



CITY OF
BAINBRIDGE ISLAND

UTILITY ADVISORY COMMITTEE
REGULAR MEETING
WEDNESDAY, FEBRUARY 27, 2019
5:00 PM – 7:00 PM
CITY HALL
COUNCIL CHAMBERS
280 MADISON AVENUE NORTH
BAINBRIDGE ISLAND, WA 98110

AGENDA

1. CALL TO ORDER / ROLL CALL / ACCEPT OR MODIFY AGENDA /
CONFLICT OF INTEREST DISCLOSURE
5:00 PM

CO-CHAIR: ANDY MARON

CO-CHAIR: JEFF KANTER

MEMBERS: CHARLES AVERILL NANCY NOLAN
 STEVE JOHNSON EMILY SATO
 TED JONES

LIAISON: RASHAM NASSAR

2. ACCEPTANCE OF MEETING MINUTES (JANUARY 23 & FEBRUARY 13) – 5 MIN.
3. PUBLIC COMMENT – 5 MIN.
4. PUBLIC WORKS UPDATE (BARRY LOVELESS) – 10 MIN.
5. MEMO TO COUNCIL RE PERIODIC REVIEW OF UTILITIES – 20 MIN.
6. WATER & SEWER RATE STUDY (FCS GROUP) – 50 MIN.
7. COMMENTS FOR THE GOOD OF THE ORDER
8. ADJOURNMENT
7:00 PM

Minutes

1. Call to Order at 5:00 p.m. / Roll Call / Accept or Modify Agenda / Conflict of Interest Disclosure
Present:

Co-Chairs: Andy Maron, Jeff Kanter
Members: Ted Jones, Nancy Nolan, Steve Johnson, Charles Averill
Council Rep: Rasham Nassar
Staff Rep: Barry Loveless

2. Acceptance of Minutes from 9 January. Accepted with no corrections.
3. Public Comment: None.
4. Public Works Update: Skipped to make more time for FGS Rate Study Discussion.
5. Memo to Council re: Periodic Review of Utilities. Discussed briefly at end. Steve and Ted will revise draft memo that Steve presented. Barry will provide by email franchise agreements of PSE and Comcast. Andy pointed out that often a franchise agreement is narrowly focused on roles and responsibilities in city Rights of Way. But much more can be negotiated. UAC review of a non-city utility and associated discussion with the Council may identify goals for the city to seek in subsequent negotiations.
6. Water and Sewer Rate Study Discussion (FGS Group). Chris presented slides with scenarios we asked to see and with updates driven by changes in the council's adopted CIP and budget.
 - Water Rates. With an overall 4 percent revenue increase City can build capital projects fund and will need to borrow \$1M down the road. With 2 percent revenue growth, the city likely will not build a capital project reserve fund and will need to borrow \$1.6M down the road. The 2 or 4 percent revenue increase comes from raising aggregate rates of all customers, but because we are also adjusting rates due to the cost of service analysis, some classes of customers and rate payers will pay much more, and some will pay less or stay the same. The committee felt that most, but not all service classes should be billed in accordance with their cost share over a three-year transition. The committee is leaning toward the 2 percent increase. Chris will bring updated graphs and tables for that scenario at the next meeting for further review and discussion.
 - Sewer Rates. Costs were revised upwards since Chris' September draft. Chris pointed out that the city would need to raise aggregate rates 4% if it is going to build a capital projects reserve fund. The committee reviewed the existing COBI Utility debt schedule. There is a sizable retirement of debt starting in 2026. UAC is leaning more towards 2% aggregate rate growth here, too. Retiring old debt by itself increases the city's borrowing capacity and helps it get the best rates. The committee felt that it didn't make a lot of sense to also be building a reserve fund at the same time. Chris will revise charts and tables based on 2% increase for further review.



The committee also discussed if the rate structure should be biased more towards usage fees than base rate to incentivize conservation. Consensus was that with the complicated adjustment to rate classes to correct cost of service discrepancies, this would just make the result more confusing. As modelled 55 % of system revenues are generated from the Base Rate with residential customers paying 61% in base rate and nonresidential paying 38%. Chris will present an option of applying the increases only to the usage fraction of the bill.

- Presentation strategy. Barry confirmed that under the contract FGS can prepare for the council a slide show (of about 30 slides) and a narrative report with all the tables and models explained. The committee discussed how all this information will be presented to the council; Barry will discuss that further with the administration, council, and consultant. It was decided that the UAC should prepare a memorandum describing the committee's review of the consultant's work and recommending approval of the final product. Andy and Jeff will begin work on the memo.

