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City of Bainbridge Island

Utility Business Advisor

Final Report

August 2011

INFRASTRUCTURE | MINING & INDUSTRY | DEFENCE | PROPERTY & BUILDINGS | ENVIRONMENT

Acknowledgements

This report was completed by the combined efforts of many people who have a vested interest in assessing the ownership of the City of Bainbridge Island's water system over the past five months. The City of Bainbridge Island Utility Advisory Committee and staff, along with staff from the Kitsap Public Utility District and the Washington Water Service Company participated via providing documents and records as well participating in interviews and follow-up meetings.

In the preparations of this report, we would like to specifically thank the following people for their contributions:

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List of Abbreviations

APWA	American Public Works Association
AWWA	American Water Works Association
CCC	Cross Connection Control
COBI	City of Bainbridge Island
FTE	Full Time Equivalent (as in staffing level)
GF	General Fund
KPUD	Kitsap Public Utility District
MG	Million Gallons
RCW	Revised Code of Washington (laws and statutes)
RIF	Reduction in Force
SS/S	Sanitary Sewer/Storm
UAC	Utility Advisory Committee
UBA	Utility Business Advisor
UBC	Uniform Building Code
UPC	Uniform Plumbing Code
WAC	Washington Administrative Code (standards and regulations)
WADOE	Washington State Department of Ecology
WADOH	Washington State Department of Health
WUTC	Washington Utilities & Transportation Commission
WWSC	Washington Water Service Company

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The Purpose of City of Bainbridge Island Water Utility Business Advisor Final Report

This report was commissioned by the City Council due to concern about high charges to ratepayers. The City of Bainbridge Island (COBI) is committed to providing economically viable water service for the community and wished to assess whether it would be better to maintain its existing water utility or transfer ownership to another water purveyor. The consultant team initiated an independent strategic review of the existing operations and management of the water utility to create a benchmark of current levels of service, identify future goals and requirements, and compare the profile against the two other interested purveyors' capabilities. The interested purveyors were the Kitsap Public Utility District (KPUD) and the Washington Water Service Company (WWSC).

This Final Report captures the data generated during the course of this project, summarizes findings from the collected data, and presents the considerations the consultant team believes the City Council may want to take into account prior to making a final decision on whether to continue operation of the water utility or to transfer it to another purveyor. It is intended to provide information that informs the trade-offs of levels of service, cost, and governance for each option available to the City. Ultimately, it is up to the City Council, with input from staff and the City's Utility Advisory Committee (UAC), to decide what trade-offs are acceptable and how to move forward.

Assessment of Options

The consultant team began by first assessing the interest of water utility purveyors. The existing COBI water utility operation was used as a benchmark against other possible solutions. KPUD was identified as an interested party that had completed studies related to potential acquisition. KPUD's study and threshold interest was communicated to COBI's UAC and City Council. WWSC, which owns and/or operates several small water utilities on Bainbridge Island, also offered to be included in the assessment.

Working with the interested water purveyors (COBI, KPUD, and WWSC), the consultant team identified management only and/or ownership options to be considered for the operation of the COBI water system. An "optimized" option for COBI was also included to see if streamlining operations and costs could occur without reducing the levels of service below those of the other two interested purveyors. The options to be considered are shown in Figure ES-1.

Figure ES-1 Water Utility Management Options

City of Bainbridge Island (COBI)		Kitsap Public Utility District (KPUD)		Washington Water Service Company (WWSC)	
Current	***Optimize***	***Manage***	***Own***	***Manage***	***Own***

Data was requested by the consultant team from each of the three water purveyors which was then used to provide the basis for information used in this report. The consultant team held separate meetings (with no other entity present) to review the data and ensure that our interpretations and assumptions regarding each entities response were correct and accurate. The data provided was not independently verified via a forensic audit by the consultant team. However, some documents included as part of this assessment were independently reviewed and provided by the Washington State Auditor's office and the Washington State Utilities and Transportation Committee.

Evaluation of Options

Operationally, all three providers are very similar in competence and capability. All three water purveyors have long histories of safely providing water service in the area. In the case of operational capability, the City generally has a more progressive preventative maintenance schedule and cross-connection control (CCC) program. Both KPUD and WWSC are able to provide their services with lower staff rates than COBI while meeting WADOH regulatory requirements. The "Optimized" scenario presented in this report assumes a reduction in staffing from 6.5 to 3.9 FTEs, resulting in a savings of approximately $250,000. The primary source of FTE reductions would come from revising and/or eliminating the preventative maintenance and CCC programs to align them to the current level of service currently provided by KPUD and WWSC. Additional service reductions in the areas of customer service and billing will be necessary if the City implements the "Optimized" scenario.

All three water purveyors routinely produce annual financial statements, budgets, approved rates/fees/charges, and policies for accepting and charging new connections, monthly billing and rates, delinquencies, and addressing water leaks. The details vary based on the requirements of the statutes under which they operate (city, public utility district and privately-owned) and the nature and "character" of the utility. All three mentioned customer service and rates as key factors to the customers. The key financial indicators analyzed include how the water expenses translate to water rates.

To assist with developing a comparison of water rates, two sets of scenarios were developed to compare each of the available options. In the first set, the reserves were not specified for use for any of the alternatives. Rates would be used when possible to fund capital improvements on a steady level and the associated rates would be comparable between alternatives. The second set of scenarios included the use of reserves for future capital.

Even without the use of reserves, all options result in a significant reduction from the current monthly rate of $64.98 for the City's water utility customers. The comparative percentage savings in order of highest to lowest are: COBI-Optimize 45%, KPUD 35%, COBI-Current 34%, and WWSC 27%. The range of estimated rates is between $35.94 and $47.54 per month as shown in Figure ES-2. Instead of demonstrating that one option is substantially better than the others, this report finds that COBI can provide water service at a competitive rate, $43.15 in current form or $35.94 in optimized form, should the City Council choose to do so. This report also finds that the KPUD rate of $42.39 is very competitive and would result in a viable option for the City's water utility customers. WWSC is a bit higher at $47.54 but is not substantially out of line with the others.

Figure ES-2 Estimated Monthly Rate without Capital Reserves

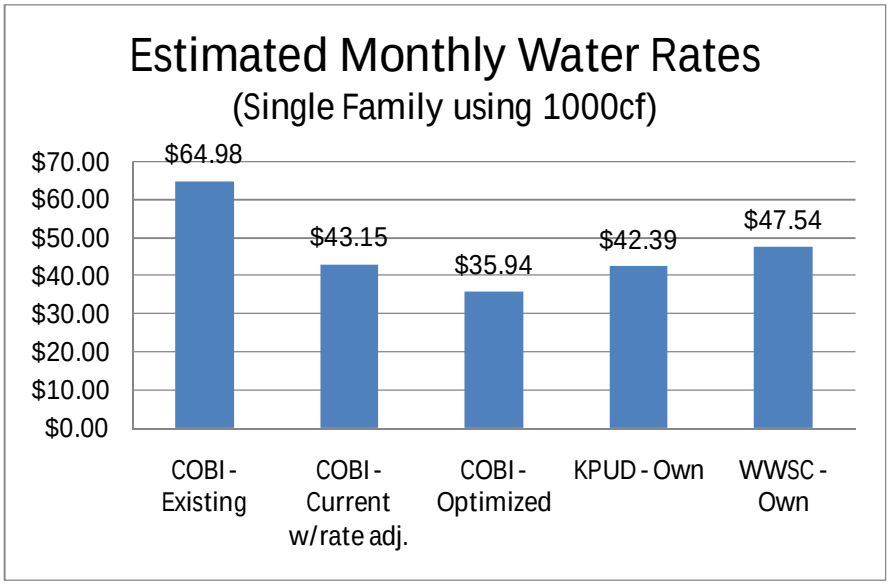
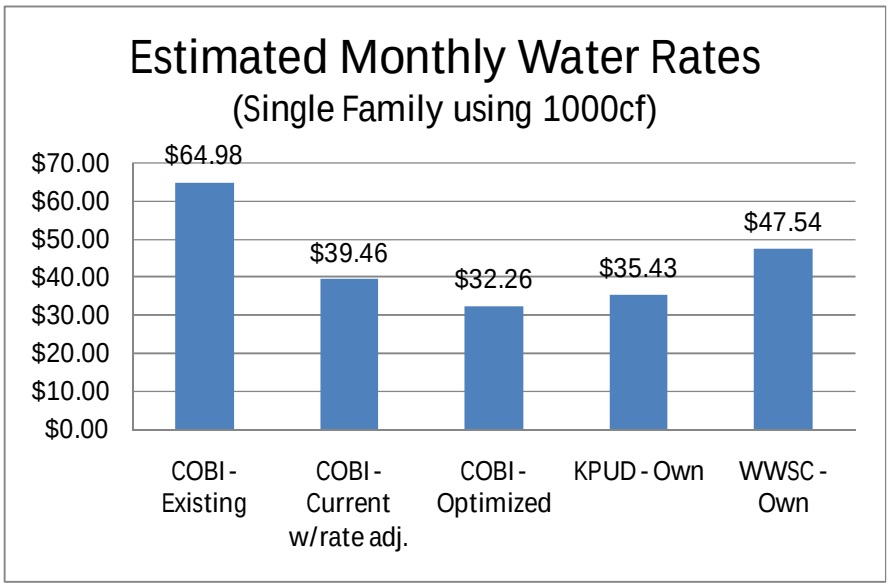


Figure ES-3 illustrates the estimated monthly rates assuming that reserves are used for capital replacement when possible instead of rates. The comparative percentage savings in order of highest to lowest are: COBI-Optimize 50%, KPUD 45%, COBI-Current 39%, and WWSC 27%. The three options that appear to provide significant savings include the COBI Current with Rates Adjusted at $39.46, COBI Optimized at $32.26 and KPUD at $35.43. With this scenario, WWSC does not appear to be competitive to the other three on a monthly rate basis.

Figure ES-3 Estimated Monthly Rate Using Capital Reserves



Finally, an assessment of impacts chart was developed based on the point of view from the current City ownership and control of the water utility. This identified operational, financial, and strategic issues that, depending on the option selected, may or may not have an impact on the City's ability to influence the long-term financial, operational, and environmental policy on Bainbridge Island.

Figure ES-4 shows that if the there is no impact to the City or its ratepayers, analysis will be given a "green" value that indicates "status quo." Possible impacts or future issues are noted with a "yellow" flag and a description of the impact. Finally, imminent issues that will result in a significant impact to the status quo are given a "red" flag and a description of the impact. The summary of the assessments is based on the following subjects.

Figure ES-4 Assessment of Options

Water Utility Management Options	City of Bainbridge Island (COBI)		Kitsap Public Utility District (KPUD)		Washington Water Service Company (WWSC)	
	Current	*Optimize*	*Manage*	*Own*	*Manage*	*Own*
Operations						
Meets O&M Requirements	Yes	Yes	Yes	Yes	Yes	Yes
Controls Level of Service	COBI	COBI	COBI/KPUD	KPUD	COBI/WWSC	WWSC
Schedules Capital Projects	COBI	COBI	COBI/KPUD	KPUD	COBI/WWSC	WWSC
Financial						
Lower Rates for Customers	Yes	Yes	Yes	Yes	Yes	Yes
Ability to Finance Capital	Yes	Yes	Yes	Yes	Yes	Yes
Issues with Existing Debt	No	No	No	No	No	No
Strategic						
Purveyor Already on Island	Yes	Yes	Yes	Yes	Yes	Yes
Water System Ownership	COBI	COBI	COBI	KPUD	COBI	WWSC
Growth/Water Resource Planning	COBI	COBI	COBI	KPUD	COBI	WWSC
Public or Private Entity	Public	Public	Public	Public	Private	Private
Key Assumptions						
Decouple Sewer Bonds	Yes	Yes	Yes	Yes	Yes	Yes
Further Staff/Service Reduction	Yes	Yes	No	No	No	No
Set Levels of Service	Yes	Yes	Yes	No	Yes	No
Acquire Other Systems on Island	No	No	N/A	N/A	N/A	N/A

Final Considerations

The report has demonstrated that all three purveyors (COBI, KPUD, and WWSC) can be competitive in owning and operating COBI's water utility. The two other interested purveyors identified (KPUD and WWSC) are both capable water purveyors that provide service in accordance with WADOH regulatory requirements. KPUD is already providing water service to North Bainbridge Island and other smaller systems on Bainbridge Island at rates lower than COBI's current rates. WWSC could also provide reliable water service at a lower rate that COBI currently pays, and already provides water service to smaller systems on Bainbridge Island. Both offer stream-lined, efficient operations due to economy of scale as described in Chapter 2.

The policy issue for the City Council is: Should COBI remain in the water business? Before the City Council decides whether to stay in or leave the water utility business it should consider the impacts that are both financial and governance related. These include:

1. Reduced rates for ratepayers are achievable with all three purveyors. The report shows COBI can reduce its current rates to be comparable or better than KPUD's and WWSC's and still maintain a financially viable water utility fund. Further savings would be realized by reducing staffing levels to 3.9 FTEs. This would result in reduced levels of service to current ratepayers, but WADOH regulatory requirements would still be met.
2. Transferring ownership of the water utility will impact the general fund of the City anywhere from $150,000 to $300,000 per year, depending on which option is selected and whether the stranded costs are mitigated via collecting other sources of water utility related revenue (franchise fee, utility tax, etc.).
3. Transferring ownership of the water utility will impact the City's sewer and storm utility funds by approximately $90,000 per year. There will also be an impact to operational efficiency and effectiveness of the City's storm and sewer field activities if any operations staff positions are eliminated from the water utility.
4. Most often cities believe that in order to provide effective communication, service, and efficient interactions with citizens, a city must manage its own utilities. To provide consistent service most cities look to own all the utilities throughout city limits. The City Council should consider whether the impact of transferring the water utility to another purveyor would significantly impair its ability to provide effective service and communication with its citizens; as well as to manage land use decisions and ensure the long-term sustainability of Bainbridge Island's limited water resources.
5. Currently, all previously unclaimed water service areas on Bainbridge Island have been identified in COBI's future service area. The City Council should consider which purveyor or purveyors should fill this role if COBI were no longer in the water business.

The City should take the following into consideration if they decide to retain the utility:

1. Reduce water rates in line with the report's findings.
2. The City should consider creating a rate stability reserve to assist in times of weather- or conservation-related swings in water usage that impact water sales revenue. This would be in addition to the current utility reserves and would be used to avoid drastic impacts on water rates that may be required to make up for weather- or conservation-related water usage.

3. The amounts for target reserves used in this report are more conservative than current City policy, meaning higher amounts are identified to be held in reserve. This provides a floor such that the water utility would be in a solid position to respond to unanticipated or emergent needs. The remaining reserves would be applied to fund identified capital projects.
4. The annual amount of capital replacement to be funded by rates should be defined in policy. This report provides two scenarios which included 2.5% of fixed assets ($445,000) and annual depreciation ($300,000). The 2.5% of fixed assets is relevant to KPUD (1.5-2%) and WWSC (2.5-3%). However, if the City intends to apply reserves for identified capital projects, the annual capital replacement could be defined at the lower annual depreciation ($300,000) level. This should be reviewed each time the water system plan is updated to ensure the projects can be funded.
5. Consider outsourcing certain functions that are contracted out by other purveyors to avoid varying levels of demand; such as developer review, construction management and inspection, water system mapping, and annual maintenance agreements.

The City should take the following into consideration if the decision is to transfer the utility:

1. Enter into negotiations to transfer the water utility to KPUD. KPUD is the consultant team's recommended choice over WWSC as they have a history of long-term financial performance, proven staff capabilities, and a track record of providing service to a significant number of customers on Bainbridge Island.
2. Begin working on mitigation strategies to limit financial impacts to the general fund, as well as the sewer and storm utility funds.
3. Begin working on mitigation strategies to limit impacts to governance capability (revise land use designations, restrictions related to water resources, etc.).
4. Begin discussions with KPUD, Kitsap County, and WADOH to determine who will service the future service areas on Bainbridge Island that are currently outside of COBI's retail water service area.

Finally, regardless of which option is selected, the City may wish to consider the following items:

1. At present, a city utility tax is only imposed on COBI's water utility ratepayers. The City may consider changes to this policy, if appropriate, after making its ownership decision.
2. Franchise Agreements and/or Fees: Some cities use franchise fees as a possible method of collecting something similar to a utility tax intended to support road-related and other necessary general fund administration of franchises. The City may consider changes to its current franchise agreement policy to mitigate some of the noted financial impacts.

1. Management and Ownership Options

1.1 Objective

The Utility Business Advisor (UBA) consulting team was selected by the City of Bainbridge Island (COBI) to review the performance of the water utility, as well as assess the viability of other interested purveyors in either the long-term management or ownership of the COBI water utility. The team was led by Thomas Keown, P.E. (formerly of GHD Inc., now with Kennedy Jenks Consultants) along with Katy Isaksen (Katy Isaksen & Associates) and Gary Bourne, P.E. (BHC Consultants).

