



2012 Utility Rate Study Preliminary Results

Council Work Session August 6, 2012



City of
Bellingham

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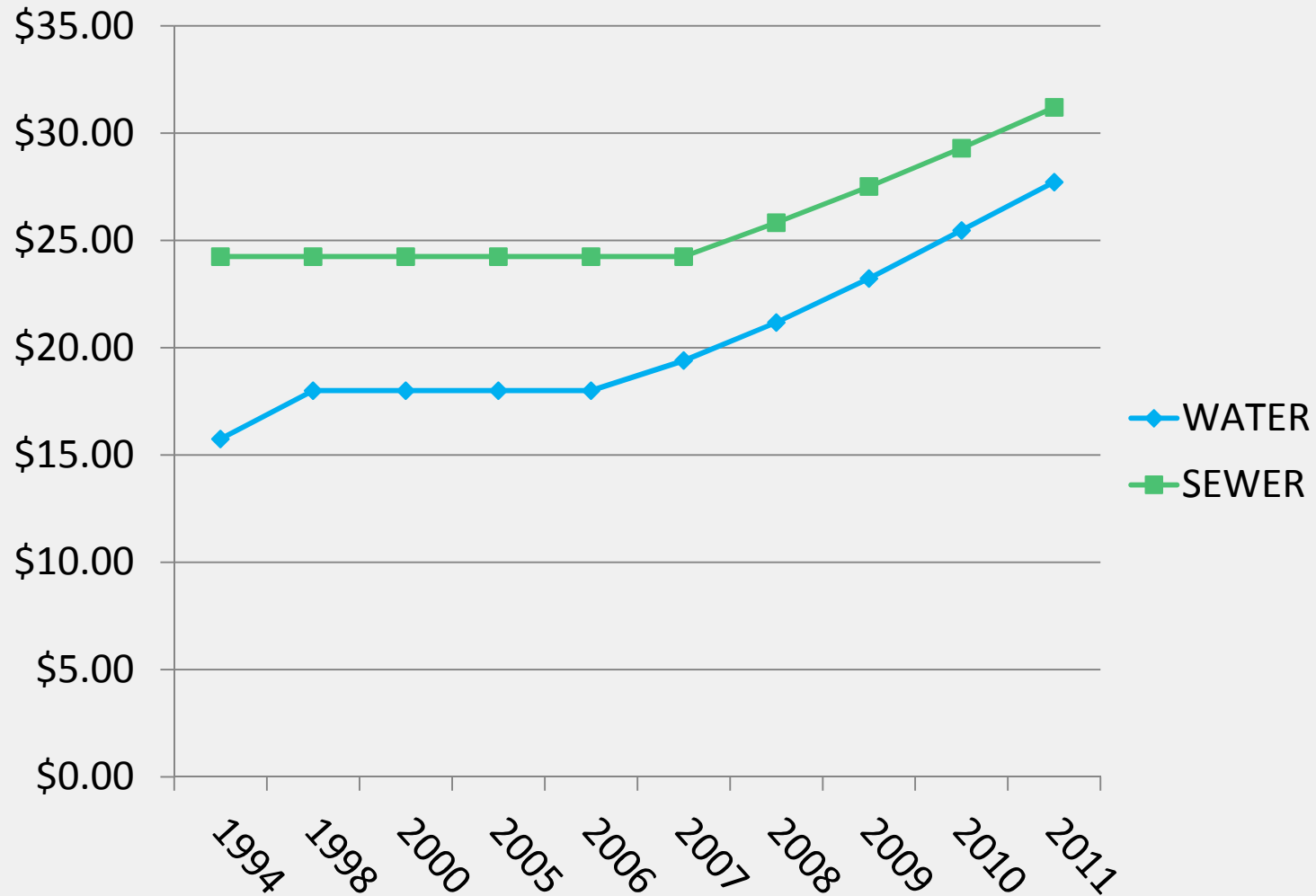
Agenda

