City of Bainbridge Island, WA

Water, Sewer, and SSWM Utility Rates

Presentation of Results

November 18, 2009

FCS GROUP
Solutions-Oriented Consulting

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Presentation Outline

- Rate Study Process
- Fiscal Policies
- Results
  - ✓ Water
  - ✓ Sewer
  - ✓ SSWM
- System Participation Fees

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Rate Study Process

Revenue Requirement
"Defining Overall Needs"

↓

Cost of Service
"Equity Evaluation"

↓

Rate Design
"Collecting the Target Revenues"

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Fiscal Policies

	Description	Recommended Policies	Comments
Operating Reserve	Provide for adequate working capital to accommodate fluctuations in the timing of revenues and expenditures	Maintain minimum balance in operating account equal to 60 – 90 days of O&M; in any year where cash reserves exceed target, transfer to capital account to help pay for capital projects	Target met in year 2010 through remainder of study period
Capital Reserve	Provide a source of funding for emergency repairs and unanticipated capital expenditures and project costs overruns	Maintain a minimum balance equal to 1% of system fixed assets	Target met in year 2010 through remainder of study period. Sustained from capital revenues, system reinvestment funding, and excess operating revenues
System Reinvestment Funding	Provide for ongoing system integrity through reinvestment in the system (replacing physical assets with cash assets)	Fund from rates an amount equal to annual depreciation expense, less annual debt principal payments; transfer to capital account at year end	Charges customers commensurate with the consumption of facility useful lives (customer equity); maintains rate stability
Debt Service Coverage	Ensure compliance with existing loan / bond covenants	Maintain net revenues of at least 1.25 times revenue bond debt service, for all future revenue bond debt issues	Met or exceeded in every year of study period

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Forecast Assumptions

- Economic Assumptions
  - ✓ Capital escalation: based on WSDOT index (varies year to year; average of 3.7% over study period)
  - ✓ Labor cost escalation : 2.5%
    - – Incremental escalator of 3.5% added in 2011 to account for furlough removal
  - ✓ Benefits cost escalation : 5.0%
  - ✓ General operations escalation: 2.5% (consistent with Seattle CPI index over past twelve months)
  - ✓ Customer growth: 0.5% through 2010, 1.0% thereafter
  - ✓ Interest earnings on cash balances: 2.0%
  - ✓ Utility tax: 6.0%
  - ✓ State taxes: prevailing rates

Forecast Assumptions (cont.)

- Financing Assumptions
  - ✓ Debt needs met through issuance of Revenue Bonds
    - 20 year term
    - 4.5% interest rate
    - 1.5% issuance costs
    - 1.25 debt coverage requirement
    - Reserve requirement equal to one year of principal and interest

WATER UTILITY RESULTS

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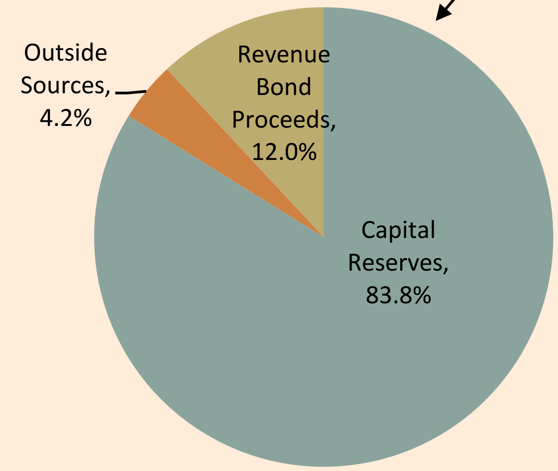
Capital Financing Plan Summary