The goal of the consultant team was to identify and compare alternatives from operational, financial, and strategic perspectives to support the City Council, Utility Advisory Committee, and staff in policy discussions and ultimately a final decision regarding the ownership and management of the water utility.

Background

The City requested that KPUD provide a proposal for the potential transfer of the COBI water utility. The August 30, 2010 proposal from KPUD to the City was used in the conduct of this report. Additionally, the consultant team reviewed and utilized the Utility Advisory Committee Cost Analysis Comparing COBI and Proposed KPUD Water System, dated June 10, 2010.

1.2 Water System Ownership and Management

The consultant team spent February and March, 2011 coordinating and reaching out to possible interested parties to assess their interest in either management and/or ownership of COBI's water utility.

The consultant team began work by first assessing the interest of water utility purveyors. The existing COBI water utility operation would be used as a benchmark against other possible solutions. KPUD was a known interested party due to the on-going conversations and studies that had been completed to date and reviewed by COBI's Utility Advisory Committee (UAC) and City Council. WWSC, which owns and/or operates several small water utilities on Bainbridge Island, was also interested in the assessment. These three water purveyors would become the focus of the consultant team's efforts to assess the pros and cons of their ability to provide comparable and cost-effective service for COBI's water utility.

1.2.1 City of Bainbridge Island Water Utility

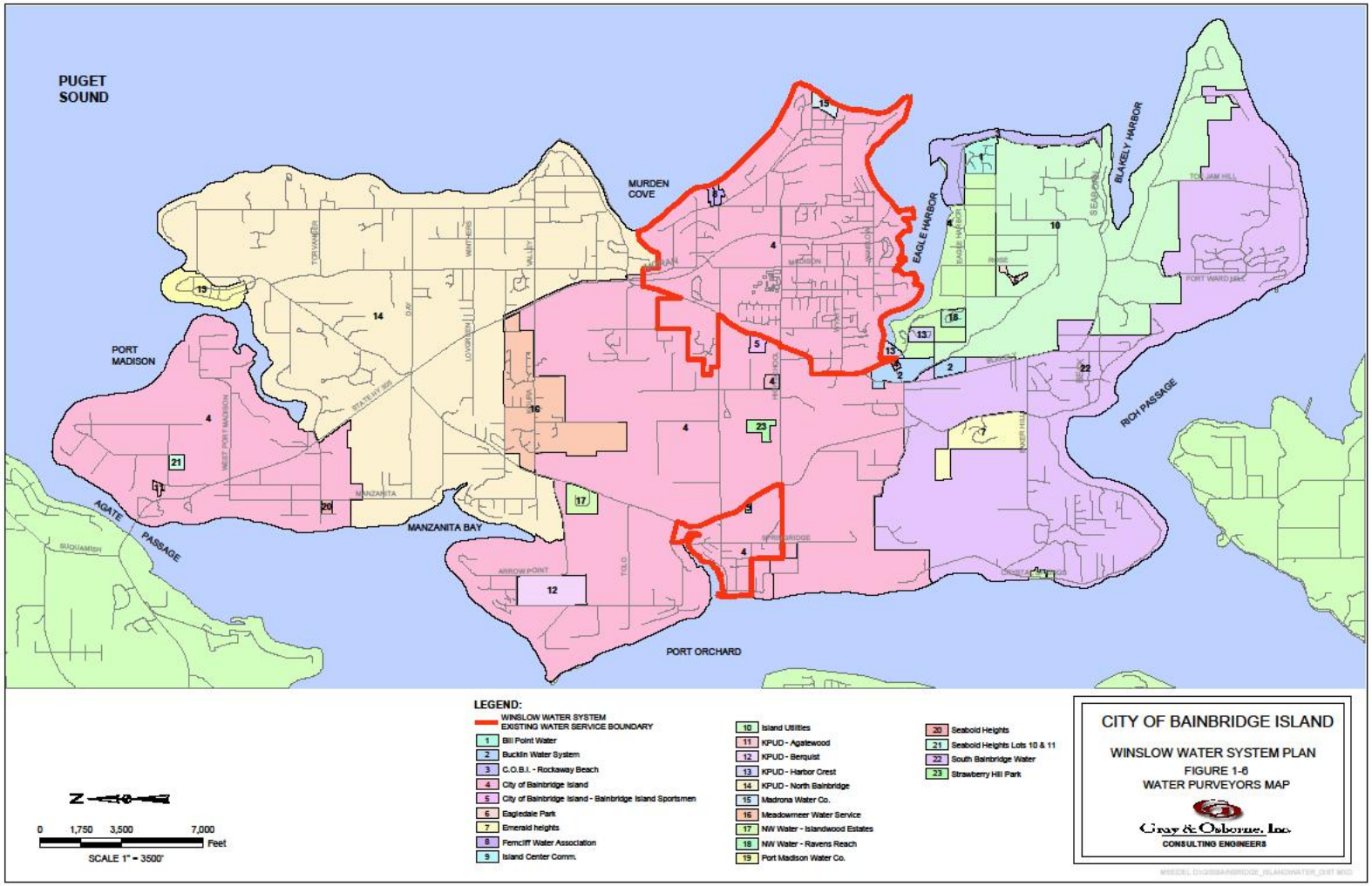
The City's water utility was formerly known as the Winslow Water System. The City of Winslow voted to incorporate all of Bainbridge Island in 1991, and at that time the name was changed to the City of Bainbridge Island. The water utility's infrastructure is located on the north side of Eagle Harbor on Bainbridge Island and is owned and operated by COBI. The Washington State Department of Health (WADOH) water system identification number for the system is 97650. The City is governed by a City Council-Manager form of government.

Groundwater wells were, and continue to be, the source of supply for the water system. Storage for the water system originally consisted of two 150,000-gallon reservoirs, one of which was located at Knechtel Way and the other at High School Road and Lovell Avenue. A new 1.0 million gallon (MG) reservoir was constructed at the High School in 1970, along with a transmission main from the head of the bay to the reservoir. In the 1970's the City added two additional wells at the head of the bay and purchased the Fletcher Bay Well from Kitsap County PUD No. 1. A 300,000 gallon reservoir was also constructed at Grand Avenue to serve the lower pressure zone in the Wing Point area. Between 1985 and 1993, the City constructed a 1.5-MG reservoir at the High School site, Sands Well No. 1, and another well at the head of the bay. Sands Well No. 2 was drilled at this time, but not put into service until 1995.

The approximate number of water connections COBI currently serves is 2,300. There are currently 6.5 full time equivalents (FTEs) that assist with day-to-day operations, administration/billing, and management of COBI's water system. COBI's service area is shown in Figure 1-1. This figure was published in the 2006 Winslow Water System Plan update and also includes the service areas of several other water purveyors on Bainbridge Island.

In addition to those water purveyors identified on the map, there are many smaller water systems active on Bainbridge Island. There is not a unified water system or purveyor for all of Bainbridge Island. COBI currently serves the areas outlined in red on Figure 1-1 and is positioned to provide municipal water services to the remainder of Area 4 as necessary.

Figure 1-1 COBI Water System Service Area Map



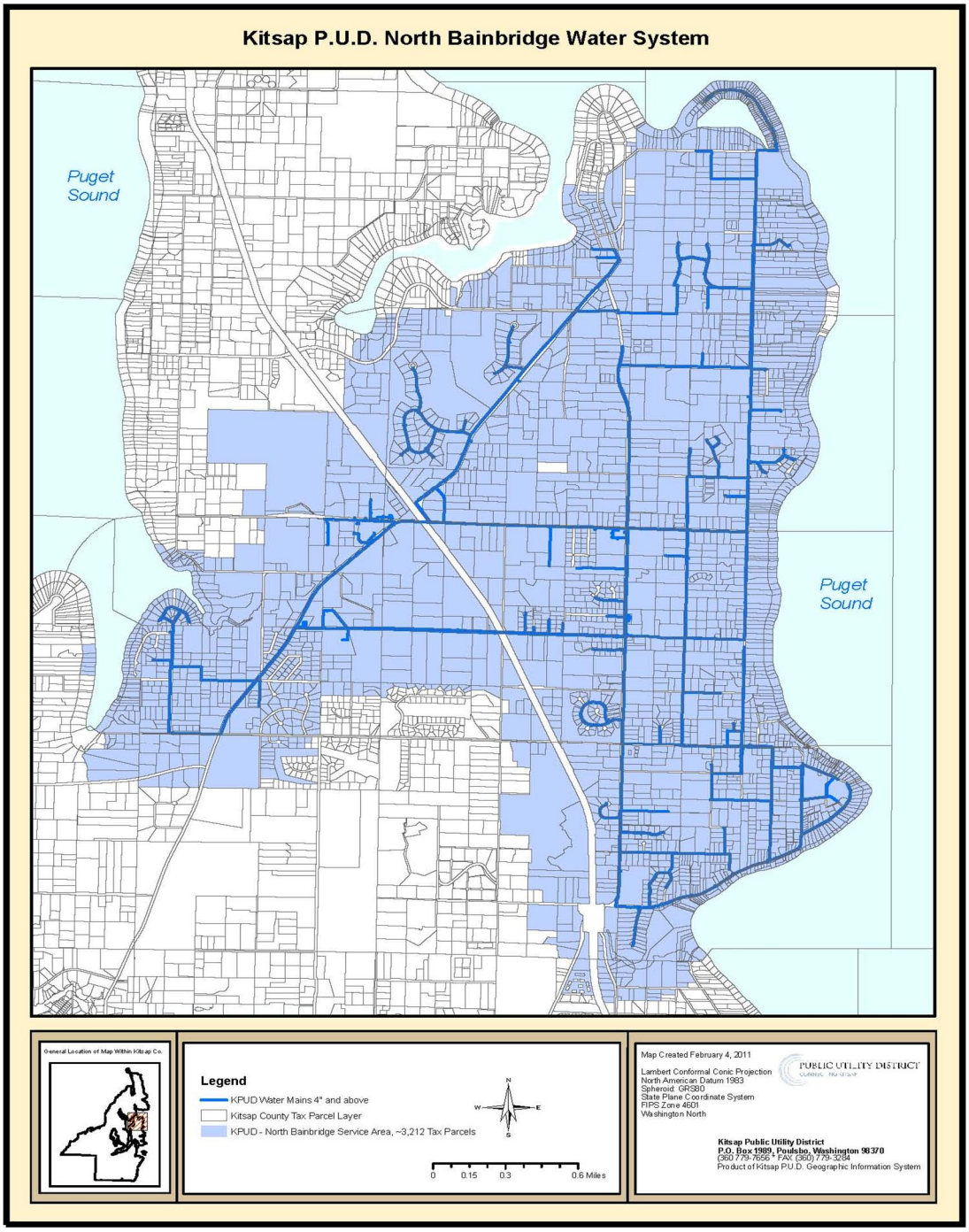
1.2.2 Kitsap Public Utility District

The Kitsap Public Utility District (KPUD) is a municipal corporation (a governmental special purpose district) with incorporated boundaries contiguous with those of Kitsap County (County) in Washington State. The District is governed by a three member elected Board of Commissioners. Public Utility District authority and responsibilities are codified under Chapter 54, Revised Code of Washington.

KPUD is an approved Satellite Management Agency and serves as the "receiver" of failing, or nonviable, water systems on behalf of Kitsap County. There are currently 27 full time equivalents FTEs that assist with day-to-day operations, administration/billing, and management of 62 water systems KPUD owns. Through an agreement with Kitsap County Health District – KPUD provides "sample only" services, on an annual contract renewal basis, to approximately 139 Group B water systems in Kitsap County. The approximate number of connections KPUD currently serves is 14,600. Groundwater wells were, and continue to be, the source of supply for most of these water systems. Among the water systems KPUD owns and/or operates is the North Bainbridge Island water system. Its service area is located adjacent to the northern service boundary of COBI's water service area as shown in Figure 1-2.

Per the consultant team's conversation with KPUD, they expressed their continued interest in ownership of the COBI water utility. They would also consider management of the water utility, but they made it clear their primary interest would be to own the water utility so as to ensure they could operate the system within the costs allowed by their current water rate structure. Their opinion of a management only solution was that they perform the necessary tasks, but the additional administrative burdens would limit their current internal efficiencies. This would result in a higher cost, estimated in the range of 15-20% above their current rates.

Figure 1-2 KPUD North Bainbridge Island Service Area



1.2.3 Washington Water Service Company

The Washington Water Service Company (WWSC) is regulated by the Washington Utilities and Transportation Commission, and has been designated by WADOH as a Satellite Management Agency for water systems in multiple counties throughout the state. They are a private-for-profit water utility provider and are a subsidiary of the California Water Company.

Today, WWSC employs more than 50 Washington-based employees with customer service and operations centers located in Gig Harbor and Olympia, along with three field offices in Sequim, Issaquah, and Orcas Island, Washington. Overall, WWSC serves nearly 300 Washington water systems ranging in size from 3 service connections to 1,600 and is the largest investor-owned water utility in the state. The approximate number of water connections WWSC currently serves is 17,347. This includes ownership and/or management of several small water systems located on Bainbridge Island.

Per the consultant team's conversation with WWSC, they expressed an interest in either managing or owning COBI's water utility. They have many years of experience working with water purveyors and believe they could find a reasonable solution that could fit COBI's particular needs.

1.3 Management and/or Ownership Options

The next step was working with the interested water purveyors (COBI, KPUD, and WWSC) that were identified to assess their specific interest in either management and/or ownership of the COBI water system. In the case of COBI, the consultant team reviewed the current operation to establish a baseline of services provided and the cost of service to establish a baseline from which to benchmark against other purveyors. Using this information, the consultant team developed and assessed an "optimized" solution for COBI to see if streamlining operations and costs could occur without violating WADOH regulatory requirements, as well as meeting the levels of service of the other two interested purveyors. An "expanded" COBI water system was also considered with the intent that the other purveyors might achieve some efficiency by serving additional customers. COBI could also potentially serve other customers through the assumption or merger of existing water systems on the island. No systems were identified and a detailed analysis was not completed as part of this report. The scenario breakdown is listed below in Figure 1-3:

Figure 1-3 Water Utility Management Options

City of Bainbridge Island (COBI)		Kitsap Public Utility District (KPUD)		Washington Water Service Company (WWSC)	
Current	***Optimize***	***Manage***	***Own***	***Manage***	***Own***

Related Documents

The documents that were received from each of the respective purveyors and were used in this report are located in Appendices A through C. Electronic copies of the documents will be provided.

2. Chapter 2: Data Acquisition

After assessing which purveyors were interested in further discussions related to the COBI water utility, the consultant team needed to take the next step of addressing how to create an “apple to apple” comparison of the services, cost, and governance issues that could be encountered in each scenario when compared to COBI’s current water utility operation.

Policies, procedures, and historical records were reviewed to ensure each purveyor could meet or exceed the current level of services to current utility customers. For example, each purveyor was asked how they would use and/or enforce the current COBI Water System Design Standards, which document the design standards and procedures for development of the water system, to ensure their commitment to meeting current COBI standards. These and many other operational, financial, and strategic questions formed the basis of the consultant team’s data requests and subsequent analysis which is contained in Chapter 3.

2.1 Underlying Assumptions

Each purveyor had to demonstrate to the consultant team that they had the capability to meet the following goals for water service:

Goal 1: Provide safe, reliable, and timely water service to current COBI water utility consumers at a fair and reasonable price.

Goals 2: Minimize the possible impacts to current water utility customers when assessing strategic options for the long-term ownership of the water utility. This includes assessment of the following impacts:

Financial

- Water utility funds (impacts to capital and reserve funds)
- COBI general fund, including lost utility tax funding
- Water rate impacts to current COBI customers
- Other COBI utility funds
- Valuation of the existing water utility
- Imposition of utility tax or franchise agreement fee on non-COBI purveyors

Operational

- Levels of service (preventative maintenance, cross-connection control program, etc.)
- Capital project planning and coordination

Strategic

- Water resource management
- Growth management and land use control
- Impacts to the Municipal Code
- Lane Case

2.2 Operational Benchmarking Assessment

In order to conduct an initial benchmarking assessment of COBI's current water utility operations, a high level benchmarking assessment was used to form a baseline. The intent was to review current full-time equivalent (FTE) staff levels when compared to a range of other water purveyors located in western Washington. The FTE count includes all management, administration, engineering, and operations staff allocated to the purveyor's water utility.

COBI's water utility currently supports 6.5 FTEs for its 2,300 connections and 49 miles of water main. KPUD currently supports 27.15 FTEs for its 14,600 connections and 301 miles of water main. WWSC currently supports 32 FTEs for its 21,600 connections and 200 miles of water main. The other purveyors that were included in this report were selected based on each purveyor's water utility (only) data which included:

- Staffing levels (based on FTEs)
- Size of the utility (number of water connections)
- Type of source of supply (wells, surface water, and purchase)

In this case, the included purveyors were either a similar size to COBI, had a similar source of supply, or both. True comparisons of same size and condition are difficult in the COBI case given the checker board nature of the water utility service boundaries in the City.