- Background
- Summary of Special Issues
- Forecast Assumptions and Results
- Cost Allocation
- Water
 - Rate Structure Revisions
 - Recommended Rates
- Sewer
 - Rate Structure Revisions
 - Recommended Rates
- Summary of Recommendations/Next Steps

Background – Historical Impacts

- Last rate studies: Water (2007) & Sewer (2008)
- Historical models emphasized development revenue; \$9M shortfall resulting from slow growth in recent years
- No Utility Rate Increases: 1997-2008

City of Bellingham – Utility Rates By Year



Background – Current Challenges

- Improved customer conservation = continuing reductions in average water use
- Mandatory metering project (Water)
- Limited reserves – insufficient contingency funding and minimum debt coverage
- New or expanding water quality measures (Lake Whatcom)
- Ongoing utility system operation and maintenance needs
- Continuing capital improvements

Water Quality Measures

- New Invasive Species Program – dedicated funding for program staff; program plans underway
- Watershed Land Acquisition – purchase of 1921.7 acres through 2012 (1436 outright; 164 with other agencies, and 321.7 pending)
- Outreach & Education Programs
- New Water Quality Projects starting in 2013 (Stormwater)
 - Homeowner Incentives
 - Roadway Filtration/Infiltration Projects
 - Creek Stabilization Projects
 - Projects in County and City