CAPITAL FINANCING PLAN	2009	2010	2011	2012	2013	2014
Replacement Projects	$ 519,446	$ 1,244,223	$ 542,373	$ 317,905	$ 729,500	$ 240,700
Upgrade/Expansion Projects	133,911	635,664	1,968,164	416,434	257,405	518,898
Total Capital Projects	**$ 653,357**	**$ 1,879,887**	**$ 2,510,537**	**$ 734,339**	**$ 986,905**	**$ 759,598**
Funding Sources						
Capital Reserves	$ 628,238	$ 1,588,538	$ 2,335,262	$ 734,339	$ 677,290	$ 759,598
Outside Sources	25,119	291,349	-	-	-	-
Revenue Bond Proceeds	-	-	175,275	-	309,615	-
Total Funding Sources	**$ 653,357**	**$ 1,879,887**	**$ 2,510,537**	**$ 734,339**	**$ 986,905**	**$ 759,598**

- $375K Bond Issue to fund needs 2011-2012
- $525K Bond Issue to fund needs 2013-2014



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Capital Financing Plan Cashflow

CAPITAL FINANCING CASHFLOW	2009	2010	2011	2012	2013	2014
Beginning Balance	**$ 3,557,848**	**$ 276,067**	**$ 2,335,262**	**$ 816,753**	**$ 677,290**	**$ 764,488**
Plus: Add'l Funding Sources						
Rate Funded System Reinvestment	$ 231,470	$ 365,724	$ 394,856	$ 449,267	$ 449,791	$ 473,032
Outside Sources	25,119	291,349	-	-	-	-
SPF Revenues	43,829	29,337	67,381	68,139	68,903	99,225
Revenue Bond Proceeds	-	-	375,000	-	525,000	-
Loan to Sewer Utility	(3,000,000)	3,075,000	-	-	-	-
Interest Earnings	71,157	5,521	46,705	16,335	13,546	15,290
Surplus from Operating Fund	-	172,151	108,085	61,135	16,863	-
Subtotal: Add'l Funding Sources	**$ (2,628,424)**	**$ 3,939,082**	**$ 992,028**	**$ 594,876**	**$ 1,074,104**	**$ 587,546**
Less: Capital Projects	**$ (653,357)**	**$ (1,879,887)**	**$ (2,510,537)**	**$ (734,339)**	**$ (986,905)**	**$ (759,598)**
Ending Balance	**$ 276,067**	**$ 2,335,262**	**$ 816,753**	**$ 677,290**	**$ 764,488**	**$ 592,437**

- $375K Bond Issue to fund needs 2011-2012
- $525K Bond Issue to fund needs 2013-2014

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Operating Forecast

OPERATING & MAINTENANCE EXPENSE	Budget 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014
Salaries	$ 584,675	$ 599,292	$ 634,308	$ 650,166	$ 666,420	$ 683,080
Benefits	186,535	195,862	205,655	215,938	226,734	238,071
Services and Supplies	688,609	703,018	717,787	732,926	748,442	764,347
Taxes (State and Utility)	246,842	249,926	255,720	260,979	266,264	272,017
Total O&M Expenses	**$ 1,706,661**	**$ 1,748,098**	**$ 1,813,470**	**$ 1,860,008**	**$ 1,907,860**	**$ 1,957,516**
Average Annual Operating Escalation		**2.4%**	**3.7%**	**2.6%**	**2.6%**	**2.6%**