Figure 2-1 Number of Connections per FTE

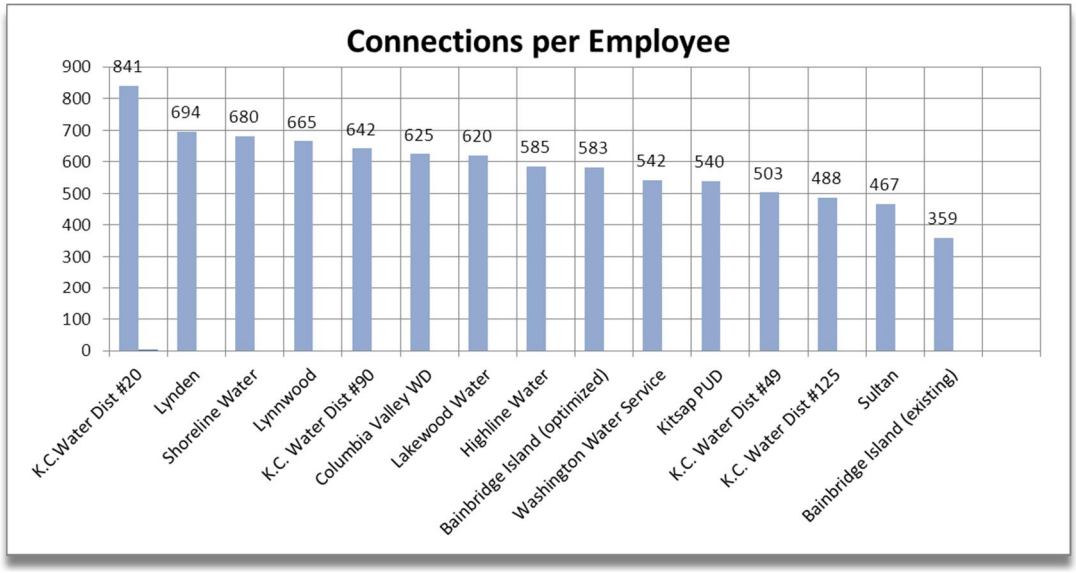
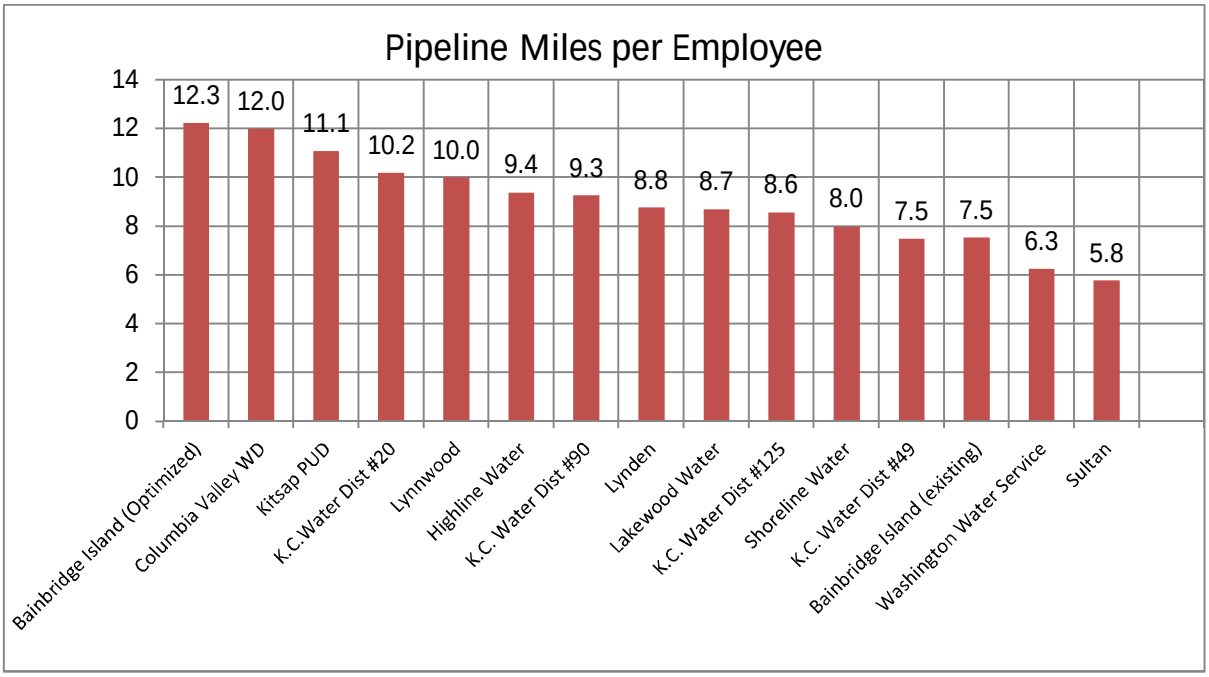


Figure 2-2 Pipeline Miles per FTE



As part of this report, the allocations for Number of Connections per FTE Figure 2-1) and Pipeline Miles per FTE (Figure 2-2) for COBI and the interested purveyors were compared and evaluated against other water purveyors from Washington State to develop a benchmark for FTE staffing levels. The existing COBI benchmark levels lagged behind the other purveyors in both figures. This benchmarking effort led to the development of an "optimized" scenario to help establish an *average* number of FTEs that COBI needs to effectively manage the existing water system's infrastructure.

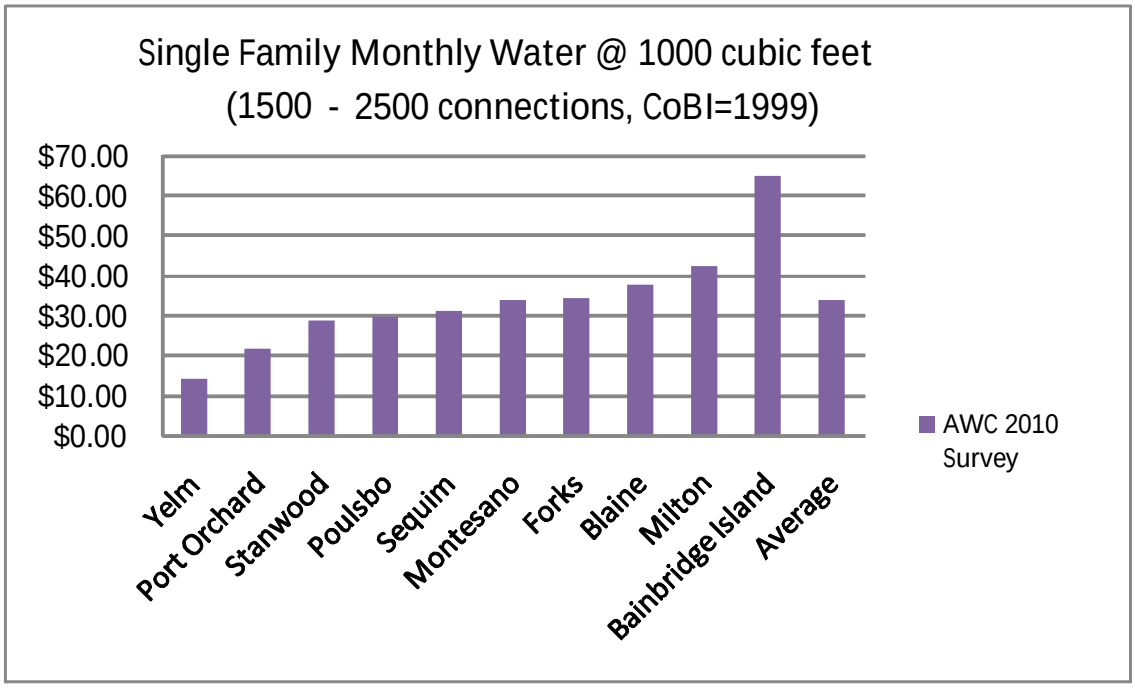
In this "optimized" scenario, the number of FTEs was reduced from 6.5 to 3.9. This resulted in the Numbers of Connections per FTE value to improve from 359 to 583. Likewise, the Pipeline Miles per FTE improved from 7.5 to 12.3. After initial discussion with City staff regarding operations, it was agreed that it would be possible to reduce 2.6 FTEs. The primary goal of producing safe, reliable water in accordance with state regulations would be met, but there would be a reduction in current services (e.g. preventative maintenance, scheduled meter replacements, etc.).

It should be noted that while benchmarking can provide extremely useful data and improve the understanding of how a purveyor's services and processes compares to others, it is not intended to be the only tool used to make decisions on moving forward and means of improvement. In this report, additional analysis via interviews was conducted and will be discussed in more detail in Section 2.4 to illuminate further the financial, operational, and strategic services and activities that each respective water purveyor can provide.

2.3 Financial Benchmarking Assessment

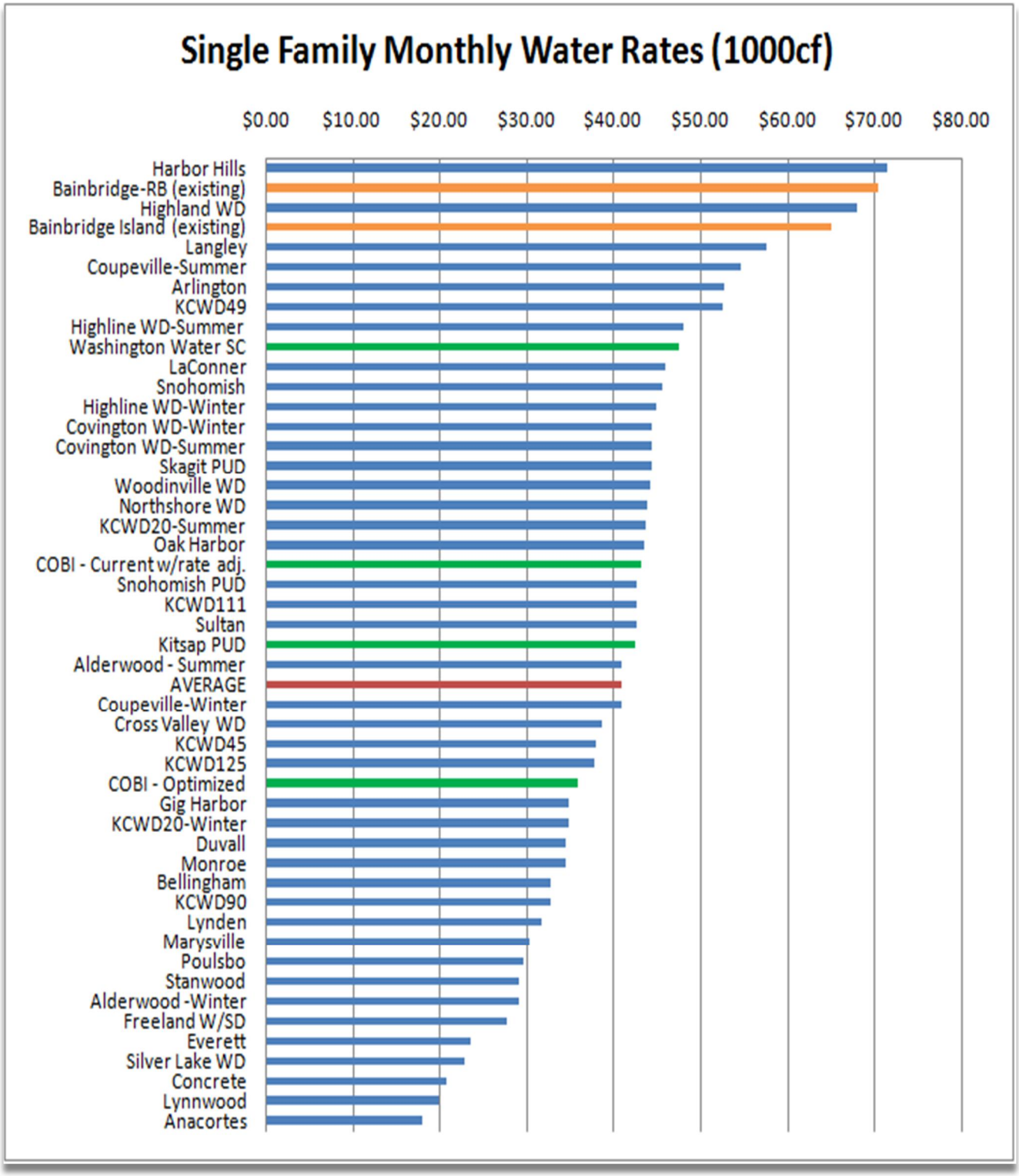
The monthly rates charged to single family customers are typically the most recognized financial benchmark as this is what the customers see each month on their water bill. As with other benchmarking components, it is important to understand that each utility must be self-sufficient, has different water sources, disinfection methods, infrastructure cycles, capital funding methods, and number of customers. In addition, each utility has a different rate structure with varying base rates and volume tiers that make up the water bill. For this report, the consultant team compared a single family water customer using 1,000 cubic feet of water per month. Two sources of water rate information were used and compared: an Association of Washington Cites (AWC) survey and a consultant review of rates in the Western Washington region. The AWC survey results are shown in Figure 2-3.

Figure 2-3 AWC 2010 Survey of Residential Monthly Water Rates



The Association of Washington Cities (AWC) publishes a biennial survey of utility rates that compares, among other factors, a monthly rate for a single family customer using 1,000 cubic feet of water. The AWC 2010 survey results were used, in which COBI reported 1999 water connections. The results of cities responding were sorted for water connections between 1,500 and 2,500 connections. These were further reduced to cities with groundwater source and disinfection. Finally, the cities were reduced to reflect the west side of Washington State only. The resulting 10 jurisdictions are compared in Figure 2-4 with monthly residential water rates ranging from $14.10 in Yelm to $64.98 in Bainbridge Island. The average of the 10 is $33.90. COBI clearly has high residential rates when compared to the other reporting cities.

Figure 2-4 Western Washington Residential Monthly Water Rate Examples



A second manner of benchmarking residential water rates is to compare examples of Western Washington communities without being specific about the selection of cities, districts, or sizes. The 48 examples in Figure 2-4 include utilities that the consultant tracks and compares for small to medium sized municipal utilities, including island-based and waterfront communities. The monthly rates range from a low of $18.04 for Anacortes, to a high of $71.50 for the Harbor Hills water system on Whidbey Island. The average for the 48 entries is $40.92. The top five entries are Harbor Hills, the Rockaway Beach area of COBI at $70.34, Highland Water District at $68.00, COBI at $64.98, and Langley at $57.62.

The four alternatives developed for this report are illustrated as green lines in Figure 2-4. The monthly rate for WWSC rate is $47.54, COBI-Current with rate adjustment is $43.15, KPUD at $42.39, and COBI-Optimized is $35.94. The estimated rates were included to demonstrate that all four were closer to the middle than the existing COBI rates. The estimated rates assume that no reserves are programmed for the capital improvements in any of the alternatives. The estimated rates will be described in further detail in Chapter 3. The current rate schedules and structures for COBI, KPUD, and WWSC are described in detail in Section 2.4.2.

2.4 Interviews and Data Collection

Once the interested water purveyors were identified, the consultant team took the next step of contacting them to setup and conduct interviews. All three entities (COBI, KPUD, and WWSC) were initially provided the same list of questions which included requests for information. The consultant team then met separately with each entity to review the questions and ensure the team's interpretations and assumptions the responses were correct and accurate before going forward with presenting the team's initial findings. For example, the monthly rates and annual budgets that were provided by KPUD and WWSC would allow the team to estimate the rate impacts for each management/ownership option. Through the interview process and follow-up questioning with the interested parties, the consultant team was able to provide a clearer picture of the services included in their rates along with assessing the efficiency and effectiveness of the service they provide.

2.4.1 Management and Administration

2.4.1.1 COBI

The City is authorized to own and operate a water system per RCW 35, as well as a storm sewer and storm systems.

Until recently, the City had a defined unified waterworks utility for municipal bonding purposes. However, each of the utilities was accounted for and operated separately. For revenue bond purposes, this allowed any outstanding utility bonds to be secured by all utility revenue even though the City manages the utilities separately and repaid sewer debt with sewer revenue, water debt with water revenue, etc. Most recently, in advance of the issuance of debt related to improvements to the sewer utility, the Council directed that the utilities be separated.

The water utility has no outstanding debt. There is outstanding debt for the sewer utility and the City sold bonds in August 2011. Current COBI municipal code provides policy direction on how to administer each utility.

2.4.1.2 KPUD

KPUD is authorized to own and operate a water system per RCW 54. KPUD currently owns or contract operates water systems on Bainbridge Island.

They are currently not allowed to own/operate a sewer utility. They would consider providing billing services for COBI's other utilities.

KPUD would consider a "management only" agreement in lieu of owning the COBI water utility. The contract would have to be long-term (i.e. in the range of 20 years), and the contract language would have to address all management and reporting assignments. Specifically, KPUD believes this would limit their ability to effectively manage the system due to additional oversight and reporting requirements that would be necessary, and could result in an increase of 15-20% over their current rates. Finally, in either a management or ownership agreement, KPUD would consider hiring two additional FTEs to assist with operations of the COBI water utility.