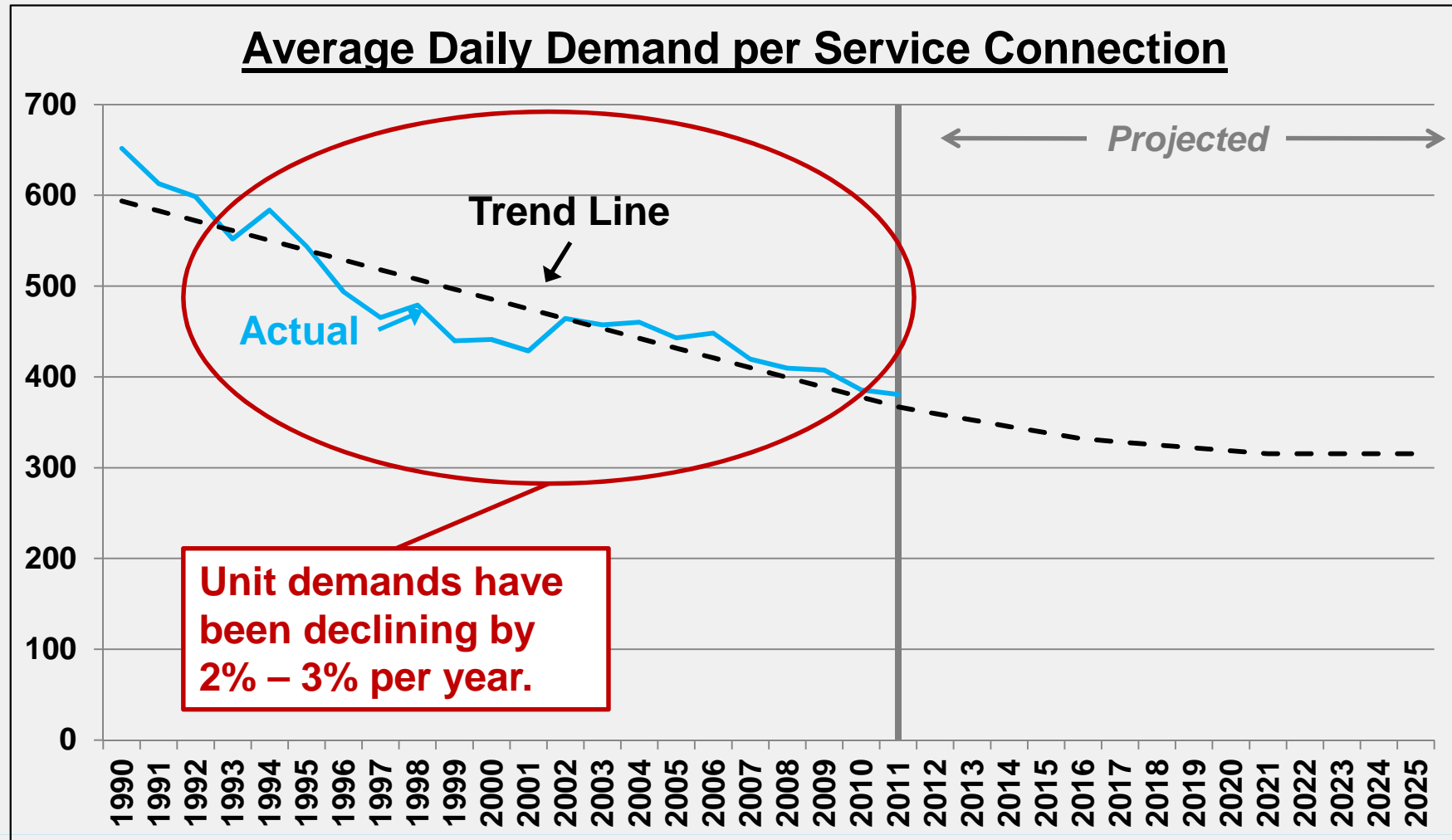
Summary of Special Issues

- Review of fire protection costs (Water)
 - Removed from rates as required by *Lane v. Seattle*
- Update of rates for untreated water (Water)
- Shift of individually metered condos from non-single-family to single-family rates
- Policy change regarding credit card use
- Consideration of potential policy revisions:
 - Expansion of reduced-rate program
 - Conversion to monthly billing

Forecast Assumptions

| Policy/Topic | Assumption(s) |
|----------------------------|---|
| Reserve Funding | <ul style="list-style-type: none"> • New operating reserve policy – 60 days (\approx 16%) of budgeted operating expenses • Rate stabilization reserve – phase-in to 50% of annual debt service by 2016 |
| System Reinvestment | <ul style="list-style-type: none"> • Cash funding of depreciation phased to 50% of depreciation expense by 2017 |
| Growth | <ul style="list-style-type: none"> • SFR: 0.7% – 1.3% per year plus annexations • Non-SFR: 1.3% – 2.3% per year • No out-of-city growth |
| Water Demand | <ul style="list-style-type: none"> • Per capita water use declines by 2% per year through 2016, and 1% per year in 2017 and 2018 |
| Metering Program | <ul style="list-style-type: none"> • Completed by end of 2016 |

Water Demand History



Forecast Assumptions: Capital & Debt

| Projected Capital Costs (\$ Millions) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2012 - 2018 Total |
|---------------------------------------|--------|--------|-------|--------|--------|-------|--------|-------------------|
| Water | \$11.6 | \$2.7 | \$6.9 | \$13.5 | \$4.4 | \$5.3 | \$21.8 | \$66.2 |
| Sewer | \$18.5 | \$34.1 | \$8.6 | \$8.6 | \$17.8 | \$3.4 | \$8.3 | \$99.3 |

| Net Debt Proceeds Needed (\$ Millions) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2012 - 2018 Total |
|--|-------|--------|-------|--------|--------|-------|--------|-------------------|
| Water | \$0.0 | \$0.0 | \$0.0 | \$11.6 | \$0.0 | \$0.0 | \$23.9 | \$35.5 |
| Sewer | \$0.0 | \$20.0 | \$0.0 | \$0.0 | \$10.5 | \$0.0 | \$0.6 | \$31.1 |
| Combined Debt Service Coverage | 2.08 | 2.35 | 2.80 | 3.04 | 2.63 | 2.76 | 3.64 | |

