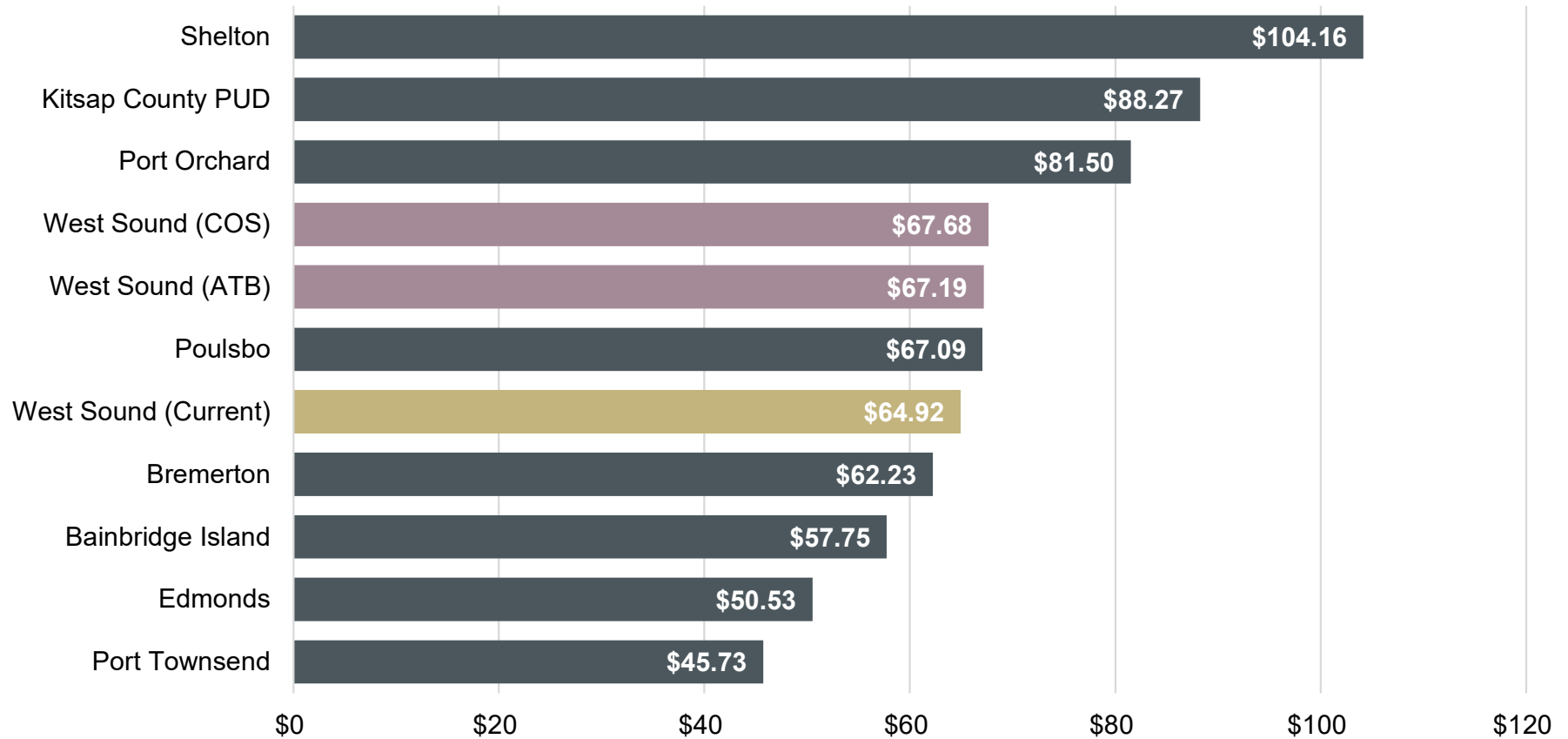
Discussion – Grinder Pump Rates

- **District considering a monthly charge imposed on customers that have grinder pumps maintained by the District**
 - » 355 accounts have grinder pumps (equivalent to ~10% of residential accounts)
- **Cost-based monthly rate is estimated at \$34.84 in 2023**
- **Options for Consideration**
 - » Option 1: Phase-in \$20 monthly surcharge over next three years
 - Mitigates 2023/2024 residential rate increases (3.00% instead of 4.25%/4.75%)
 - Monthly bill for customers without grinder pump would be \$66.87 in 2023
 - » Option 2: Implement \$34.84 monthly surcharge in 2023
 - Increases monthly bill for grinder pumps from \$64.92 to \$98.72 next year
 - Existing residential rates may need to decrease
 - » Option 3: Do not assess surcharge



Sewer Rate Survey

Single Family: Monthly Sewer Bills



Assumes 5 CCF monthly flow for utilities that assess volume rate (Bremerton, Shelton, Poulsbo, and Bainbridge Island) for comparison



Decision Points



Decision Points - Water

- **Adopt across the board (ATB) rate increases or cost of service rate adjustments?**
 - » ATB option:
 - 6.80% increase to all rates from 2023-2025; 5.0% in 2026-2027
 - \$2.28 increase to average monthly residential bill in 2023
 - » Cost of service option
 - Base rates increase 7.0% each year from 2023 to 2027
 - Variable rate increases align to cost-of-service
 - \$2.20 increase to average monthly residential bill in 2023

	2023	2024	2025	2026	2027
Fixed Charge (all classes)	7.0%	7.0%	7.0%	7.0%	7.0%
Variable Charges					
Residential	6.0%	6.0%	3.0%	3.0%	3.0%
Multi-Family	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial	11.0%	11.0%	11.0%	5.0%	5.0%
Agricultural	16.5%	16.5%	16.5%	16.5%	16.5%



Decision Points - Sewer

- **Adopt ATB or cost of service rate adjustments?**
 - » ATB Option
 - 3.5% increase to all rates in 2023; 4.0% increase to rates from 2024-2027
 - \$4.54 increase to bi-monthly residential bill in 2023
 - » Cost of service option
 - \$5.52 increase to bi-monthly residential bill in 2023

Class	2023	2024	2025	2026	2027
Residential	4.25%	4.75%	4.75%	4.75%	4.75%
Multi-Family Residential	4.00%	4.50%	4.50%	4.50%	4.75%
Non-Residential	0.00%	1.00%	1.00%	1.00%	0.00%

- » Implement a separate charge for grinder pump customers?
 - Option 1: Phase-in \$20 monthly surcharge over next three years
 - Option 2: Implement \$34.84 monthly surcharge in 2023
 - Option 3: Do not assess surcharge

Thank you! Questions?

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