[a] Includes an allowance for annual inflation

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Revenue Requirements

REVENUE REQUIREMENTS SUMMARY	2009	2010	2011	2012	2013	2014
Revenues						
Rate Revenue under Existing Rates [a]	$ 2,225,128	$ 2,254,951	$ 2,302,180	$ 2,349,633	$ 2,397,311	$ 2,445,217
Other Revenues	51,714	52,507	53,443	54,398	55,374	56,370
Interest Earnings	-	4,316	7,954	8,897	9,112	10,223
Total Revenues	**$ 2,276,842**	**$ 2,311,774**	**$ 2,363,577**	**$ 2,412,928**	**$ 2,461,797**	**$ 2,511,809**
Expenses						
Operating & Maintenance Expenses	$ 1,706,661	$ 1,748,098	$ 1,813,470	$ 1,860,008	$ 1,907,860	$ 1,957,516
Existing Debt Service	122,894	-	-	-	-	-
New Debt Service	-	-	31,745	31,745	76,188	76,188
Rate-Funded CIP	-	-	-	-	-	-
Rate-Funded System Reinvestment	231,470	365,724	394,856	449,267	449,791	473,032
Additions to Operating Reserves	-	49,302	-	-	-	-
Total Expenses	**$ 2,061,026**	**$ 2,163,123**	**$ 2,240,071**	**$ 2,341,020**	**$ 2,433,840**	**$ 2,506,736**
Annual Surplus/(Deficiency)	**$ 215,816**	**$ 148,650**	**$ 123,505**	**$ 71,908**	**$ 27,957**	**$ 5,073**
Annual Rate Adjustment [b]	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Cumulative Rate Adjustment	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

[a] Includes increased rates for school district, consistent with current agreement
[b] 2009 increase of 5.4% included in existing rate revenue

Will vary based on cost of service adjustments by customer class

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Cost of Service Objectives

- Provide an analytical basis for equitable recovery of costs from customer classes according to the demand placed on the system
- Establish appropriate cost recovery between fixed and volume components of the rate structure
- Comply with recent Supreme Court ruling to remove fire protection costs from rates (Lane vs. Seattle)
  - ✓ Court held that providing hydrants is a government responsibility for which the general government of the area must pay
  - ✓ Legal interpretations extends to the provision of all fire suppression-related costs
    - – Hydrants, storage, pumping and mains
  - ✓ Fire allocation methodology involves identification of plant/expenses incremental to the provision of general water service
  - ✓ Identified fire-related costs removed from rates; to be recovered through general fund resources (e.g., direct transfer, increase to utility tax)

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Water Cost of Service Process

- Step 1 = Allocate total utility costs by function

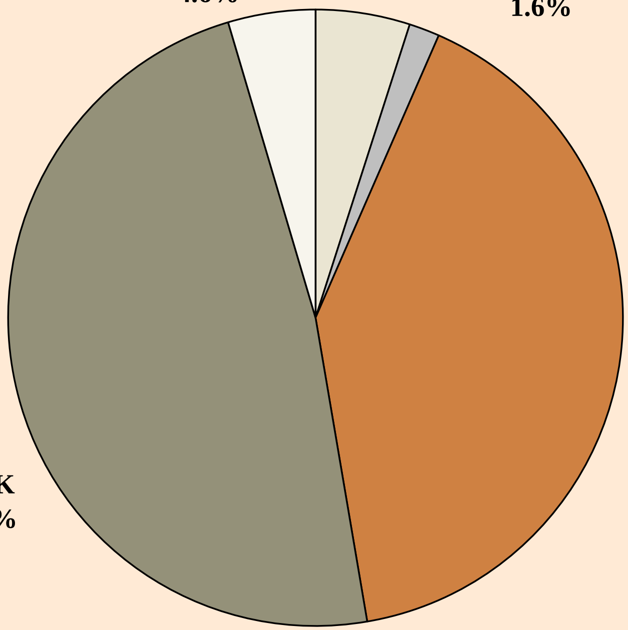
Water Utility Functions

- Customer
- Meters & Services
- Base Demand (costs to provide average level of consumption)
- Peak Demand (costs to provide peak usage/capacity)
- Fire Protection

- Step 2 = Develop allocation factors using customer facility requirements and usage characteristics
- Step 3 = Allocate costs to customer classes

Water Costs by Function

Step 1- allocate costs to functions – 2010 ($2,254,951)



- Fire protection costs ($102,254) to be removed from rates
- Recovered from General Sources
  - ✓ Direct transfer
  - ✓ Increase to utility tax

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Cost Allocations by Customer Class

Step 2- Develop allocation factors with customer facility requirements and usage characteristics