Forecast Results: Overall Rate Revenue Increases

| Water | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------|------|------|------|------|------|------|
| Baseline | 8.0% | 8.0% | 8.0% | 8.0% | 7.0% | 6.0% |
| Alternate | 9.0% | 8.0% | 8.0% | 7.0% | 8.0% | 7.0% |

| Sewer | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------|------|------|------|------|------|------|
| Baseline | 6.5% | 7.0% | 7.0% | 7.0% | 7.0% | 4.0% |
| Alternate | 6.5% | 7.0% | 7.0% | 8.0% | 7.0% | 5.0% |

“Alternate” scenario includes:

- Expansion of reduced-rate program
- Conversion to monthly billing

Cost Allocation

- Allocation to functions
 - Customer service (e.g. billing)
 - Demand/Flow (average, peak)
 - Strength (sewer only)
 - Fire Protection (water only)
- Allocation to customer classes
 - Based on relative demands
 - May shift cost burden between classes

Water Rate Structure Revisions

- Reflects cost of service, phased over 3 years
- Introduction of “transitional” SFR class
 - Mitigate customer impacts and revenue volatility
 - Target: 65% of revenue through fixed charges
 - Merges with metered SFR class in 2016
- Separate class for water districts
 - Currently combined with single-family
 - Unique usage patterns warrant a separate class
- Untreated water rates set to 80% of non-residential water rates

Recommended Water Rates

| Single-Family & Water District Rates | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---------|--------------|--------------|--------------|---|-------------|-------------|
| System-Wide Rate Revenue Increase | | 8.0% | 8.0% | 8.0% | 8.0% | 7.0% | 6.0% |
| Unmetered Single-Family Residential | | | | | | | |
| Overall Rate Revenue Increase | | 8.0% | 8.0% | 8.0% | 8.0% | | |
| Monthly Flat Rate: | | | | | | | |
| Single-Family Residence | \$29.96 | \$32.36 | \$34.95 | \$37.74 | \$40.76 | | |
| Unmetered Duplex | \$59.92 | \$64.71 | \$69.89 | \$75.48 | \$81.52 | | |
| Transitional Single-Family Residential | | | | | | | |
| Overall Rate Revenue Increase | | 11.8% | 10.6% | 4.8% | | | |
| Monthly Fixed Rate - 5/8" Meter | | \$16.13 | \$17.66 | \$18.35 | Combined With Metered Single-Family Residential Rate Structure | | |
| Volume Rate per ccf | | \$1.26 | \$1.41 | \$1.49 | | | |
| Metered Single-Family Residential | | | | | | | |
| Overall Rate Revenue Increase | | 7.3% | 6.2% | 15.2% | 8.6% | 6.9% | 6.0% |
| Monthly Fixed Rate - 5/8" Meter | \$11.61 | \$12.93 | \$14.10 | \$17.37 | \$19.39 | \$21.13 | \$22.62 |
| Volume Rate per ccf | \$1.53 | \$1.56 | \$1.59 | \$1.62 | \$1.65 | \$1.68 | \$1.73 |
| Water Districts | | | | | | | |
| Overall Rate Revenue Increase | | 38.2% | 31.9% | 28.1% | 8.6% | 7.3% | 6.5% |
| Monthly Fixed Rate - 5/8" Meter | \$11.61 | \$12.93 | \$14.10 | \$17.37 | \$19.39 | \$21.13 | \$22.62 |
| Volume Rate per ccf | \$1.53 | \$2.17 | \$2.92 | \$3.76 | \$4.07 | \$4.37 | \$4.65 |