KPUD would be interested in negotiating a price for any COBI water rights that are in addition to the system's build-out capacity. They did not provide an estimated value as they believe there are usually too many limiting encumbrances, so each water right would need to be valued individually.

2.4.1.3 WWSC

WWSC is authorized to own and operate a water system per RCW 80. WWSC currently owns or contract operates water systems on Bainbridge Island.

They are currently allowed to own/operate a sewer utility. WWSC owns and operates one wastewater utility which is located on Orcas Island. They would also consider providing billing services for COBI's other utilities.

WWSC would consider a "management only" agreement in lieu of owning the COBI water utility. Their standard contract terms are located in the Appendices). If either a management or ownership agreement were signed, they would consider hiring 2 additional FTEs to assist with operations of the COBI water utility.

They would be interested in negotiating a price for any COBI water rights that are in addition to the system's build-out capacity. They did not provide an estimated value as they believe there are usually too many limiting encumbrances, so each water right would need to be valued individually.

2.4.2 Finance

2.4.2.1 COBI

Valuation of the COBI Water Utility: Based on the input gained during interviews with the two interested purveyors, an estimated value of $1,000/connection was used to assess the market value of the water utility.

In regards to water rights and their valuation, the consultant team made no determination on whether excess water rights were available. Since we did not establish the availability of water, nor was any supporting data

provided by any of the purveyors, this was not part of the valuation. KPUD and WWSC were asked what the value of excess water rights might be. They did not offer an estimate due to the complicated variables of appropriating water rights. However, they mentioned that water rights would be considered to be additional only after accommodating planned build-out. A complete discussion of water rights and future value should include the assistance of legal advice from professional water rights experts through the City Attorney.

2.4.2.2 KPUD

Valuation of the COBI Water Utility: When the consultant team inquired with KPUD about the estimated market value, they stated they would not pay more than $1,000 per connection. KPUD indicated that past practice has been that any funds expended on system purchases would be recovered from the customers of that system through a surcharge.

2.4.2.3 WWSC

Valuation of the COBI Water Utility: When the consultant team inquired with WWSC about an estimated market value, they stated they have typically paid in the range of $1,000 per connection. They did not share their exact calculation for valuing a water utility, but would as part of the process if selected to enter into negotiations with the City.

2.4.2.4 Existing Water Rate Structures

Each water utility is responsible to determine the structure of water rates and set the rates as appropriate to meet their needs and requirements. Two typical components in water rates include a base minimum or flat monthly charge and a volume or usage rate for the water used during the month. The volume rate may be charged at one or more tiers to encourage water conservation where the customers that use more water pay more. All three of the potential water purveyors have a conservation-type rate structure with a base monthly charge and volume rate in increasing tiers. Of course the rates are different in each of the utilities and the impact on any one customer will vary depending on the amount of water used in each month. Figure 2-5 illustrates the three existing rate structures for residential customers.

Figure 2-5 Water Rate Structure – 2011

2011 Rates – COBI	2011 Rates – KPUD Proposed	2011 Rates – WWSC
Base = $27.98/Mo	Base = $21.52/Mo	Base = $17.43/Mo
0-500cf = $2.82/100cf	Capital Surcharge = $6.27/Mo.*	0-653cf = $2.38/100cf
501-1200cf = $4.58/100cf	0-1400cf = $0.92/100cf	653-2056cf = $2.84/100cf
1201-3000cf = $6.46/100cf	1500-3000cf = $1.32/100cf	2057+cf = $3.22/100cf
3000+cf = $8.80/100cf	3100-5000cf = $1.66/100cf	
	5100+cf = $4.12/100cf	

* Unless capital is funded at transfer

1. COBI Existing: The rate structure includes a base rate of $27.98 per month for residential customers, plus a volume rate in four tiers ranging from $2.82 to $8.80 per 100 cubic feet (cf). The lowest tier is for 0-500cf of water per month and the highest is for over 3,000cf. Historically, the City has raised the rates annually by the consumer price index plus 2% to keep up with cost escalation and growth of customers. The auto escalation was ended for 2010 and the rates remain until amended. The City's water rates are set and can be amended by the City Council at any time. A single family using 1,000cf pays $64.98.
2. KPUD: The rate structure includes a base rate of $21.52 per month for residential customers, plus a volume rate in four tiers ranging from $0.92 to $4.12 per 100 cubic feet (cf). The lowest tier is for 0-1,400cf of water for two months (or 700cf for one month) and the highest is for over 5,100cf. The base rate of $21.52 includes $1.00 surcharge for fluoridation service requested by COBI.

   In addition, KPUD has proposed a capital surcharge on a monthly basis unless the specified capital improvements are funded at the time of transfer with cash. KPUD's memo estimated $5.23 per month for 2,776 customers for 20 years. The consultant team adjusted this to be $6.27 per month for 2,300 active customers. A single family using 1,000cf would pay $42.39 if no cash was transferred to fund the identified capital improvements.

   The KPUD Board of Commissioners has the authority to set water rates, and typically approves a 5-year schedule. KPUD intends to use a "postage-stamp" rate, meaning that all customers are charged the same base and volume rates with surcharges as appropriate. The 2 surcharges include the $1.00 fluoridation charge and the $6.27 capital surcharge if capital improvements were not funded by a cash transfer. The rates can be amended by the Board at any time.
3. WWSC: The rate structure includes a base rate of $17.43 per month for residential customers, plus a volume rate in three tiers ranging from $2.38 to $3.22 per 100 cubic feet (cf). The lowest tier is for 0-653cf of water per month and the highest is for over 2,057cf. As a privately-owned utility, the rates are regulated by the Washington Utilities & Transportation Commission (WUTC). WWSC has indicated that they would use a "postage-stamp" rate, meaning that all customers are charged the same base and volume rates with surcharges as appropriate. WWSC does not typically request a rate case to be heard by the WUTC more often than every two years due to the effort required. WWSC did not anticipate a surcharge would be necessary. A single family using 1,000cf would pay $47.54.

2.4.3 Customer Service

2.4.3.1 COBI

COBI provides information to its ratepayers in several forms, and there are required annual water quality reports. The website is a primary source of information; this includes web-based email notifications of current topics and meetings. Staff are available at City Hall to answer development and general water related inquiries. Billing staff work with customers over the phone and at a "walk-up" desk at City Hall. Field staff promptly reply to requests at individual homes and business. Historically there have not been a significant number of customer complaints in a given year.

2.4.3.2 KPUD

KPUD provides information to its ratepayers in several forms, and there are required annual water quality reports. The website is a primary source of information. Staff are available at their Operations Center in Poulsbo, Washington to answer development and general water related inquiries. Field staff promptly reply to requests at individual homes and business. Historically there have not been a significant number of customer complaints in a given year.

2.4.3.3 WWSC

WWSC provides information to its ratepayers in several forms, and there are required annual water quality reports. The website is a primary source of information. Staff are available at their Operations Center in Gig Harbor, Washington to answer development and general water related inquiries. Field staff promptly reply to requests at individual homes and business. Historically there have not been a significant amount of customer complaints in a given year.

2.4.4 Engineering

2.4.4.1 COBI

The City currently follows their own COBI Engineering Design Standards which are commonly accepted by the Water Utility Industry and founded in the standards of WADOH, the APWA, and the AWWA.

Developer extensions are currently administered in City Hall.

Capital project coordination is now completed by all in-house by staff located in COBI City Hall.

2.4.4.2 KPUD

KPUD follows COBI's Engineering Design Standards when working in the City's jurisdiction.

Developer extensions would be administered in KPUD's office in Poulsbo, Washington. They would not provide satellite service at COBI's City Hall. However, many development-related services can be handled over the phone or via email.

Capital project coordination is completed by KPUD staff with some assistance by consultants.

2.4.4.3 WWSC

WWSC follows COBI's Engineering Design Standards when working in the City's jurisdiction. Developer extensions would be administered in WWSC's office in Poulsbo, Washington. They would not provide satellite service at COBI's City Hall. However, many development-related services can be handled over the phone or via email.

Capital project coordination is completed by WWSC staff in Olympia, Washington.

2.4.5 Operations and Maintenance

2.4.5.1 Wells

2.4.5.1.1 COBI

a. Daily routine inspection/observation of production and water quality.

b. Preventative Maintenance

1. Includes regularly schedule PMs on the chlorine generators at each well/wellfield.

c. Winslow System

1. Of 11 wells, 6 have been rehabbed/repaired recently (this includes bail/surge of the well screen/casing and replacing pump as necessary) and 2 more rehab/repairs are scheduled for 2011.

d. Semi-Annual Inspection

1. Perform well testing to assess specific capacity and monitor aquifer levels.
2. Inspect well site (roof, HVAC, lighting, MCC, chemical equipment, etc.).

e. Reactive repairs, as necessary

2.4.5.1.2 KPUD

a. Daily routine inspection/observation of production and water quality.

b. Preventative Maintenance

1. No routine PM schedule.
2. Fix/replace as they fail.

c. Semi-Annual Inspection

1. None.

d. Reactive repairs, as necessary.

2.4.5.1.3 WWSC

a. Weekly routine inspection/observation of production and water quality.

b. Preventative Maintenance

1. No routine PM schedule.
2. WWSC has a spreadsheet that tracks well pumping capability. Would respond accordingly if reduced capacity observed.

c. Semi-Annual Inspection

1. None.

d. Reactive repairs, as necessary.

2.4.5.2 Treatment

2.4.5.2.1 COBI

a. Chlorine generation equipment needs an acid cleaning every 2-3 months.

b. Fluoridation equipment – Replace sodium fluoride and clean saturators every 2 years.

1. Full semi-annual inspection.
2. Weekly delivery of salt to each site.

c. Iron/manganese treatment is only provided via ATEC system at Rockaway Beach.

d. Reactive repairs, as necessary.

2.4.5.2.2 KPUD

a. Staff are generally capable and well trained.
b. Limited staff experience with fluoridation equipment and on-site chlorine generation equipment.
c. Own and operate several ATEC iron/manganese treatment systems.
d. No rehab goals. Replacement goal budget is 1.5-2% of depreciation costs.

2.4.5.2.3 WWSC

a. Use small amounts of liquid sodium hypochlorite. Not familiar with on-site generation equipment in current systems. Limited staff experience with fluoridation equipment.
b. Have one system that uses sequestering and several have ATEC systems.
c. Replacement and rehab based on condition and experience with equipment. No routine PM.

2.4.5.3 Water Quality

2.4.5.3.1 COBI

a. All samples are taken in accordance with WADOH standards.
b. CL2 and fluoride levels are monitored daily at the wells.
c. CL2 residuals are monitored twice monthly in the distribution system and taken with bacteriological samples.

2.4.5.3.2 KPUD

a. Meet all DOH requirements per sampling plan.
b. Will take additional samples in response to customer concerns.

2.4.5.3.3 WWSC

a. Complies with WAC 246-290/Comp Plan requirements. Have been able to get a waiver for their system to only sample for chlorine residuals 3 times/week, instead of 5.
b. Do not take additional samples but would on a fee-for-service basis, if requested.

2.4.5.4 Pump Stations

2.4.5.4.1 COBI

a. Lube/oil/repack pumps and motors every 6 months.
b. Annual motor oil replacement.
c. Control valves have screens/pilots cleaned every 6 months.
d. Semi-annual cleaning/inspection of sites (includes cleaning gutters). Grass at sites is not mowed (i.e. left in natural state).
e. Clear wells are cleaned at 12 to 36 month intervals.

2.4.5.4.2 KPUD

a. Inspect/monitor weekly.
b. No rehab-renewal goals.

2.4.5.4.3 WWSC

a. Minimum monthly visits, with some weekly visits as they are coordinated with other field activities (i.e. like meter reading).

b. Maintenance is based on condition assessment and knowledge of the equipment.

2.4.5.5 Reservoirs

2.4.5.5.1 COBI

a. Visually inspect semi-annually (site, water level probes, hatch, vents, ladder, etc.).

b. Currently have a 5-year cleaning/inspection program.

c. Recoating – No current CIP scheduled developed. Would complete as needed (based on inspection recommendations).

2.4.5.5.2 KPUD

a. Inspect yearly and clean as needed.

b. Clean/rehab as needed. No schedule.

2.4.5.5.3 WWSC

a. Inspect periodically.

b. Will rehab-renewal based on condition assessment.

2.4.5.6 SCADA/Telemetry

2.4.5.6.1 COBI

a. Fully functioning system with complete monitoring and data acquisition capability.

b. Water, sewer and wastewater treatment plan is integrated and headquartered at the wastewater treatment plant.

c. Telemetry system pages on-call staff person after hours/weekends. Other form of communication is customers calling 9-1-1. Response is within 60 minutes, per City SOP.

2.4.5.6.2 KPUD

a. No SCADA system, but a few systems have limited notification systems.

2.4.5.6.3 WWSC

a. Don’t have any significant telemetry equipment other than at the Orcas Island WWTP.

b. Rely on customers/fire/police only.

2.4.5.7 Flushing

2.4.5.7.1 COBI

a. Flush entire system annually.

b. Some dead-ends are flushed twice a year to maintain water quality.

2.4.5.7.2 KPUD

a. Done as needed.

b. No dead-end flushing program.

2.4.5.7.3 WWSC

a. Some WWSC systems require monthly flushing, others annually or just “as needed.”

b. Dead-end flushing activities will be completed depending on needs of the system.

2.4.5.8 Meters

2.4.5.8.1 COBI

a. Current target is change-out six (6) service meters/month (3% annually).

b. Test customer meters as needed.

2.4.5.8.2 KPUD

a. Replace as needed.

b. No rehab-renewal goals.

2.4.5.8.3 WWSC

a. Actively monitor and test source meters. Test customer meters as needed.

b. Rehab-renewal goal is a 5-7 year program to change-out to Itron ERT meters.

2.4.5.9 Hydrants

2.4.5.9.1 COBI

a. Fire Department completes annual inspection. Public Works staff repairs hydrants found deficient.

b. Fire flow testing is performed as part of the Water System Plan update.

c. Additional fire flow testing is coordinated as required to support Fire Department activities.

2.4.5.9.2 KPUD

a. Fix as needed.

b. No rehab-renewal goals.

2.4.5.9.3 WWSC

a. Would work with the Fire Department to work out a PM program. Looking at developing a program in-house to define PM activities and goals.

b. Repair/replace as needed.

2.4.5.10 Leak Detection

2.4.5.10.1 COBI

a. 5-year goal, but this has been deferred to 7-years due to costs.

2.4.5.10.2 KPUD

a. As needed.

2.4.5.10.3 WWSC

a. As part of reviewing non-revenue water trends, will institute leak detection when a negative trend develops. Have equipment in-house to complete a leak detection study.

2.4.5.11 Emergency Management

2.4.5.11.1 COBI

a. Response time is 30-60 minutes.

2.4.5.11.2 KPUD

a. Response time is 30-60 minutes.

b. Emergencies and after hours calls would be handled through established procedures.

2.4.5.11.3 WWSC

a. Response time is 60 minutes.

b. Emergencies and after hours calls would be handled through established procedures. Actual response time to complete repairs could take several hours as staff would need to respond from the Gig Harbor, Washington based operations center.

2.4.5.12 Cross-Connection Control (CCC) Program

2.4.5.12.1 COBI

a. There are currently approximately 1,100 cross-connections control managed by the water utility. This equates to about 1 device for every 2.1 connections. Approximately 50% of these devices are located inside buildings beyond the customer meter.

b. The current requirement is for the water utility staff to provide the CCC program efforts. This includes tracking and testing coordination to the last device in the building. Level of effort for others to provide this service would either limit effort to premise isolation, or charging additional fee to City to complete program as currently enacted.

c. 10% of high hazard installations and 5% of low hazard installations are targeted for inspection annually. Over time, some low vulnerability devices may be removed from the CCC program.

2.4.5.12.2 KPUD

a. Currently manages approximately 900 CCC devices. This is equivalent to 1 device for every 16 connections.

b. Current program is based primarily on premise isolation, but some go to last hazard.

2.4.5.12.3 WWSC

a. Generally stop at premise isolation. If required to manage last hazard, would need to develop fee to cover costs. Don’t provide BATs, but considering offering a service for residential customers (only) with irrigation systems.

2.4.5.13 DOH Certifications

2.4.5.13.1 COBI

a. Current staff meets WADOH certification requirements, WADOH Water Distribution Manager and Cross Connection Control.

2.4.5.13.2 KPUD

a. All field staff are Water Distribution Managers 1 or 2. All are Cross Connection Control specialists. No backflow testers (i.e. would only provide software support and notification letters, no testing).

2.4.5.13.3 WWSC

a. Current staff meets DOH certification requirements (WDM, BAT, etc.).

2.4.5.14 Sewer Utility Certification

2.4.5.14.1 COBI

a. Current staff meets WADOE certification requirements.

b. All utility staff members are cross-trained to provide after hours and emergency response for water, sewer collection, and wastewater treatment plant emergencies.

2.4.5.14.2 KPUD

a. Staff not certified to operate a sewer utility.

b. Would consider providing sewer services in the future if RCWs change.