7. For the Good of the Order. Nothing to report.

8. Adjournment 7:05 p.m.

Co-chair

Date



Minutes

1. Call to order: Meeting called to order at 5:01 p.m.
 - Present: co-chairs Andy Maron, Jeff Kanter; members Charlie Averill, Nancy Nolan, Emily Sato. PW director Barry Loveless. Ted Jones arrived at 5:50 p.m.
 - Chris Gonzales (of FCS Group) participated via phone.
 - Absent: Steve Johnson; council liaison Rasham Nassar.
2. Meeting minutes: Minutes of the prior meeting weren't yet ready, so will be reviewed for the next meeting.
3. Public comment: None
4. Water & Sewer Rate Study
 - Chris Gonzales explained the contents of the February 13 draft of the Water & Sewer Rate Study, with Committee members asking questions and suggesting clarifications.
 - This report, after edits, will be provided to the council for consideration. It will be accompanied by an Executive Summary highlighting the key points and recommended changes.
 - On page 29, an additional change was suggested: eliminate the winter/summer differential for commercial rates.
 - On page 31, it was suggested to omit the bottom red box, i.e. to not implement a uniform volume charge for single- and multi-family residential.
 - Chris will have an update for our next meeting. It's anticipated that the recommendation will be presented to council at its March 19 meeting.
5. Memo to Council re water and sewer rate study.
 - The committee considered the latest draft of the memo, which Jeff, Andy and Nancy have been involved in drafting.
 - All UAC members are invited to send suggested changes to Andy, who will coordinate the process.
6. Memo to Council re periodic review of utilities.
 - Council will discuss in a future work session.
 - Ted and Steve will work on draft memo for consideration by UAC.
7. Public Works update: Brief update to the committee by Barry.

Meeting adjourned at 7:00 p.m.

Co-chair

Date

CITY OF BAINBRIDGE ISLAND
MEMORANDUM

TO: City Council

FROM: Utility Advisory Committee

DATE: February 17, 2019 **DRAFT**

SUBJECT: Recommendation Regarding Revision to Water and Sewer Rates

Beginning in March 2018, the City began a study of the rates and fees charged by its water and sewer utilities. The City retained a financial consultant, who worked with the staff and Utility Advisory Committee (UAC) to evaluate the finances of the utilities and, if necessary, to make recommendations to adjust the rates. The consultant has prepared a report, dated February 2019, detailing the analysis and recommendations. The UAC recommends adoption of the revised rates contained therein.

I. Background of Rate Study

It is standard practice for utility systems to conduct studies of its rates, charges, and fees at periodic intervals to ensure they provide adequate revenue for the utilities, and to insure the rates, charges, and fees are in conformance with state law.

Such studies are frequently conducted following a utility's completion of periodic comprehensive system plans. COBI completed updates to its Sewer System Plan in 2015 and its Water System Plan in 2016-7. In both utilities, it had been many years since previous System Plans had been adopted.

It had also been many years since the City's utility rates, charges, and fees had been evaluated and reconsidered. The City last performed a study to update rates in 2009, but never implemented them. (This was apparently due to the financial challenges experienced by the City during the recession.) As such, the current rate and fee structure has been in existence for a very long time without review. Therefore, in August 2017, the UAC recommended that a rate study be conducted, and the City Council agreed and authorized the current study.

This rate study actually includes an evaluation of six different City utility rates and fees. They are:

1. Winslow water system rates
2. Rockaway Beach water system rates
3. Winslow sewer system rates
4. South Island sewer system rates
5. System participation fees (SPFs) for both water systems
6. SPFs for both sewer systems

In March 2018, the City hired a consultant, Financial Consulting Solutions Group, to evaluate the utilities' rates and make recommendations to City management, the UAC, and ultimately the City Council.

The consultant developed preliminary recommendations which were first presented to the UAC on July 11, 2018. Thereafter, the consultant met with the UAC at 12 additional meetings. The meetings involved comprehensive discussions of the consultant's findings, consideration of financial policies applicable to the utilities, and evaluation of multiple alternatives for implementing adjustments to the rates.

In the fall of 2018, the consultant and UAC completed analysis of the SPFs, and on November 14, 2018, the UAC formally recommended approval of the consultant's recommendations to modify the SPFs (the 5th and 6th items above). The City Council approved the modifications on December 11, 2018.

Thereafter, the UAC continued its discussions with the consultant and staff regarding the rates charged in the Winslow water and sewer systems, the Rockaway Beach water system, and the South Island Sewer System (the 1st-4th items above).

When considering the appropriateness of utility rates, many factors are considered:

1. Revenue requirements of the systems;
2. Projected capital improvements;
3. Cost to serve each class of customer (e.g., single family residential, multi-family residential, commercial, irrigation); These costs usually vary among the classes because operating and capital expenses typically are not equitably allocated to each.

4. Allocation of charges to a minimum level of service (the “base rate”) as opposed to a customer’s actual usage of water or sewer (“consumption rate”);
5. Impact on customers for each separate utility and for the combined users of water and sewer (most, but not all, Winslow residents are served by both water and sewer utilities).