Recommended Water Rates

| Non-Single-Family Rates | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|-------------|---------------|-------------|-------------|-------------|-------------|-------------|
| System-Wide Rate Revenue Increase | | 8.0% | 8.0% | 8.0% | 8.0% | 7.0% | 6.0% |
| Non-Residential | | | | | | | |
| Overall Rate Revenue Increase | | 6.3% | 5.9% | 5.8% | 7.7% | 6.9% | 6.1% |
| Monthly Fixed Rate - 5/8" Meter | \$19.51 | \$20.64 | \$21.42 | \$22.06 | \$25.24 | \$28.32 | \$30.87 |
| Volume Rate per ccf | \$1.53 | \$1.64 | \$1.77 | \$1.93 | \$1.94 | \$1.94 | \$1.97 |
| Irrigation | | | | | | | |
| Overall Rate Revenue Increase | | 2.7% | 1.8% | 1.5% | 7.4% | 6.7% | 6.2% |
| Monthly Fixed Rate - 5/8" Meter | \$19.51 | \$20.64 | \$21.42 | \$22.06 | \$25.24 | \$28.32 | \$30.87 |
| Volume Rate per ccf | \$2.30 | \$2.30 | \$2.30 | \$2.30 | \$2.30 | \$2.30 | \$2.35 |
| Untreated Industrial Water | | | | | | | |
| Overall Rate Revenue Increase | | -51.2% | 6.7% | 6.9% | 5.0% | 4.5% | 4.6% |
| Monthly Fixed Rate - 12" Meter | \$13,359.00 | \$2,395.17 | \$2,485.17 | \$2,559.44 | \$2,928.56 | \$3,286.21 | \$3,581.00 |
| Volume Rate per ccf: | | \$1.31 | \$1.42 | \$1.55 | \$1.55 | \$1.55 | \$1.58 |
| 0 - 296,000 ccf per Month | \$0.070 | | | | | | |
| > 296,000 ccf per Month | \$0.756 | | | | | | |

Sewer Rate Structure Revisions

- Reflects cost of service, phased over 3 years
- Creation of “domestic-strength” class:
 - Merges single-family, multiple dwelling units, and commercial customers into one class
 - Single-family only pays fixed rate
- Higher strength class for SIUs *(for later discussion)*
 - Potential to expand classes to include non-SIU commercial customers

Recommended Sewer Rates

| Sewer Rate Structure | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|--------------|--------------|-------------|-------------|-------------|-------------|
| System-Wide Rate Revenue Increase | | 6.5% | 7.0% | 7.0% | 7.0% | 7.0% | 4.0% |
| Single-Family Residential | | | | | | | |
| Overall Rate Revenue Increase | | 2.2% | 2.3% | 6.2% | 6.2% | 6.4% | 3.6% |
| Monthly Flat Rate: | | | | | | | |
| Single-Family Residence | \$33.23 | \$33.97 | \$34.74 | \$36.89 | \$39.17 | \$41.68 | \$43.18 |
| Unmetered Duplex | \$66.46 | \$67.94 | \$69.48 | \$73.78 | \$78.33 | \$83.37 | \$86.36 |
| Multiple Dwelling Units | | | | | | | |
| Overall Rate Revenue Increase | | 13.4% | 10.6% | 6.8% | 7.9% | 7.6% | 4.4% |
| Monthly Fixed Rate | \$33.23 | \$33.97 | \$34.74 | \$36.89 | \$39.17 | \$41.68 | \$43.18 |
| Volume Rate per ccf (> 8 ccf per Month) | \$3.49 | \$4.09 | \$4.62 | \$4.95 | \$5.37 | \$5.80 | \$6.07 |
| Domestic-Strength Non-Residential | | | | | | | |
| Overall Rate Revenue Increase | | 5.1% | 10.3% | 6.8% | 7.8% | 7.6% | 4.4% |
| Monthly Fixed Rate | \$33.97 | \$33.97 | \$34.74 | \$36.89 | \$39.17 | \$41.68 | \$43.18 |
| Volume Rate per ccf (> 8 ccf per Month) | \$3.82 | \$4.09 | \$4.62 | \$4.95 | \$5.37 | \$5.80 | \$6.07 |