2.4.5.14.3 WWSC

a. Staff are certified to operate a sewer utility, but only on Orcas Island.

b. May be interested in sewer operations. Owning the utility provides a few hurdles as WWSC is not authorized by the State to be a sewer utility owner.

3. Chapter 3: Findings and Considerations

3.1 Analysis

The following is the analysis of how the data and assessments discussed in Chapter 2 can be used by the City Council and management to guide future decisions related to making an informed policy decision about the ownership of the COBI water utility.

3.1.1 Staffing Levels Analysis

For the benchmarking ratio for number of connections per FTE, both KPUD and WWSC rated better than COBI with a higher number of connections per FTE. Both KPUD and WWSC indicated they would have to add 2 additional FTEs to their operation if they assumed ownership of the COBI water utility. KPUD and WWSC have both stated that they have excess capacity in other facets of their organization to accommodate the operation of the COBI water utility; however they would need to add an additional two field positions to service the COBI water utility. This was substantiated and confirmed by the consultant team as their current ratio of approximately 540 connections per FTE would result in a need of 4.3 FTEs. Therefore, adding only 2 FTEs for operational purposes is a reasonable approach as both purveyors have excess staffing capacity.

For considering an appropriate staffing level the consultant team used the City of Lynden to define the maximum FTE ratio. Lynden's ratio value is 694 connections per FTE, which is one of the highest performers benchmarked, and also operates its own source of supply which is similar to COBI. This resulted in a need of 3.3 FTEs. This could be a future goal for COBI to work toward; however for the basis of this report's "optimized" alternative, the **average** benchmark of 3.9 FTEs was used.

Figure 3-1 FTE Analysis per Option

Class	Existing COBI FTE	Optimized COBI FTE	Manage or Own FTE Impact		
			Manage/Own (RIF)	Manage/Own (GF)	Manage/Own (SS/S)
Executive	0.4	0.2	0.1	0.3	0.0
Finance and Administrative Services	1.3	0.9	0.8	0.2	0.3
Planning and Community Development	0.0	0.0	0.0	0.0	0.0
Public Works – Administration	0.2	0.2	0.0	0.0	0.2
Public Works – Engineering	0.8	0.4	0.8	0.0	0.0
Public Works – O&M	3.3	2.1	2.8	0.0	0.5
Information Technology	0.5	0.2	0.5	0.0	0.0
TOTAL	**6.5**	**3.9**	**5.0**	**0.5**	**1.0**

- RIF – Reduction In Force
- GF – General Fund
- SS/S – Sanitary Sewer/Storm Utility Funds

It should also be noted, as shown in Figure 3-1, that outsourcing the management or changing ownership to either KPUD or WWSC would have an impact on both the City's general fund and sanitary sewer/stormwater utility funds. While 5.0 FTEs would be eliminated, 0.5 FTEs would be stranded to the general fund and 1.0 FTEs would be stranded to the storm/sewer utility funds. How these funds could be further optimized to minimize the impact to the respective funds is beyond the scope of this report, but should be considered by the City before taking action.

While the optimized assessment takes COBI's current FTE level from 6.5 to 3.9, there may be room for modest reductions in future staffing levels. If the water utility remains with the City, additional assessment of further reducing the number of FTEs from 3.9 could be considered. The following contracting and outsourcing efforts are examples of tasks that are outsourced in other municipalities and could be considered by the City:

- **Developer Review:** Current economic conditions have led to a decreased number of developer projects and led to some subsequent reductions in staff at the City over the last two years. However, as the economy will eventually turn around, it is likely staff will return to having difficulty meeting the increasing demand of developer review projects. This is particularly true during the summer months, when construction is at its highest. The City could elect to outsource all developer reviews, not just during high workload months. Outsourcing allows the City to complete the reviews in a timely manner without hiring additional staff that may not have enough work during slow periods. Outsourcing will require staff time for contract management, but costs of outsourcing can be passed on to the developer.
- **Construction Management and Inspection:** Another area that the City could outsource is the area of construction management and inspection. For the same reasons identified for developer reviews, the City could outsource construction management and inspection work to reduce in-house staffing.
- **Water System Mapping:** Mapping is another area the City could outsource. Record drawings are invaluable to a water purveyor and need to constantly and consistently be added to the City's base maps. Base maps provide institutional memory, and can save staff time on utility locates if the base maps are properly maintained. If the City is unable to keep their base maps current or the cost to do so in-house is not competitive, this task could be contracted out.
- **Annual Maintenance Agreements**: Another area the City could outsource is annual maintenance. The City already outsources some maintenance activities [e.g. major pump and electrical motor repair, pressure reducing valve (PRV) station servicing, leak detection, etc.)] and should explore additional opportunities. Annual maintenance agreements require some contract management time, but can reduce O&M staffing levels.

3.1.2 Financial Analysis

All three water purveyors have long histories of safely providing water service in the area. All three routinely produce annual financial statements, budgets, approved rates/fees/charges, and policies for accepting and charging new connections, monthly billing and rates, delinquencies, and addressing water leaks. Details vary based on the requirements of the statutes under which they operate (city, public utility district and privately-owned) and the nature and "character" of the utility. All three mentioned customer service and rates as key factors to the customers. The key financial indicators analysed include how the water expenses translate to water rates. There are approximately 2,300 active water connections served by the COBI's water utility.

3.1.2.1 COBI

The first question in the financial analysis: was there anything to suggest why the rates are higher than the others? In addition to the fact that fewer customers are served with the same type of administrative and general requirements, the consultant team reviewed the Water Operating Fund 401 revenues and expenses for the period of 2009-2011 based on utility reports provided by the City.

Figure 3-2 summarizes the revenue and expenses for 2009, anticipated 2010 and budget 2011. This shows that revenue was stable at approximately $2.47M, particularly for water sales or rate revenue, the primary source of on-going revenue to support the water utility. Operating expenses on the other hand had declined from $1.7M in 2009, to $1.4M in 2010, and $1.2M in the 2011 budget. Debt expense has been eliminated as the sole outstanding bond was repaid in 2009 for $133,000. The capital expenses funded by rates varied depending on the capital program for each year, from $204,000 in 2009, to $87,000 in 2010 and $1.1M in the 2011 budget (including the Winslow Way project). When reviewed on an annual basis, the bottom line is that either the utility is adding to reserves or using reserves to meet their needs. A sustainable utility may need to dip into reserves for capital projects, but should not use reserves to balance operating costs and debt. In COBI's past 3-year history, the water utility has added to reserves in each year.

Figure 3-2 COBI Water Operating Fund 401 Summary

Summary - COBI WATER OPERATING FUND 401	Actual 2009	Draft 2010	Budget 2011	Comments
Revenues				
Water Sales	2,334,687	2,245,857	2,344,162	
Water Sales - Other Misc Rev	574	107,948	-	
Other Utility Fees	7,280	51,591	7,360	
Engineering Fees	513	500	-	
Investment Interest	52,733	11,018	92,000	
Capital Contrib-Prop Funds on	33,671	22,144	35,000	*System participation fees*
Misc.	39,724	32,651	-	*Excludes fund bal, loan repayment*
Total Revenue	**2,469,182**	**2,471,709**	**2,478,522**	
Expenses				
Operating Expense				
Salaries & Benefits	890,618	689,136	583,639	*Permanent & temp employees*
Salaries - Overtime	12,516	9,129	15,452	
Sal & Benes - Staff Separation	15,340	20,523	-	
Supplies	47,280	46,139	61,835	
Professional Services	214,260	138,999	48,300	*Incl outside atty litigation, 27k '11*
Other Services & Charges	257,259	262,819	248,922	
Intergovernmental Services	5,072	4,257	5,000	
State Excise Tax	110,185	98,282	128,873	
City Utility Tax	176,214	148,303	146,170	
Subtotal Operating Expense	**1,728,744**	**1,417,587**	**1,238,191**	
Debt Expense				
GO Bond (P+I)	133,041	-	-	
Total Debt Expense	**133,041**	**-**	**-**	
Capital expense				
Capital Sal, Bene, Supp, Services	295,711	87,387	18,793	
Capital Projects	8,443	-	880,118	
Capital Equipment	-	-	241,874	
Subtotal Capital Expense	**304,153**	**87,387**	**1,140,785**	*2.5% of fixed assets 17.4M '10*
Total Expense	**2,165,939**	**1,504,974**	**2,378,976**	
Annual Increase/(Use) of Reserves	***303,243***	***966,735***	***99,546***	
Percent of Water Sales	*13.0%*	*43.0%*	*4.2%*	

The increase in reserves was translated to a percentage of water sales to indicate the portion of the rate revenue adding into reserves each year. This varied from 13% in 2009, to 43% in 2010, to 4% in the 2011 budget. The operating expense was reduced by 28% from 2009 to 2011 budget as COBI reduced staffing and other expenditures with much slower growth in the City. This follows as the FTE's supported by the

water utility were reduced from 10.23 FTE in 2009 to 7.5 FTE in 2010 and 6.5 FTE in the 2011 budget. The outstanding debt has been retired and the utility is debt-free. The capital expenditures are being funded by cash and the utility appears to be in a healthy financial position. With revenue fairly stable and reductions in FTE's and debt, this pattern would generally be followed by a rate reduction unless the utility was anticipating a large capital project that required new debt, or the operating costs were not at a sustainable level.

A financially viable utility will also set aside a reasonable amount for capital to be funded by rates on an annual basis. This is a policy choice for the utility and can be related to annual depreciation, a percentage of fixed assets or a share of anticipated capital improvements. For the COBI scenarios in this report, 2.5% of $17.4M in system-related fixed assets was used for on-going annual capital replacement. The amounts from the 2010 balance sheet for the Water Fund fixed assets are shown in Figure 3-3.

Figure 3-3 Water Fixed Assets

Fund 401 Water Operating Fund, Balance Sheet 2010	
Water System-related Assets	
Land & ROW	637,436
Building & Structures	6,269
Water Accumulated Depreciation	(4,986,692)
Water System Infrastructure	15,540,410
Machinery & Equipment	749,316
Water Constr in Progress	453,161
Total After Depreciation	12,399,900
Remove Accum. Depreciation	4,986,692
Total Before Depreciation	**$17,386,592**
All Assets	
Incl. cash, A/R, inventory, ac dep'r, etc.	14,324,662
Remove Accum. Depreciation	4,986,692
Total Before Depreciation	**$19,311,354**

COBI has built-up a fund balance over the years from rates and connection charges collected from new water connections. All reserves generated by the water customers stay with the water utility and are invested to earn interest until necessary, typically for future capital improvements. Utilities are allowed to loan or borrow on an interim basis between funds within the City. These loans must be documented and earn interest from the borrowing fund. The sewer utility currently has a $3M loan outstanding to the water utility. This loan is planned to be repaid in 2011 with the sewer utility bond sale in mid-August, 2011 for the wastewater treatment plant project. The ending 2010 balance in the Water Fund 401 is estimated to be $1,756,074 based on preliminary 2010 reports in addition to the outstanding $3M loan.

The estimated ending balance for 2011 is shown in Figure 3-4 to be approximately $4.8M.

A sustainable utility should always have reasonable reserves invested in case of emergencies, unpredictable events, and to meet cash flow. A Target Minimum Balance of $980,000 was defined for this report to assist in comparing alternatives. Four elements are included in the $980,000 as shown in Figure 3-4: A cash flow reserve of 3 months of operating expense; a debt reserve equal to one year debt repayment; an emergency reserve at 2.5% of fixed system-related assets; and a rate stability reserve at 10% of water sales.

Figure 3-4 Estimated Water Reserve Balance

Water Utility Reserves	Budget 2011	Comments
Water Fund Balance (Estimated)		
Beginning Fund Balance	**1,756,074**	*From 2010 State. of Cash Flows*
Loan Repayment Received	3,000,000	*Interest included as misc. rev.*
Annual Increase/(Use) of Reserves	*99,546*	*ki est. from budget*
Est. Ending Balance	**$4,855,620**	
Target Minimum Balance		*KI&A estimate for study*
Cash Flow Reserve	310,000	*3 mos operating expense*
Debt Reserve	-	*1 year debt repayment*
Emergency Reserve	435,000	*2.5% of fixed assets $17.4M '10*
Rate Stability Reserve	235,000	*10% of water sales $2.35M*
Target Minimum Balance	**$980,000**	
End Balance Meets Target Min.?	*ok*	
Reserves Available for Capital	**$3,875,620**	*End bal. less target min. reserves*

With the estimated ending fund balance of $4.8M, and subtracting the target minimum balance of $980,000, this leaves approximately $3.8M in reserves available for capital or other water-related uses as determined by the City Council. The City Attorney will provide legal guidance on the use of the reserves directly to the City Council.

3.1.2.2 KPUD

Because KPUD indicated they would be using postage-stamp rates where the rates are the same for all customers, with specific abnormal items covered by surcharges, an in-depth financial analysis was not performed. KPUD was confident it could serve the City's water customers within their current rates and rate structure with two exceptions: a $1.00 per month surcharge is included in the base rate for fluoridation that is not provided to other KPUD customers; and the identified capital improvements would be funded either with cash of $2,135,718 at the time of transfer, or a monthly surcharge of $6.27 (consultant adjusted from $5.23) for 20 years for KPUD to borrow the funds necessary to complete the capital projects. The consultant found that there are approximately 2,300 customers compared to the 2,776 customers used by KPUD in their proposal and adjusted the potential surcharge accordingly to be fair to KPUD.

KPUD targets between 1.5-2% of plant for annual capital replacement funding through the rates. Their calculation for the additional contribution from COBI customers for the identified capital improvements provided credit for the annual capital funding anticipated from rates. Under this scenario, once the identified capital improvements are completed, KPUD would make decisions on system replacement throughout the entire system. This could mean that some years go by with no system replacement within the original City system, but that more than 1.5-2% may be replaced in a year when necessary. KPUD prioritizes

replacement investment over the whole system in the “KPUD-Owns” scenario. Under the “KPUD-Manages” scenario, the capital replacement would be negotiated.

In the UAC’s 2010 Cost Analysis Report, a preliminary breakdown of operating costs was provided by the KPUD. The operating cost estimate was an attempt to illustrate the kinds of expenses KPUD anticipated if it were to assume ownership of the COBI water utility. Upon review and discussion with the KPUD, the amount of $440,000 (2010) was not intended to be a comprehensive review of all costs that might be incurred by KPUD. While it does provide direct operations costs, it does not address any general or administrative costs associated with providing service (e.g. meter reading, billing, etc.). However, KPUD assured the consultant team it would charge its postage stamp rate, plus a possible capital and fluoridation surcharge, regardless of the operations costs it would incur for assuming COBI customers.

3.1.2.3 WWSC

WWSC also indicated that they would be using postage-stamp rates for the COBI customers, as required under WUTC regulations for systems owned by WWSC. Their rates include 2.5-3% of plant for capital replacement investment on an annual basis. Because WWSC performs its own capital construction at a lower cost, they were confident that they could provide the necessary capital replacement required for the City’s system within their postage stamp rate. Under the “WWSC-Manages” option, they provide an ala carte menu of services with postage-stamp rates and allow others to be negotiated to meet the needs of both parties. (Sample contract forms can be found in the Appendices.)

3.1.3 COBI Water Utility Market Value

The baseline for the $1,000 per connection market value was based on conversations with both KPUD and WWSC. They stated that this value was based on their recent practice. KPUD noted that they would not pay more than this amount. WWSC noted that they might pay more based on the financial status of the water utility under consideration to be purchased. This results in a value of $2.3M. The City Attorney will provide legal guidance regarding the status of reserves, as well as any proceeds that would result from a sale of the water utility or excess water rights to another purveyor and who would benefit from this sale (i.e. the City or the ratepayers) directly to the City Council. This estimated market value did not include the approximate $4-5M cash reserves in COBI’s water utility fund after the interfund loan is repaid.

The consultant team’s experience shows that this is a reasonable value as our past experience has shown a wide range of values when other utilities have been merged or assumed by other purveyors. Many times the market value has been $0, primarily because the utility being sold or transferred has more outstanding debts or capital obligations than current reserves. In addition, if the system were to be purchased by another purveyor, this often translates to a rate impact as the customers reimburse the cost of the purchase through a surcharge.

3.1.4 Operational Impact Analysis

As noted in Section 3.1, all three water purveyors are qualified to meet current regulations for water systems in Washington State. However, COBI staff currently provide customers with more one-on-one interactions, a higher level of effort maintaining existing facilities and infrastructure (e.g. more proactive maintenance compared to reactive), as well as have a more in-depth cross-connection control program.

When benchmarking COBI compared to the interested purveyors (KPUD and WWSC) it became apparent that COBI staff provides a higher level of preventative maintenance inspections and resulting corrections before equipment failure. KPUD and WWSC, especially KPUD, generally perform “reactive” maintenance, or rather corrections, after an equipment failure. So for all options, except “COBI-Existing,” the majority of these preventative maintenance activities will no longer be completed. The long-term economic impact was not reviewed as part of this report, but without these activities the condition of existing water facilities will decline and result in higher future capital expenditures.

