



CITY OF
BAINBRIDGE ISLAND

UTILITY ADVISORY COMMITTEE
REGULAR MEETING
WEDNESDAY, FEBRUARY 13, 2019
5:00 PM – 7:00 PM
CITY HALL
COUNCIL CONFERENCE ROOM
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 – 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

CITY OF BAINBRIDGE ISLAND
MEMORANDUM

TO: City Council

FROM: Utility Advisory Committee

DATE: ~~January-February 1111~~, 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's retained a financial consultant, who worked with ~~and the~~ staff and Utility Advisory Committee (UAC) to evaluate the finances of the utilities and, if necessary, to make ~~have completed their evaluation and are making~~ recommendations to ~~revise adjust~~ the rates, ~~charged to its water and sewer customers.~~ The UAC ~~has received and reviewed the report from the City's consultant~~ has prepared a report, dated February 2019, detailing the analysis and recommendations. ~~and is~~ The UAC recommending adoption of the revised rates contained therein.

I. Background of Rate Study

It is standard practice for utility systems to conduct sStudies of ~~the its~~ rates, charges, and fees ~~of utility systems are usually conducted~~ 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 had 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 for both water systems
6. System participation fees 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. Since that time, the consultant has met with the UAC ~~on at eleven additional occasions meetings, August 11 and 22, September 12 and 26, October 3, 10, and 24, and November 14, 2018, and January 23 and February 13, 2019.~~

On November 14, 2018, the UAC recommended approval of the consultant's recommendations to modify the system participation fees for the water and sewer systems (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 may vary because of
4. Allocation of charges to a minimum level of service (the “base rate”) versus usage of water or sewer (“consumption rate”);
5. Impact on customers for each separate utility and for a combined user (as most Winslow residents are served by both water and sewer utilities).

II. Summary of Financial Condition of Utilities

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:

1. Winslow Water System (customers).

The water system has low rates in comparison to other water utilities, and significant reserves (exceeding \$). It has no debt. Planned CIP projects over the next 6 years will draw down most of the reserves, and therefore it is projected that a modest rate increase and limited issuance of bonded debt will be necessary.

2. Rockaway Beach Water System (customers).

Same condition as Winslow water system above, except 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 (___ customers).

The sewer system has high rates in comparison to other sewer utilities, primarily driven by expensive upgrades to the Winslow Wastewater Treatment Plant and other projects. There are also costly projects on the future CIP.

4. South Island Sewer (___ customers).

Same condition as Winslow sewer system above, except the rates are driven by the cost to treat effluent at Sewer District #7 (pursuant to a contract with the City). The customers do not currently pay for planned capital upgrades to the system, a vestige of the 2000's construction of the system.

This study revealed that the cost 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 is precisely why periodic rate studies are conducted by utilities,

4.III. Analysis by UAC of Water and Sewer Rates

With the above summary in mind, ~~in general,~~ the consultant, staff, and UAC concluded that a relatively modest increase in revenue was needed for each utility, but that the following adjustments in greater or lesser percentages were needed between classes of customers. [FROM FCSG's Executive Summary, which we haven't seen yet]:

1. Winslow water system (___ customers):
 - a. Needs increased revenue of about ___% each year over the next ___ years.
 - b. Capital and operational costs indicate that rates for single family customers should be increased, and rates for multi-family, commercial, and irrigation customers should be decreased.
 - c. _____

d. _____

2. Rockaway Beach water system (~~___~~ customers):

- a. Slightly higher rates than Winslow's are no longer justified, and therefore the rates should be adjusted to be the same as Winslow.
- b. _____

3. Winslow sewer system (___ customers);

- a. Needs increased revenue of about ___% each year over the next ___ years.
- b. Capital and operational costs indicate that rates for single family and multi-family customers should be decreased, and rates for non-residential customers should be increased.

4. South Island sewer system (___ customers):

- a. Current rates do not recover costs needed for capital reinvestment. Accordingly, the rates should be increased to include those costs.
- b. _____

During the twelve 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:

- 1. 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 _____
_____.

2. ~~#As mentioned, it~~ is very common that a rate study reveals that certain ~~general~~ classes of customers (~~single family, multi-family, commercial~~) are paying more or less than the infrastructure and operational costs necessary to serve the classes. ~~This is especially true when rate studies have not been conducted for a long time, as is the case here.~~ How should the inevitable adjustments in rates among classes of customers be implemented?

The UAC answered this by concluding _____
_____.

III.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 FEBRUARY ____, 2019

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