Water & Sewer Rate Comparison (Monthly – Billed at 8 CCF)

| Jurisdiction | Water | Sewer | Tax | Total |
|--|----------------|----------------|---------------|----------------|
| Blaine | \$21.46 | \$99.00 | \$10.84 | \$131.30 |
| Lake Whatcom Water & Sewer District | \$47.67 | \$65.66 | (N/A) | \$113.32 |
| Ferndale | \$32.17 | \$52.06 | \$5.47 | \$89.69 |
| Lynden | \$30.58 | \$44.27 | \$6.36 | \$81.21 |
| AVERAGE | \$25.50 | \$50.34 | \$5.19 | \$81.03 |
| Nooksack | \$30.25 | \$45.22 | \$4.53 | \$80.00 |
| <i>Bellingham (Unmetered, Proposed 2013)*</i> | \$32.36 | \$33.97 | \$9.81 | \$76.14 |
| Everson | \$25.56 | \$43.00 | \$4.11 | \$72.67 |
| <i>Bellingham (Unmetered, Existing)*</i> | \$29.96 | \$33.23 | \$9.29 | \$72.48 |
| Sumas | \$10.96 | \$53.94 | \$5.84 | \$70.74 |
| <i>Bellingham (Metered, Proposed 2013)*</i> | \$25.41 | \$33.97 | \$8.54 | \$67.92 |
| <i>Bellingham (Metered, Existing)*</i> | \$23.85 | \$33.23 | \$8.17 | \$65.25 |
| Birch Bay Water & Sewer District | \$24.90 | \$30.20 | (N/A) | \$55.10 |

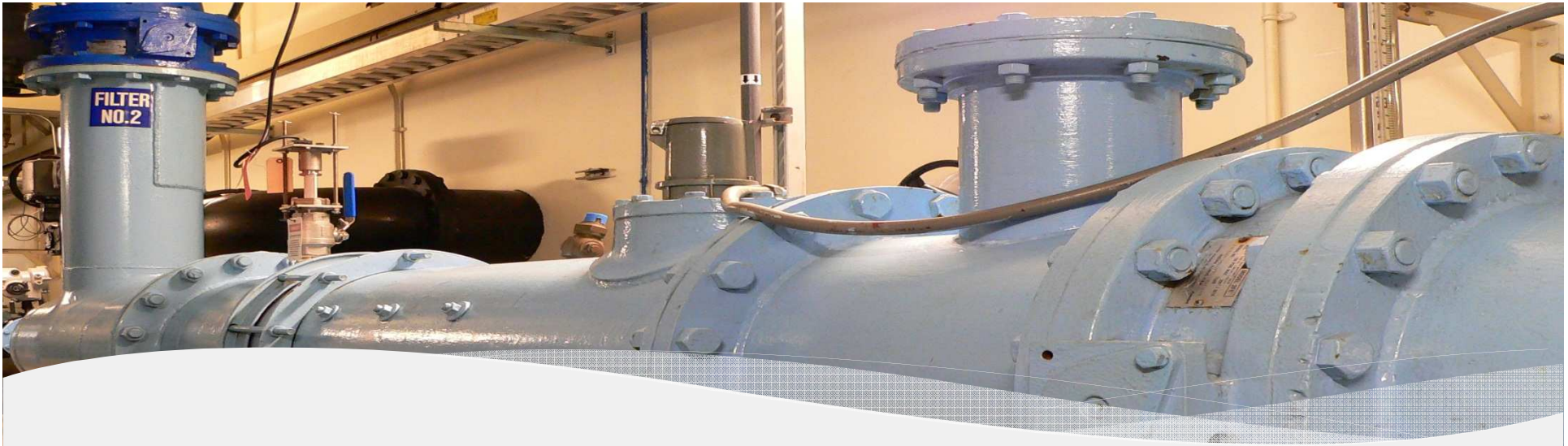
**Excludes watershed surcharges*

Summary of Recommendations

- Adopt proposed water and sewer rates, which reflect:
 - Proposed rate revenue increases
 - Revised customer class structure
 - Phased shifts of costs between customer classes
- Monitor utilities' financial status, and adjust strategy as needed

Next Steps

- Discuss remaining topics:
 - SIU rates
 - Potential wholesale water rates
 - Rates for Lake Whatcom Water & Sewer District
 - SDCs



2012 Utility Rate Study

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Optional Slides

Cost Components of Planned Rate Increases