Allocation Factor:	***Customer***	***Meter & Services***	***Base***	***Peak***
Allocation Basis:	**Number of Meters**	**Meter Service Equivalents [a]**	**Annual Usage**	**Peak Season Usage [b]**
Single Family Residential	83.13%	75.68%	54.44%	57.53%
Multi-Family Residential	3.95%	8.02%	20.01%	15.45%
Commercial / Other	10.25%	12.83%	21.59%	18.79%
Irrigation	2.67%	3.47%	3.96%	8.23%
TOTAL	100.00%	100.00%	100.00%	100.00%

[a] Based on AWWA meters & services cost ratio

[b] Based on August - October billing records

Peak to Average Use Ratio	
Single Family Residential	1.58
Multi-Family Residential	1.16
Commercial / Other	1.30
Irrigation	3.11
Total	1.50

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Costs by Customer Class

Customer Classes	2010 Revenue under Current Rates	2010 Cost of Service	Cost of Service Increase / (Decrease)
Single Family Residential	$ 1,183,922	$ 1,303,844	10.13%
Multi-Family Residential	411,404	376,343	-8.52%
Commercial / Other	534,616	438,630	-17.95%
Irrigation	125,009	136,134	8.90%
TOTAL	**$ 2,254,951**	**$ 2,254,951**	**0.00%**

Average System Increase

Rate Structure Goals

- Target revenue levels
- Cost-based
- Policy objectives
  - ✓ Revenue stability
  - ✓ Conservation
  - ✓ Affordability
- Administrative practicality

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Water Rate Components

Fixed Charges

$ per meter equivalent

Recovers costs for…

- ✓ Customer/account servicing
- ✓ Meters & services repair and maintenance
- ✓ Fire protection services (Historical practice
- ✓ Portion of peak demand

Addresses revenue stability

Volume Charges

$ per unit of water use

Recovers costs for…

- ✓ Base use (average annual usage)
- ✓ Portion of peak demand

Addresses conservation goals

Best Management Practice for cost recovery: 30% fixed charges / 70% volume charges

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Water Rate Structure: Single Family

Base Charge

Existing Structure	Proposed Change	Comments
Class-specific charge increases by meter size	▪ Maintain charge by meter size; remove fire protection costs ▪ Lower meter size differentials based on AWWA Meter Capacity and Service ratios	▪ *Consistent with Supreme Court ruling (Lane vs. Seattle)* ▪ *Consistent with industry practice*

Volume Charge

Existing Structure	Proposed Change	Comments
Four-tiered volume charge ▪ 0 – 500 cf ▪ 500 – 1200 cf ▪ 1200 – 3000 cf ▪ 3000 cf +	▪ Maintain current block thresholds ▪ Increase costs per ccf in each block consistent with cost of service findings and policy objectives	▪ *Current block thresholds consistent with class usage patterns* ▪ *Further encourages conservation by increasing rate differentials in higher blocks*

- City applies 50% low income discount; 1.08 multiplier to Rockaway Beach customers

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Single Family Volume Rate Design

- Block thresholds:
  - ✓ Block 1: represents average winter use (62% of usage, 56% of customers)
  - ✓ Block 2: represents up to 2x annual average (26% of usage, 35% of customers)
  - ✓ Higher blocks: target high water users (12% of usage; 8% of customers)
- Block cost differentials:
  - ✓ Lower blocks: decreased to reward lower water users
  - ✓ Higher blocks: increased to encourage conservation
- Incorporated potential usage reduction in higher blocks
  - ✓ Block 3: 4% reduction
  - ✓ Block 4: 5% reduction