The cross-connection control program as currently undertaken by COBI focuses on the “last device” within a building as directed in the Uniform Building Code (UBC) and Uniform Plumbing Code (UPC). However, both KPUD and WWSC’s cross-connection programs comply with WAC 246-290, so their authority ends at the customer’s meter. This is known as “premise isolation” and is the typical level of effort both KPUD and WWSC provide. So, if COBI modified the water utility to only support premise isolation, this would result in a reduction of 0.2 FTEs. Since the UBC/UPC still requires “last device” inspections this additional activity and cost (estimated at 0.2 FTE or $15,000) would fall to the COBI Building Department. It should also be noted that KPUD or WWSC could provide this level of effort, but it would require negotiating the effort and development of a fee.

Finally, if a reduction in force (RIF) is enacted (i.e. COBI – optimized) or the water utility is transferred to one of the interested purveyors, it will not likely impact the operational efficiency and effectiveness of the City’s storm and sewer field activities on “routine” days. However, going forward it would limit management’s options to address sewer or storm field issues during peak load activities (e.g. emergencies) or when these staff are out of the office (i.e. vacations, sick leave, training, etc.). The City should consider mitigation strategies to overcome these staffing issues if a transfer of ownership were to occur. Actions to consider would be to purchase additional equipment to assist with emergency repairs that would replace the labor deficit; work with the community to develop an acceptable lower level of emergency response capability, etc. The financial impacts on the sewer and storm utility funds are described in Section 3.2.

3.1.5 Governance

All three purveyors have the regulatory authority and capability to own and operate a water utility. If the utility were to be transferred to either KPUD or WWSC, they both have proven, long-term track records of providing service that meets regulatory requirements and for rates that are historically below COBI’s. One question facing the City is whether the ability to reduce rates to at or slightly below KPUD’s and WWSC’s respectively, is enough to overcome its past track record of higher rates. The second issue is whether there is value to the community in the City taking a lead role in the long-term stewardship of the island’s natural resources and infrastructure. These values cannot be quantified in financial terms as it is a matter of choice for the community and City Council. However, it should be noted that if ownership of the water utility were transferred to another purveyor, the City would lose or impair it’s capability to do the following:

a) Direct and control the implementation and management of a Water Conservation Plan.

b) Direct and control water utility projects within the City’s Capital Program.

c) Direct and control development/land use via compliance with water utility policy and procedures.

d) Direct and fund the City’s Water Resources Management Program.

3.2 Findings

3.2.1 Financial Findings

As discussed earlier in the Analysis Section, the primary financial findings relate to estimated impacts on water rates in each of the scenarios. With the understanding that each of the water purveyors has a different rate structure (base and volume rate tiers), a single family residential customer using 1,000 cubic feet (cf) of water in a month is compared. The actual impact on any one customer will depend on the actual water used in each month and the water rate structure that is applied.

State Business & Occupation (B&O) Taxes will apply to revenue received under each purveyor at 5%. The actual rate is 5.029%, but this has been rounded to a flat 5% for the comparison. COBI rates include the state tax, while both KPUD and WWSC add the state B&O tax on the bill.

A city utility tax of 6% applies to the COBI water system and is included in the rates. It is interesting to note that only the City-owned water utility customers are paying the city utility tax within the City limits. Typically, a city utility tax cannot be applied to special purpose districts. Legal opinion is necessary to determine whether this can be applied to public utility districts and private utilities. Other cities have begun applying franchise fees in lieu of utility taxes to support the road and associated general fund administration of franchise agreements. KPUD currently does not have a city utility tax on their bills; however, in their proposal they did add a 6% utility tax or franchise fee to their proposed rates. The same was added to WWSC rates for consistency.

Two sets of scenarios were developed to compare the alternatives. In the first set, the reserves were not specified for use for any of the alternatives. Rates would be used when possible to fund capital improvements on a steady level and the associated rates would be comparable between alternatives. The second set of scenarios included the use of reserves for future capital.

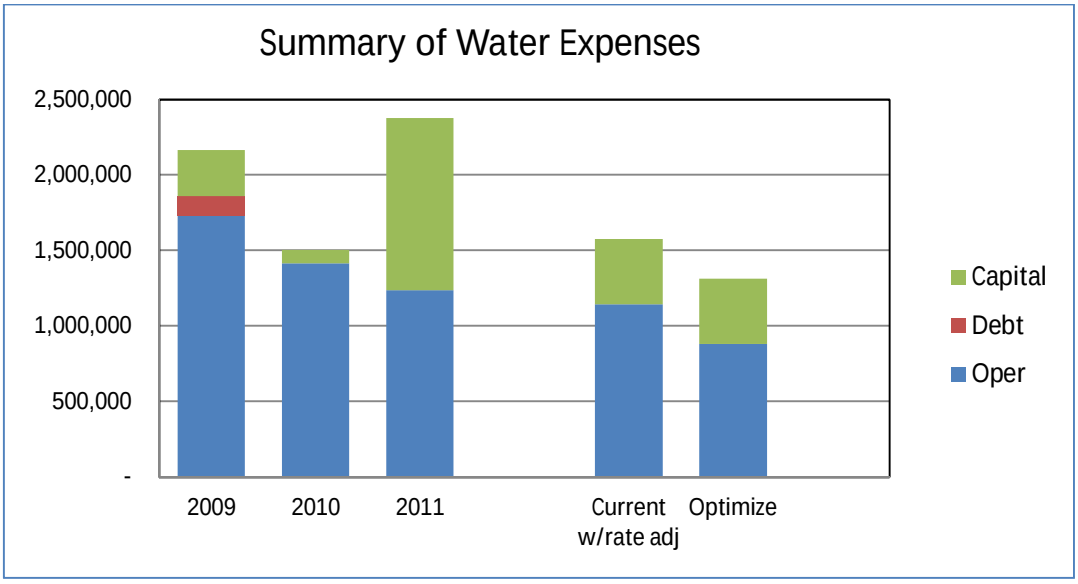
3.2.1.1 Summary of COBI Water Expenses

The analysis of the COBI water revenue and expenses indicated that the City has been reducing water costs for staffing and debt. Because rate revenue has been stable, the rates could also be reduced to reflect the lower cost of service.

Figure 3-5 illustrates the operating and debt savings that have been accomplished by the City from 2009-2011. The middle two columns, are before adjusting for tax savings achieved by lowering the rates, and show the “Current with Rates Adjusted” option that includes the existing 6.5 FTE’s and the “Optimized” option with a reduction to 3.9 FTE’s. The capital expenses were set to be 2.5% of fixed assets, or $435,000, for this report. The right two columns reflect the reduced state and city taxes that would result from a decrease in rates. The “Current with Rates Adjusted” reflects a 34% reduction in the revenue requirements that could translate to rates. The “Optimized” option reflects a 45% reduction in the revenue requirements that could translate to rates.

Figure 3-5 COBI Estimated Water Expenses

Actual/Budget **Reflect Tax Savings**

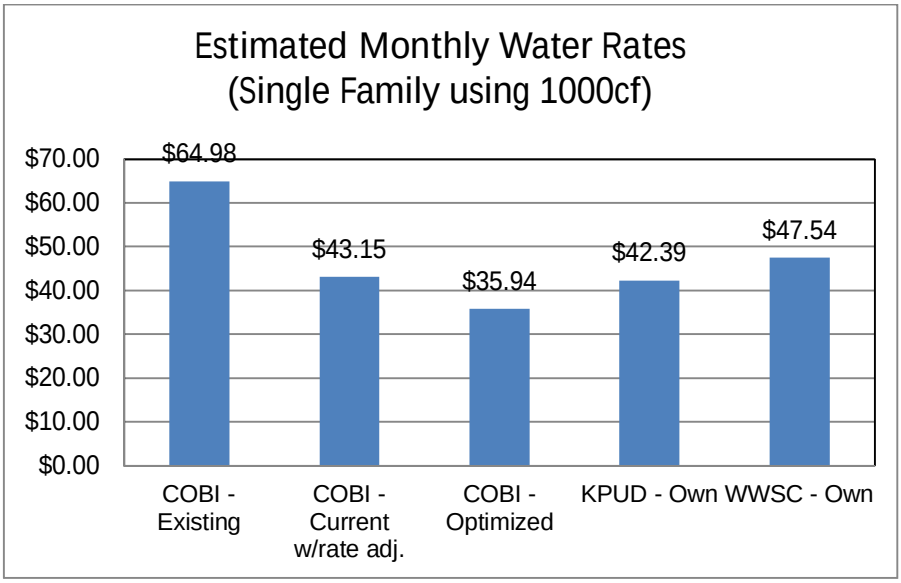


3.2.1.2 Scenario without Assignment of Reserves for Capital Improvements

This scenario remains silent on the use of water reserves in all options.

The COBI revenue requirements shown above were translated into a corresponding percentage reduction in rates. The rates were then compared to the equivalent anticipated monthly rates with the KPUD and WWSC alternatives, as shown in Figure 3-6.

Figure 3-6 COBI Estimated Water Expenses



All options result in a significant reduction from the current monthly rate of $64.98 for the City's water utility customers. The range of estimated rates is between $35.94 and $47.54. Instead of demonstrating that one option is substantially better than the others, this report finds that COBI can provide water service at a competitive rate, $43.15 in current form or $35.94 in optimized form, should the City Council choose to do so. This report also finds that the KPUD rate of $42.39 is very competitive and would result in a viable option for the City's water utility customers. WWSC is a bit higher at $47.54 but is not out of line substantially with the others.

In order to provide more detail, Figure 3-7 is a copy of the simplified financial model for the COBI alternatives. First, the operating expenses were carried forward as in the 2011 Budget. This produced a 30% savings for "COBI-Current" and a 39% savings for "COBI-Optimize." Next, the rate revenue was reduced by those amounts to be able to estimate the lower state and city tax obligations. This resulted in greater savings of 34% and 45%.

Figure 3-7 Scenario without Assigning Reserves for Capital Improvements

City of Bainbridge Island
W Utility Business Advisor

KI&A Rate Impacts

Prepared by KI&A

Summary of W Expenses	**2009**	**2010**	**2011**		**Current w/rate adj**	**Optimize**
					Reflects adjusted rates	
Oper	1,728,744	1,417,587	1,238,191		1,144,676	880,966
Debt	133,041	-	-		-	-
Capital	304,153	87,387	1,140,785		435,000	435,000
Total W Expense	2,165,939	1,504,974	2,378,976		1,579,676	1,315,966
				Compare to 2011:	*66%*	*55%*
				savings	*34%*	*45%*

2011 Single Family Customer Bill	**1000cf**
Existing COBI	$64.98

2011 Rates - COBI	**1000cf**	**1000cf**	
Base = $27.98/Mo			
0-500cf = $2.82/100cf	$43.15	$35.94	
501-1200cf = $4.58/100cf	***-34%***	***-45%***	***savings***
1201-3000cf = $6.46/100cf			
3000+cf = $8.80/100cf			

2011 Rates – WWSC		
Base = $17.43/Mo		
0-653cf = $2.38/100cf	**1000cf**	
653-2056cf = $2.84/100cf	$42.83	
2057+cf = $3.22/100cf	$4.71	taxes: state (5%) & city (6%)
	$47.54	
	-27%	***savings***

2011 Rates - KPUD Proposed	*kpud proposal used 2010 rates, also gave 2011-14*	
Base = $21.52/Mo		
Capital Surcharge = $6.27/Mo.	*ki recalc proposal based on 2300 active customers*	
0-1400cf = $0.92/100cf	*per bi-monthly period*	
1500-3000cf = $1.32/100cf	**1000cf**	
3100-5000cf = $1.66/100cf	$38.19	base, surcharge & volume taxes: state (5%) & city (6%)
5100+cf = $4.12/100cf	$4.20	
	$42.39	
	-35%	***savings***

The lower half of Figure 3-7 provides the rate schedule for the 3 purveyors and calculates what the monthly rate and savings would be for each alternative. The comparative percentage savings in order of highest to lowest are: COBI-Optimize 45%, KPUD 35%, COBI-Current 34%, and WWSC 27%. The resulting rates were summarized graphically in Figure 3-6.

3.2.1.3 Scenario Assigning Reserves for Capital

The water reserves were identified and assumed to be available for future capital improvements as necessary in the scenarios compared. The estimated ending 2011 water fund balance of $4.8M less target minimum reserves of $1M allows approximately $3.8M available for capital. When looking at the individual options, the use of reserves would affect monthly rates in differing manners.

For COBI with the reserves available for capital, it was determined that the annual capital replacement contribution could be reduced from $435,000 to $300,000, or approximately equal to annual depreciation on the water system. The remainder of the capital improvements would be funded by reserves. A caveat is that the 2011 budget includes $1.1M from rates for the Winslow Way project. If this is reduced to include $300,000 from rates, the cash must be available in the reserves to make up the difference. COBI's sewer utility fund is planning the sale of bonds and to reimburse the water utility fund for the $3M loan, and the timing would be important if the water utility were planning to use the reserves to meet minimum fund balance and capital improvements.

For KPUD, the use of $2.1M in reserves for identified capital improvements would eliminate the $6.27 rate surcharge and provide additional rate savings.

For WWSC, there is no use of reserves for capital improvements that was identified. All of the capital improvements would be funded as necessary through the monthly rates. The monthly rates are regulated by the WUTC and cannot be changed without requesting a rate case and receiving approval.

Figure 3-8 illustrates the estimated monthly rates assuming that reserves are used for capital replacement when possible instead of rates. The three options that appear to provide significant savings include the "COBI-Current" with Rates Adjusted at $39.46, "COBI-Optimized" at $32.26, and KPUD at $35.43. With this scenario, WWSC does not appear to be competitive to the other three on a monthly rate basis.

Figure 3-8 Estimate Monthly Rates – Using Reserves for Capital

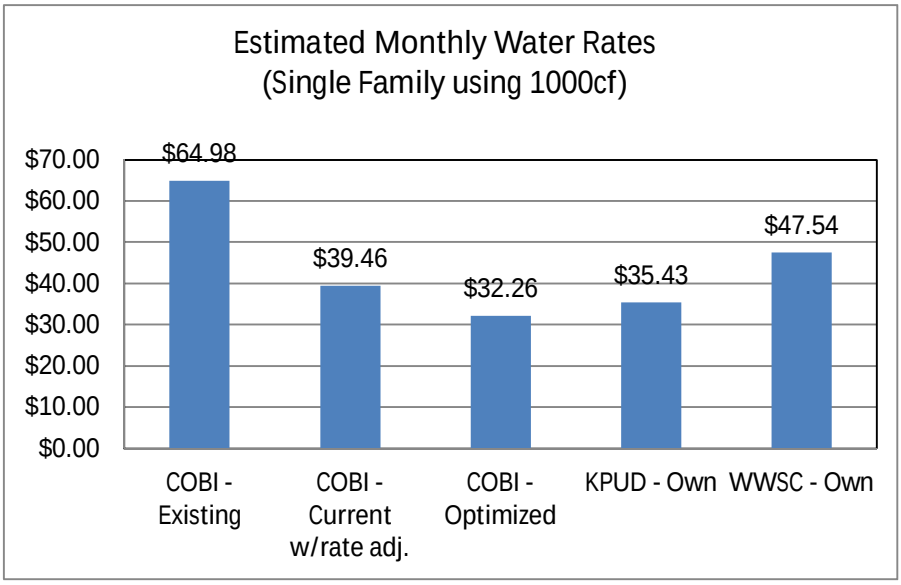


Figure 3-9 is a copy of the simplified financial model for the alternatives demonstrating the use of reserves toward capital replacement when possible.

Figure 3-9 Scenario Assigning Reserves for Capital Improvements

City of Bainbridge Island

W Utility Business Advisor

Prepared by KI&A

This scenario assumes:
Reduces annual capital replacement funding from rates to the level of depreciation.

			Reflects adjusted rates		
Summary of W Expenses	**2011**		**COBI Current w/rate adj**	**COBI Optimize**	
Oper	1,238,191		1,144,676	880,966	
Debt	-		-	-	
Capital	1,140,785	*Assume fund depreciation level*	300,000	300,000	
Total W Expense	2,378,976		1,444,676	1,180,966	
		Compare to 2011:	*61%*	*50%*	
		savings	*39%*	*50%*	
2011 Single Family Customer Bill	**1000cf**	**2011 Rates -COBI**			
Existing COBI	$64.98	Base = $27.98/Mo	**1000cf**	**1000cf**	
		0-500cf = $2.82/100cf	$39.46	$32.26	
		501-1200cf = $4.58/100cf	***-39%***	***-50%***	***savings***
		1201-3000cf = $6.46/100cf			
		3000+cf = $8.80/100cf			
		2011 Rates -KPUD Proposed	*kpud proposal used 2010 rates, also gave 2011-14*		
		Base = $21.52/Mo			
		Capital Surcharge = $0/Mo.			
		0-1400cf = $0.92/100cf	*per bi-monthly period*		
		1500-3000cf = $1.32/100cf	**1000cf**		
		3100-5000cf = $1.66/100cf	$31.92	base, surcharge & volume	
		5100+cf = $4.12/100cf	$3.51	taxes: state (5%) & city (6%)	
			$35.43		
			-45%	***savings***	
		2011 Rates -WWSC			
		Base = $17.43/Mo			
		0-653cf = $2.38/100cf	**1000cf**		
		653-2056cf = $2.84/100cf	$42.83		
		2057+cf = $3.22/100cf	$4.71	taxes: state (5%) & city (6%)	
			$47.54		
			-27%	***savings***	

The lower half of Figure 3-9 provides the rate schedule for the 3 purveyors and calculates what the monthly rate and savings would be for each alternative. The comparative percentage savings in order of highest to lowest are: “COBI-Optimize” 50%, KPUD 45%, “COBI-Current” 39%, and WWSC 27%. The resulting rates are summarized graphically in Figure 3-8.