II. Summary of Financial Condition of Utilities

Before discussing the rates, a short comment on the financial condition of the four utility systems will provide some context. In general, the City’s four separate water and sewer systems are in excellent financial condition. However, each is different. Below is a summary of each:

I. Winslow Water System (2598 customers).

The water system has low rates in comparison to other water utilities, and significant reserves (exceeding \$7,000,000). It has no debt. Planned CIP projects over the next 6 years, most notably for improvement to the high school storage tanks, will draw down most of the reserves. Therefore, it is projected that a modest rate increase and limited issuance of bonded debt will be necessary to ensure maintenance of an adequate reserve.

2. Rockaway Beach Water System (70 customers).

This stand-alone water system is operated synonymously with the Winslow water system.. Rockaway Beach customers pay slightly higher rates than Winslow customers, a vestige of the late 1990’s transfer of the system to the City.

3. Winslow Sewer System (2114 customers).

The Winslow sewer system has relatively higher rates in comparison to other local sewer utilities, primarily driven by past expensive upgrades to the Winslow Wastewater Treatment Plant and other projects (such as the reconstruction of an Eagle Harbor beach main). The 6-year CIP includes, among other projects,

expensive renovation of old pump stations, and thus it is expected that a bond issue will be issued in 2021.

4. South Island Sewer (225 customers).

This stand-alone sewer system utilizes the City's collection system with treatment of effluent provided by Sewer District #7 (pursuant to a contract with the City). The customers' sewer rates do not currently include the cost of planned capital upgrades to the system, a vestige of the 2000's construction of the system.

The consultant's analysis of the systems revealed that the costs to serve certain classes of customers did not match the rates charged for those same classes. This finding is not surprising as it has been many years – perhaps decades – since a cost-of-service adjustment was implemented. In fact, reviewing costs-of-service allocation is precisely why periodic rate studies are conducted by utilities.

III. Analysis by UAC of Water and Sewer Rates

With the above summary in mind, the consultant, staff, and UAC concluded that a relatively modest increase in revenue was needed for each utility, but that adjustments in greater or lesser percentages were needed in specific classes of customers.

I. Winslow water system

- a. Needs increased revenue of about approximately \$50,000 each year over the next 5 years.
- b. Such increased revenue will mean that an aggregate rate increase of 2.0% per year is necessary.
- c. Capital and operational costs indicate that rates for single family customers should be increased greater than the 2% aggregate, and rates for multi-family, commercial, and irrigation customers should be decreased.
- d. Rather than immediately making such increase or decrease, the UAC recommends that adjustment of rates between classes of customers be phased in over 3 years, and thereafter the rates be increased by 2% across the board.

2. Rockaway Beach water system):

- a. The conclusions discussed directly above apply similarly to the Rockaway Beach system. It is noteworthy that all of Rockaway Beach's customers are in the single family residential class.
 - b. Continuing to charge slightly higher rates than Winslow's is no longer justified, and therefore the rates should be adjusted to be the same as Winslow.
3. Winslow sewer system:
- a. Needs increased revenue of approximately \$130,000 each year over the next 5 years.
 - b. Such increased revenue will mean that an aggregate rate increase of 2.0% per year is necessary.
 - c. Capital and operational costs indicate that rates for single family and multi-family customers should be decreased rather than increased by 2% per year, and rates for non-residential customers should be increased greater than 2% per year.
 - d. Rather than immediately making such increase or decrease, the UAC recommends that adjustment of rates between classes of customers be phased in over 3 years, and thereafter the rates be increased by 2% across the board.
4. South Island sewer system :
- a. The conclusions discussed directly above apply similarly to the South Island sewer system.
 - b. Current rates do not recover costs needed for capital reinvestment. Accordingly, the rates are being increased to include those costs.

During the 12 meetings the UAC devoted to this topic, the consultant, staff, and UAC discussed many policy questions for the utilities, and how the implementation of various policies would impact the classes of water and sewer customers.

The most Important of the policy questions discussed were the following:

- I. All utilities must continually reinvest in their facilities by construction of capital projects. Should this reinvestment be funded by rates (paid by current ratepayers), bond issues (paid by future ratepayers), or a combination of both?

The UAC answered this by concluding that the systems should continue to employ a combination of both, that is through accumulation of rate-generated reserves and issuance of bonded debt. It is recommended that, over time, a system reinvestment account be created which will hold funds equivalent to 100% ? of annual depreciation of capital assets.

2. As mentioned, it is very common that a rate study reveals that certain classes of customers are paying more or less than the infrastructure and operational costs necessary to serve the classes. How should the inevitable adjustments in rates among classes of customers be implemented?

The UAC answered this by concluding that adjustments of rates among classes should be phased in over three years to allow for better financial planning for customers.

IV. Conclusion

The UAC recommends approval of the water and sewer rates contained in the consultant's report dated February 2019.

APPROVED BY THE UTILITY ADVISORY COMMITTEE ON MARCH ____,
2019

Jeff Kanter and Andrew Maron, Co-Chairs
Charles Averill, Steven Johnson, Ted Jones, Nancy Nolan, Emily Sato