Proposed Rates: Single Family

	Single Family	
	Current Rates	Proposed Rates
Fixed Charges		
3/4"	$ 27.98	$ 17.20
1"	$ 55.16	$ 25.57
1.5"	$ 100.58	$ 45.96
2"	$ 155.09	$ 71.19
3"	$ 300.50	$ 144.10
4"	$ 464.01	$ 219.46
6"	$ 919.32	$ 427.28
Volume Charges (per 100 cf)		
0-500cf	$ 2.82	$ 5.08
500-1200cf	$ 4.58	$ 6.30
1200-3000cf	$ 6.46	$ 8.04
3000cf +	$ 8.80	$ 11.84
Rate Recovery:		
Fixed:	**60.48%**	**32.13%**
Volume:	**39.52%**	**67.87%**

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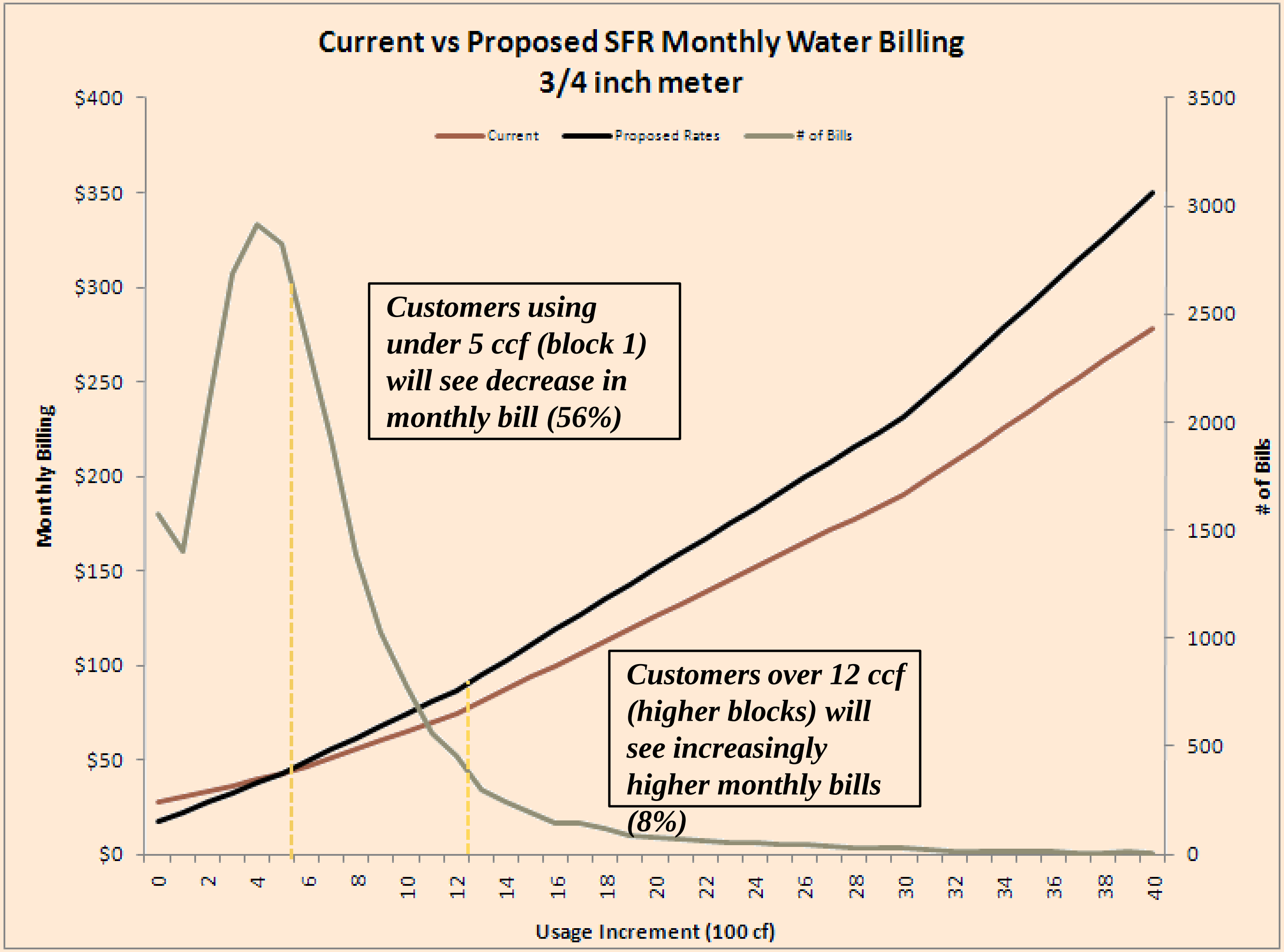
Sample Bills: Single Family