3.2.1.4 Use of Reserves

The use of reserves differs for each alternative and depends on several factors, such as whether additional reserves are anticipated to be generated from the option in 2011, the capital improvements to be funded, and the transition costs estimated for this comparison. All alternatives begin with an estimated $3,875,620 in reserves.

For COBI, the capital improvements total $3,797,000 based on a 6/30/2010 staff memorandum for the period of 2011-2015. This is reduced by the amount generated from rates during the same period to estimate the capital to be funded by reserves. Because this alternative is designed to rely on reserves to fund a portion of capital, the annual amount funded by rates was reduced from $435,000 to $300,000, or approximately equal to annual depreciation. Transition costs were also estimated at an “order of magnitude” level to demonstrate the impact. The report is estimated at $100,000 and staff separation costs are estimated at $150,000. The result is approximately $1.4M in reserves available for COBI-Current option, and $1.3M for COBI-Optimize. The report does not address the final dissolution of water reserves.

KPUD estimated that $2,135,718 in reserves would be necessary for identified capital improvements not otherwise funded by rates. The transition costs include $100,000 for the report, $250,000 for staff separation, and $500,000 other transition costs (such as legal). The result is approximately $900,000 in reserves available.

WWSC anticipates that all capital improvements would be funded by rates and no reserves would be used. The transition costs are estimated to be the same as a transfer to KPUD, at $850,000. The result is approximately $3M in reserves available.

Figure 3-10 demonstrates the estimated use of reserves for each alternative.

Figure 3-10 Use of Reserves

City of Bainbridge Island **W Utility Business Advisor** *Prepared by KI&A*		KI&A Use of Reserves	*Water FTE's:* *6.5* / *3.9* **Reflects adjusted rates**			
	Budget 2011		**COBI Current w/rate adj**	**COBI Optimize**	**KPUD**	**WWSC**
Reserves Available for Capital	**$3,875,620**	*end bal. less target min. reserves*	**$3,842,905**	**$3,848,757**	**$3,875,620**	**$3,875,620**
	@435k/yr		@300k/yr			
Revised COBI CIP 2011-2015	3,797,000	*Krumheuer Memo, 6/30/10*	3,797,000			
Less: Annual from rates	2,175,000	*Annual depreciation (5 yrs)*	1,500,000			
Capital Funded from Reserves	1,622,000		2,297,000	2,297,000	2,135,718	
Transition Costs from Reserves	100,000	*study/separation /transition*	100,000	250,000	850,000	850,000
Other Costs from Reserves						
Est. Costs funded from Reserves	**1,722,000**		**2,397,000**	**2,547,000**	**2,985,718**	**850,000**
Reserves Available	**$2,153,620**		**$1,445,905**	**$1,301,757**	**$889,902**	**$3,025,620**
Est. Monthly Rate, 1000cf	**$64.98**		**$39.46**	**$32.26**	**$35.43**	**$47.54**
Est. % Savings			**-39%**	**-50%**	**-45%**	**-27%**

3.2.1.5 Impact on General Fund for Reduced Rates or Transfer

A reduction in monthly rates will have an impact on COBI's general fund in terms of lower revenue from the City utility tax. This is estimated in the range of $45,000 to $66,000 depending on the water rate alternative without using reserves for capital.

Figure 3-11 General Fund Impact from Rate Reduction

Single Family Monthly (using 1,000 cubic feet of water)	Rate/Mo.	Savings	State & City Tax	Impact on General Fund
COBI - Existing	$64.98		incl.	$0
COBI - Current w/rate adj.	$39.46	-39%	incl.	-$50,000
COBI - Optimized	$32.26	-50%	incl.	-$66,000
KPUD - Own	$35.43	-45%	added	-$51,000
WWSC - Own	$47.54	-27%	added	-$45,000

Another impact to the general fund is stranded costs to the City's general fund, and other utility funds that would occur due to stranded FTE costs in the event of one of the other purveyors managing or owning the COBI water utility. This is illustrated further in Figure 3-12.

Figure 3-12 Stranded FTE Costs

Class	Existing FTE	$ Existing (Water Fund)	Optimized FTE	$ Optimized (Water Fund)	Transfer/Sell					
					Transfer/Sell (GF)	$ Impact (Gen Fund)	Transfer/Sell (SS/S Fund)	$ Impact (SS/S Fund)	Transfer/Sell (RIF)	$ Impact (RIF)
Executive	0.4	$49,400	0.2	$23,400	0.3	$39,000	0.0	$0	0.1	$13,000
Finance and Administrative Services	1.3	$130,000	0.9	$87,000	0.2	$24,000	0.3	$28,000	0.8	$80,000
Planning and Community Development	0.0	$2,700	0.0	$0	0.0	$0	0.0	$2,700	0.0	$0
Public Works - Admin.	0.2	$23,800	0.2	$23,800	0.0	$0	0.2	$23,800	0.0	$0
Public Works - Engineering	0.8	$84,000	0.4	$36,750	0.0	$0	0.0	$0	0.8	$84,000
Public Works - O&M	3.3	$260,700	2.1	$161,950	0.0	$0	0.5	$38,710	2.8	$221,990
Information Technology	0.5	$48,410	0.2	$20,600	0.0	$0	0.0	$0	0.5	$48,410
TOTALS	**6.5**	**$599,010**	**3.9**	**$353,500**	**0.5**	**$63,000**	**1.0**	**$93,210**	**5.0**	**$447,400**

If the utility were transferred, there would be an additional impact of $63,000 to the general fund. There could also be an approximate $93,000 combined impact to the sewer and storm funds, assuming no further optimization efforts of the sewer and storm funds were carried out.

Finally, if the utility were transferred to either KPUD or WWSC (who currently do not pay a utility tax) the potential financial impact to the general fund would be approximately $146,000, unless this was addressed by having that purveyor enter into a revised franchise agreement or agree to a utility tax with the City.

3.2.2 Findings Assessment

The following is a graphical presentation of the data amassed in Chapter 2, along with the analysis completed in Section 3.1 to illustrate the services each purveyor can (or cannot) provide at this time. This includes the possible options (management only or ownership) of either KPUD or WWSC, along with considering COBI's "existing" and "optimized" options for ownership of the water utility. The analysis framework is based on the point of view from the current City ownership and control of the water utility. The intent is to identify issues that have no impact (i.e. "status quo") as compared to other issues and impacts that are not status quo. For instance, if the there is no impact to the City or its ratepayers, the analysis is given a "green" flag along with a brief description. Possible impacts or future issues are noted with a "yellow" flag and a description of the impact. Finally, imminent issues that will result in a significant impact from the status quo are given a "red" flag with a description of the impact. The summary of the assessments is based on the following subjects:

- Management and Administration
- Finance
- Customer Service
- Engineering
- Operations and Maintenance

3.2.3 Management and Administration

Management and Administration Impacts	City of Bainbridge	Kitsap PUD	WA Water Service
Governance	**Existing** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.
	Optimized ◗ Assessment ◗ Status quo.	**Transfer/Own** ◗ Assessment ◗ COBI no longer directs water utility policy or operations.	**Transfer/Own** ◗ Assessment ◗ COBI no longer directs water utility policy or operations.
Water Resource Management	**Existing** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.
	Optimized ◗ Assessment ◗ May need to consider outsourcing activity.	**Transfer/Own** ◗ Assessment ◗ COBI no longer directs water utility policy or operations.	**Transfer/Own** ◗ Assessment ◗ COBI no longer directs water utility policy or operations.
Comprehensive Planning (Land Use, Growth Management Act, etc.)	**Existing** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.
	Optimized ◗ Assessment ◗ Status quo.	**Transfer/Own** ◗ Assessment ◗ COBI loses leverage of water utility to influence growth.	**Transfer/Own** ◗ Assessment ◗ COBI loses leverage of water utility to influence growth.
Lane Case	**Existing** ◗ Assessment ◗ No impact to water utility.	**Manage** ◗ Assessment ◗ Status quo.	**Manage** ◗ Assessment ◗ Status quo.
	Optimized ◗ Assessment ◗ Status quo.	**Transfer/Own** ◗ Assessment ◗ Status quo.	**Transfer/Own** ◗ Assessment ◗ Status quo.

Management and Administration Impacts	City of Bainbridge	Kitsap PUD	WA Water Service
Staffing Levels	**Existing** ◗ Assessment ◗ Currently operate with 6.5 FTEs.	**Manage** ◗ Assessment ◗ Can operate system with existing staff, plus 2 FTEs (i.e. operators).	**Manage** ◗ Assessment ◗ Can operate system with existing staff, plus 2 FTEs (i.e. operators).
	Optimized ◗ Assessment ◗ Operate with 3.9 FTEs.	**Transfer/Own** ◗ Assessment ◗ Can operate system with existing staff, plus 2 FTEs (i.e. operators).	**Transfer/Own** ◗ Assessment ◗ Can operate system with existing staff, plus 2 FTEs (i.e. operators).

3.2.4 Finance

Financial Impacts	City of Bainbridge	Kitsap PUD	WA Water Service
Water Utility Fund Impacts	**Existing** ◗ Assessment ◗ Strong reserve balance.	**Manage** ◗ Assessment ◗ Strong reserve balance.	**Manage** ◗ Assessment ◗ Strong reserve balance.
	Optimized ◗ Assessment ◗ Strong reserve balance.	**Transfer/Own** ◗ Assessment ◗ Strong reserve balance.	**Transfer/Own** ◗ Assessment ◗ Strong reserve balance.
General Fund Impacts	**Existing** ◗ Assessment ◗ With a 35% rate reduction, the impact would be $50,000.	**Manage** ◗ Assessment ◗ Depending on what utility tax or franchise fee is negotiated, the financial impact could be as much as $146,000.	**Manage** ◗ Assessment ◗ Depending on what utility tax or franchise fee is negotiated, the financial impact could be as much as $146,000.
	Optimized ◗ Assessment ◗ Financial impact would be $65,000 if a 45% rate reduction occurred.	**Transfer/Own** ◗ Assessment ◗ Depending on if a utility tax or franchise fee is negotiated, the financial impact could be as much as $146,000.	**Transfer/Own** ◗ Assessment ◗ Depending on if a utility tax or franchise fee is negotiated, the financial impact could be as much as $146,000.

Financial Impacts	City of Bainbridge	Kitsap PUD	WA Water Service
Monthly Water Bill Comparison	**Existing** ◗ Assessment ◗ COBI's current water rates are higher than available alternatives at $64.98 based on 1,000 cf. ◗ It appears rates could be lowered and monthly water bills lowered 34%, which would be $43.15 based on 1,000 cf.	**Manage** ◗ Assessment ◗ KPUD's current rates are $42.39 for 1,000 cf of water. The best of the interested purveyors.	**Manage** ◗ Assessment ◗ WWSC's rates are a significant improvement over COBI, but not as competitive as KPUD's ($47.54 vs. $42.39 for 1,000 cf).
	Optimized ◗ Assessment ◗ If rates are lowered, plus staffing reduced, monthly water bills could be reduced to $35.94.	**Transfer/Own** ◗ Assessment ◗ KPUD's current rates are $42.39 for 1,000 cf of water. The best of the interested purveyors.	**Transfer/Own** ◗ Assessment ◗ WWSC's rates are a significant improvement over COBI, but not as competitive as KPUD's ($47.54 vs. $42.39 for 1,000 cf).
Sewer/Storm Utility Fund Impacts	**Existing** ◗ Assessment ◗ Status quo	**Manage** ◗ Assessment ◗ Up to $93,000 in stranded cost.	**Manage** ◗ Assessment ◗ Up to $93,000 in stranded cost.
	Optimized ◗ Assessment ◗ Status quo.	**Transfer/Own** ◗ Assessment ◗ Up to $93,000 in stranded cost.	**Transfer/Own** ◗ Assessment ◗ Up to $93,000 in stranded cost.

3.2.5 Customer Service

Customer Service Impacts	City of Bainbridge	Kitsap PUD	WA Water Service
General Customer Access	**Existing** ◗ Assessment ◗ Customers can contact staff or easily visit at City Hall.	**Manage** ◗ Assessment ◗ Customers would now need to contact KPUD or visit office in Poulsbo.	**Manage** ◗ Assessment ◗ Customers would now need to contact WWSC or visit office in Gig Harbor.
	Optimized ◗ Assessment ◗ Customers can contact staff or easily visit at City Hall.	**Transfer/Own** ◗ Assessment ◗ Customers would now need to contact KPUD or visit office in Poulsbo.	**Transfer/Own** ◗ Assessment ◗ Customers would now need to contact WWSC or visit office in Gig Harbor.
Water Availability Letters	**Existing** ◗ Assessment ◗ Developers can contact staff or easily visit at City Hall.	**Manage** ◗ Assessment ◗ Developers would now need to contact KPUD or visit office in Poulsbo.	**Manage** ◗ Assessment ◗ Developers would now need to contact WWSC or visit office in Gig Harbor.

Customer Service Impacts	City of Bainbridge	Kitsap PUD	WA Water Service
	Optimized ◗ Assessment ◗ Developers can contact staff or easily visit at City Hall.	**Transfer/Own** ◗ Assessment ◗ Developers would now need to contact KPUD or visit office in Poulsbo.	**Transfer/Own** ◗ Assessment ◗ Developers would now need to contact WWSC or visit office in Gig Harbor.

3.2.6 Engineering

Engineering Impacts	City of Bainbridge Island	Kitsap PUD	WA Water Service
Engineering Design Standards	**Existing** ◗ Assessment ◗ Status quo. Follow current COBI standards	**Manage** ◗ Assessment ◗ Status quo. Follow current COBI standards.	**Manage** ◗ Assessment ◗ Status quo. Follow current COBI standards
	Optimized ◗ Assessment ◗ Status quo. Follow current COBI standards.	**Transfer/Own** ◗ Assessment ◗ Status quo. Follow current COBI standards.	**Transfer/Own** ◗ Assessment ◗ Status quo. Follow current COBI standards.
Capital Project Coordination	**Existing** ◗ Assessment ◗ Continuity of all capital projects coordinated by COBI in-house.	**Manage** ◗ Assessment ◗ Continuity of all capital projects coordinated by COBI in-house.	**Manage** ◗ Assessment ◗ Continuity of all capital projects coordinated by COBI in-house.
	Optimized ◗ Assessment ◗ Continuity of all capital projects coordinated in-house.	**Transfer/Own** ◗ Assessment ◗ Loss of continuity as water projects now directed by KPUD.	**Transfer/Own** ◗ Assessment ◗ Loss of continuity as water projects now directed by WWSC.

3.2.7 Operations and Maintenance

Operations and Maintenance Impacts	City of Bainbridge Island	Kitsap PUD	WA Water Service
Water Supply	**Existing** ◗ Assessment ◗ Staff are well trained for routine operations. ◗ Preventative maintenance schedule meets or exceeds industry standard	**Manage** ◗ Assessment ◗ Staff are well trained for routine operations. ◗ No preventative maintenance schedule. Reactive repairs only.	**Manage** ◗ Assessment ◗ Staff are well trained for routine operations. ◗ Preventative maintenance schedule meets or exceeds industry standard.
	Optimized ◗ Assessment ◗ Staff are well trained for routine operations. ◗ Preventative maintenance schedule likely impacted by staff reduction.	**Transfer/Own** ◗ Assessment ◗ Staff are well trained for routine operations ◗ No preventative maintenance schedule. Reactive repairs only.	**Transfer/Own** ◗ Assessment ◗ Staff are well trained for routine operations. ◗ Preventative maintenance schedule meets or exceeds industry standard.
Treatment	**Existing** ◗ Assessment ◗ Staff knowledgeable of on-site disinfection generation equipment, fluoridation treatment system and iron/manganese treatment (ATEC) system.	**Manage** ◗ Assessment ◗ Staff knowledgeable of ATEC iron/manganese treatment. Need to learn how to operate fluoridation system. Need to become more familiar with operation of on-site chlorination system.	**Manage** ◗ Assessment ◗ Staff knowledgeable of ATEC iron/manganese treatment. Need to learn how to operate fluoridation system. Need to become more familiar with operation of on-site chlorination system.
	Optimized ◗ Assessment ◗ Staff knowledgeable of on-site disinfection generation equipment, fluoridation treatment system, and iron/manganese treatment (ATEC) system.	**Transfer/Own** ◗ Assessment ◗ Staff knowledgeable of ATEC iron/manganese treatment. Need to learn how to operate fluoridation system. Need to become more familiar with operation of on-site chlorination system.	**Transfer/Own** ◗ Assessment ◗ Staff knowledgeable of ATEC iron/manganese treatment. Need to learn how to operate fluoridation system. Need to become more familiar with operation of on-site chlorination system.
Water Quality	**Existing** ◗ Assessment ◗ All water quality sampling conducted in accordance to WADOH requirements.	**Manage** ◗ Assessment ◗ All water quality sampling conducted in accordance to WADOH requirements.	**Manage** ◗ Assessment ◗ All water quality sampling conducted in accordance to WADOH requirements.
	Optimized ◗ Assessment ◗ All water quality sampling conducted in accordance to WADOH requirements.	**Transfer/Own** ◗ Assessment ◗ All water quality sampling conducted in accordance to WADOH requirements.	**Transfer/Own** ◗ Assessment ◗ All water quality sampling conducted in accordance to WADOH requirements.
Pump Stations	**Existing** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ High level of preventative maintenance effort to maintain facilities.	**Manage** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.	**Manage** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.

Operations and Maintenance Impacts	City of Bainbridge Island	Kitsap PUD	WA Water Service
	Optimized ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.	**Transfer/Own** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.	**Transfer/Own** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.
Reservoirs	**Existing** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Known capacity and pressure issue at High School reservoirs needs to be addressed in the next Water System Plan update due in January 2013.	**Manage** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.	**Manage** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.
	Optimized ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced. ◗ Known capacity and pressure issue at High School reservoirs needs to be addressed in the next Water System Plan update due in January 2013.	**Transfer/Own** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.	**Transfer/Own** ◗ Assessment ◗ Staff capability and practice meet industry standard. ◗ Only issue is preventative maintenance activities (inspections and rehab work) would be reduced.
SCADA/Telemetry	**Existing** ◗ Assessment ◗ System and staff meet industry standard.	**Manage** ◗ Assessment ◗ Staff would need training and access to operate the water facilities portion of COBI's integrated SCADA system. Access protocol would need to be negotiated.	**Manage** ◗ Assessment ◗ Staff would need training and access to operate the water facilities portion of COBI's integrated SCADA system. Access protocol would need to be negotiated.
	Optimized ◗ Assessment ◗ System and staff meet industry standard.	**Transfer/Own** ◗ Assessment ◗ Staff would need training and access to operate the water facilities portion of COBI's integrated SCADA system. Access protocol would need to be negotiated.	**Transfer/Own** ◗ Assessment ◗ Staff would need training and access to operate the water facilities portion of COBI's integrated SCADA system. Access protocol would need to be negotiated.
Preventative Maintenance Program (i.e. flushing, leak detection)	**Existing** ◗ Assessment ◗ Program meets or exceeds industry standard.	**Manage** ◗ Assessment ◗ No scheduled leak detection studies for their systems. ◗ Flushing would be done as needed, but nothing scheduled. This could be negotiated.	**Manage** ◗ Assessment ◗ Leak detection studies completed in-house as needed. ◗ Flushing done as needed.

Operations and Maintenance Impacts	City of Bainbridge Island	Kitsap PUD	WA Water Service
	Optimized ◗ Assessment ◗ Flushing schedule may require revision. ◗ Leak detection schedule may require revision.	**Transfer/Own** ◗ Assessment ◗ No scheduled leak detection studies for their systems. ◗ Flushing would be done as needed, but nothing scheduled. This could be negotiated.	**Transfer/Own** ◗ Assessment ◗ Leak detection studies completed in-house as needed. ◗ Flushing done as needed.
Meters	**Existing** ◗ Assessment ◗ COBI has a current meter replacement program. ◗ No meter testing program.	**Manage** ◗ Assessment ◗ No meter replacement program. ◗ No meter testing program.	**Manage** ◗ Assessment ◗ WWSC has a current meter replacement program. ◗ No meter testing program.
	Optimized ◗ Assessment ◗ Meter replacement program may need to be reduced.	**Transfer/Own** ◗ Assessment ◗ ◗ No meter replacement program. ◗ No meter testing program.	**Transfer/Own** ◗ Assessment ◗ WWSC has a current meter replacement program. ◗ No meter testing program.
Emergency Management	**Existing** ◗ Assessment ◗ Response time is usually 30-60 minutes.	**Manage** ◗ Assessment ◗ Response time is usually 30-60 minutes.	**Manage** ◗ Assessment ◗ Response time is 60 minutes. Repair times may be significantly longer due to response being coordinated at Gig Harbor operations center.
	Optimized ◗ Assessment ◗ Response time is usually 30-60 minutes.	**Transfer/Own** ◗ Assessment ◗ Response time is usually 30-60 minutes.	**Transfer/Own** ◗ Assessment ◗ Response time is 60 minutes. Repair times may be significantly longer due to response being coordinated at Gig Harbor operations center.
Cross-Connection Control	**Existing** ◗ Assessment ◗ CCC program is based on last point of use in a facility, per Uniform Plumbing Code/Uniform Building Code.	**Manage** ◗ Assessment ◗ CCC program is WADOH approved and staff meets certification standards. ◗ Current COBI monitoring to last point of use device instead of premise isolation; will likely result in additional effort and cost that would need to be negotiated.	**Manage** ◗ Assessment ◗ CCC program is WA DOH approved and staff meets certification standards. ◗ Current COBI monitoring to last point of use device instead of premise isolation; will likely result in additional effort and cost that would need to be negotiated.

Operations and Maintenance Impacts	City of Bainbridge Island	Kitsap PUD	WA Water Service
	Optimized ◗ Assessment ◗ May need to focus CCC program on premise isolation only, resulting in transfer of workload to Building Department to manage last point of use devices.	**Transfer/Own** ◗ Assessment ◗ CCC program is WADOH approved and staff meets certification standards. ◗ Current COBI monitoring to last point of use device instead of premise isolation; will likely result in additional effort and cost that would need to be negotiated.	**Transfer/Own** ◗ Assessment ◗ CCC program is WADOH approved and staff meets certification standards. ◗ Current COBI monitoring to last point of use device instead of premise isolation; will likely result in additional effort and cost that would need to be negotiated.
DOH Certification	**Existing** ◗ Assessment ◗ Staff certifications meet or exceed WADOH requirements.	**Manage** ◗ Assessment ◗ Staff certifications meet or exceed WADOH requirements.	**Manage** ◗ Assessment ◗ Staff certifications meet or exceed WADOH requirements.
	Optimized ◗ Assessment ◗ Staff certifications meet or exceed WADOH requirements.	**Transfer/Own** ◗ Assessment ◗ Staff certifications meet or exceed WADOH requirements.	**Transfer/Own** ◗ Assessment ◗ Staff certifications meet or exceed WADOH requirements.
Sewer Operations Capability	**Existing** ◗ Assessment ◗ Staff's capability meets industry standard.	**Manage** ◗ Assessment ◗ PUD's not authorized to operate or own sewer utilities.	**Manage** ◗ Assessment ◗ Staff's capability meets industry standard, but closest staff person is located on Orcas Island. ◗ Authorized to be a sewer service operator.
	Optimized ◗ Assessment ◗ Staff's capability meets industry standard.	**Transfer/Own** ◗ Assessment ◗ PUD's not authorized to operate or own sewer utilities.	**Transfer/Own** ◗ Assessment ◗ WWSC not authorized to own a sewer utility.

3.3 Final Considerations

The report has demonstrated that all three purveyors (COBI, KPUD, and WWSC) can be competitive in owning and operating COBI's water utility. The two other interested purveyors identified (KPUD and WWSC) are both capable water purveyors that provide service in accordance with WADOH regulatory requirements. KPUD is already providing water service to North Bainbridge Island and other smaller systems on Bainbridge Island at rates lower than COBI's current rates. WWSC could also provide reliable water service at a lower rate than COBI currently pays, and already provides water service to smaller systems on Bainbridge Island. Both offer stream-lined, efficient operations due to economy of scale as described in Chapter 2.

The policy issue for the City Council is: Should COBI remain in the water business? Before the City Council decides whether to stay in or leave the water utility business it should consider the impacts that are both financial and governance related. These include:

1. Reduced rates for ratepayers are achievable with all three purveyors. The report has shown COBI can reduce its current rates to be comparable or better than KPUD's and WWSC's and still maintain a financially viable water utility fund. Further savings would be realized by reducing staffing levels to 3.9 FTEs. This would result in reduced levels of service to current ratepayers, but WADOH regulatory requirements would still be met.
2. Transferring ownership of the water utility will impact the general fund of the City anywhere from $150,000 to $300,000 per year, depending on which option is selected and whether the stranded costs are mitigated via collecting other sources of water utility related revenue (franchise fee, utility tax, etc.).
3. Transferring ownership of the water utility will impact the City's sewer and storm utility funds by approximately $90,000 per year. There will also be an impact to operational efficiency and effectiveness of the City's storm and sewer field activities if any operations staff positions are eliminated from the water utility.
4. Most often cities believe that in order to provide effective communication, service, and efficient interactions with citizens, a city must manage its own utilities. To provide consistent service most cities look to own all utilities throughout city limits. The City Council should consider whether the impact of transferring the water utility to another purveyor would significantly impair its ability to provide effective service and communication with citizens, as well as to manage land use decisions and ensure the long-term sustainability of Bainbridge Island's limited water resources.
5. Currently, all previously unclaimed water service areas on Bainbridge Island have been identified in COBI's future service area. The City Council should consider which purveyor or purveyors should fill this role if COBI were no longer in the water business.

The City should take the following into consideration if they decide to retain the utility:

1. Reduce water rates in line with the report's findings.
2. To assist in times of weather- or conservation-related swings in water usage that impact water sales revenue, the City should consider creating a rate stability reserve. This would be in addition to the current utility reserves and would be used to avoid drastic impacts on water rates that may be required to make up for weather- or conservation-related water usage.
3. The amounts for target reserves used in this report are more conservative than current City policy, meaning higher amounts are identified to be held in reserve. This provides a floor such that the water utility would be in a solid position to respond to unanticipated or emergent needs. The remaining reserves would be applied to fund identified capital projects.
4. The annual amount of capital replacement to be funded by rates should be defined in policy. This report provides two scenarios which included 2.5% of fixed assets ($445,000) and annual depreciation ($300,000). The 2.5% of fixed assets is relevant to KPUD (1.5-2%) and WWSC (2.5-3%). However, if the City intends to apply reserves for identified capital projects, the annual capital replacement could be defined at the lower annual depreciation ($300,000) level. This should be reviewed each time the water system plan is updated to ensure the projects can be funded.
5. Consider outsourcing certain functions that are contracted out by other purveyors to avoid varying levels of demand; such as developer review, construction management and inspection, water system mapping, and annual maintenance agreements.

The City should take the following into consideration if the decision is to transfer the utility:

1. Enter into negotiations to transfer the water utility to KPUD. KPUD is the consultant team's recommended choice over WWSC as they have a history of long-term financial performance, proven staff capabilities, and a track record of providing service to a significant number of customers on Bainbridge Island.
2. Begin working on mitigation strategies to limit the financial impacts to the general fund, as well as the sewer and storm utility funds.
3. Begin working on mitigation strategies to limit impacts to governance capability (revise land use designations, restrictions related to water resources, etc.).
4. Begin discussions with KPUD, Kitsap County and WADOH to determine who will service the future service areas on Bainbridge Island that are currently outside of COBI's retail water service area.

Finally, regardless of which option is selected, the City may wish to consider the following items:

1. At present, a city utility tax is only imposed on COBI's water utility ratepayers. The City may consider changes to this policy, if appropriate, after making its ownership decision.
2. Franchise Agreements and/or Fees: Some cities use franchise fees as a possible method of collecting something similar to a utility tax intended to support road-related and other necessary general fund administration of franchises. The City may consider changes to its current franchise agreement policy to mitigate some of the noted financial impacts.

Appendix A

COBI Supporting Documents

(To be provided with Final Report)

- City of Bainbridge Island – Appendix A
  - Benchmarking Study: Final Report, January 2007, CH2M-Hill
  - Public Works Org Chart, December 2010, COBI
  - Public Works – O&M Org Chart, 2011, COBI
  - Cost Analysis Comparing COBI and Proposed KPUD Water System, June 2010, COBI UAC Members Buetow and Ward
  - 2010 Average Water Bill, March 2011, COBI
  - Water Facilities Inventory Form, December 2010, WADOH
  - Winslow Water System Comprehensive Plan Update, January 2005, Gray & Osborne, Inc.
  - Water Utility Consumption Data (2008-2010), February 2011, COBI
  - Cost Allocation Plan, February 2010, COBI
  - Preliminary Budget Request for Water Operating Fund, February 2011, COBI
  - Inter-local Agreement between Bainbridge Island School District #303 and COBI, January 1995, COBI
  - Annexation Inter-local Agreement between Kitsap County Library System and City of Winslow, January 1991, COBI
  - 2009 Report on Financial Statements, January 2011, Washington State Auditor
  - 2008 Report on Financial Statements, January 2010, Washington State Auditor
  - Ordinance No. 2009-40 (Setting Water Rates for 2010-2014), December 2009, COBI
  - Resolution No. 2009-34 (Financial and Budget Policies), December 2009, COBI
  - Water Utility and Bond-Related Questions, February 2011, Foster Pepper PLLC
  - 2003 Fee Schedule, 2003, COBI
  - 2004 Fee Schedule, 2004, COBI
  - 2005 Fee Schedule, 2005, COBI
  - 2006 Fee Schedule, 2006, COBI
  - 2008 Fee Schedule, 2008, COBI
  - 2009 Fee Schedule, 2009, COBI
  - 2010 Fee Schedule, 2010, COBI
  - 2011 Fee Schedule, 2011, COBI
  - December 2009 Cash Flow Memo, January 2010, COBI
  - Ordinance No. 99-55 (Water and Sewer Rates), October 1999, COBI
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  - 2011 Utility Budget, April 2011, COBI
  - 2010 Utility Budget, April 2011, COBI
  - 2009 Utility Budget, April 2011, COBI

- 2008 Utility Budget, April 2011, COBI
- 2009 Year End Balance Water Operating Fund, April 2011, COBI
- 2010 Preliminary Year End Balance Water Operating Fund, April 2011, COBI
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- $2.5M Refunding GO Issue, December 1995, COBI
- $2.5M Refunding GO Issue Debt Service Schedule, December 1995, COBI
- 2010 Annual Financial Report (unaudited), May 2011, COBI
- Full Cost Allocation Plan – Public Works Engineering for FY 2009, February 2010, COBI/MGT of America
- Full Cost Allocation Plan – Public Works Admin for FY 2009, February 2010, COBI/MGT of America
- Operational Analysis – Water Program Evaluation Memo, October 2002, Gray and Osborne, Inc.
- Operational Analysis – Preventative Maintenance and Staffing Memo, February 2003, Gray and Osborne, Inc.
- 2010 Water Utility CIP Recommendations Memo, June 2010, COBI
- Examples of priority based work, February 2011, COBI
- Water Utility Summary, February 2011, COBI
- Completed CIP Project Summary, February 2011, COBI
- Work Order Priorities, February 2011, COBI
- Work Plan and Work Order Data, February 2011, COBI
- Interview with Consultant Team, March 2011, GHD
- Rockaway Beach Water Line Information, August 2011, COBI
- COBI Utility Summary, August 2011, COBI
- Winslow Water Line Information, August 2011, COBI

Appendix B

KPUD Supporting Documents

(To be provided with Final Report)

- Kitsap Public Utility District – Appendix B
  - 2010 Draft Water System Comprehensive Plan Update, February 2011, KPUD
  - 2009 Annual Report, 2009, KPUD
  - 2008-2009 Audited Financial Statement Audit Report For KPUD, December 2010, Washington State Auditor
  - Construction Standards, May 2005, KPUD
  - 2011-2016 Water System Improvement Program, February 2011, KPUD
  - Employee Allocation Spreadsheet, July 2011, KPUD
  - 2010 Budget By Fund, October 2009, KPUD
  - 2011 Budget By Fund, October 2010, KPUD
  - Assumption of COBI's Public Drinking Water Systems Memo, August 2010, KPUD
  - Interview with Consultant Team Memo, April 2011, GHD

Appendix C

WWSC Supporting Documents

(To be provided with Final Report)

- Washington Water Service Company – Appendix C
  - 2011 Capital Budget, November 2010, WWSC
  - Rates and Regulations, June 2009, WWSC
  - Sample Operations and Maintenance Agreement, February 2011, WWSC
  - Sample Management Agreement, September 2009, WWSC
  - Rules and Regulations Governing Service, July 2009, WWSC
  - Annual Water Sales, April 2011, WWSC
  - Interview with Consultant Team Memo, March 2011, GHD
  - Response to Interview with Consultant Team, April 2011, WWSC

Appendix D

Consultant Team Prepared Documents

(To be provided with Final Report)

- Consultant Team Provided Documents – Appendix D
  - UBA Preliminary Results Workshop Presentation, May 2011, GHD
  - Final Response to UAC Committee, July 2011, GHD

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