- Overall class cost-of-service ***increase***: 10.1%



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Water Rate Structure: Commercial / Other

Base Charge

Existing Structure	Proposed Change	Comments
Class-specific charge increases by meter size	▪ Maintain charge by meter size; remove fire protection costs ▪ Lower meter size differentials based on AWWA Meter Capacity and Service ratios	▪ *Consistent with Supreme Court ruling (Lane vs. Seattle)* ▪ *Consistent with industry practice*

Volume Charge

Existing Structure	Proposed Change	Comments
Rate per unit varies by season (winter / summer)	▪ Maintain current rate structure ▪ Incorporate cost of service results for class peaking demands	▪ *Effective conservation –oriented rate structure for class*

- City also incorporates 1.08 multiplier for Rockaway Beach customers

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Proposed Rates: Commercial / Other

	Commercial / Other [a]		
	Current Rates - COM	Current Rates - Other	Proposed Rates
Fixed Charges			
3/4"	$ 42.73	$ 62.43	$ 22.19
1"	$ 94.55	$ 143.81	$ 33.92
1.5"	$ 181.24	$ 279.43	$ 62.61
2"	$ 284.45	$ 442.14	$ 97.83
3"	$ 560.75	$ 876.06	$ 197.44
4"	$ 871.55	$ 1,364.20	$ 302.79
6"	$ 1,734.91	$ 2,720.28	$ 593.90
Seasonal Volume Charges (per 100 cf)			
Winter	$ 3.70	$ 3.70	$ 5.15
Summer	$ 4.28	$ 4.28	$ 5.96
Rate Recovery:			
Fixed:	**53.74%**	**64.65%**	**25.73%**
Volume:	**46.26%**	**35.35%**	**74.27%**

[a] Includes Government customers

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Sample Bills: Commercial

- Overall class cost-of-service ***decrease***: 18.0%

Meter Size	Avg Monthly Usage	Average Monthly Bill Current	Average Monthly Bill Proposed Rates	Existing to Proposed Increase ($)	Existing to Proposed Increase (%)
3/4"	16	$ 106.40	$ 110.80	$ 4.40	4.13%
3/4"	20	$ 121.71	$ 132.11	$ 10.39	8.54%
3/4"	*26*	*$ 142.72*	*$ 161.35*	*$ 18.62*	*13.05%*
3/4"	45	$ 215.84	$ 263.09	$ 47.25	21.89%
1"	16	$ 158.22	$ 122.53	$ (35.69)	-22.56%
1"	20	$ 173.53	$ 143.83	$ (29.70)	-17.11%
1"	*26*	*$ 194.54*	*$ 173.07*	*$ (21.47)*	*-11.04%*
1"	45	$ 267.66	$ 274.82	$ 7.16	2.68%
2"	16	$ 348.12	$ 186.44	$ (161.68)	-46.44%
2"	20	$ 363.43	$ 207.74	$ (155.69)	-42.84%
2"	*26*	*$ 384.44*	*$ 236.98*	*$ (147.46)*	*-38.36%*
2"	45	$ 457.56	$ 338.73	$ (118.83)	-25.97%

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Water Rate Structure: Multi-family

Base Charge

Existing Structure	Proposed Change	Comments
Single charge per dwelling unit	▪ Design class-specific charges by meter size	▪ *Consistent with industry practice* ▪ *Promotes equity* ▪ *Simplifies structure*

Volume Charge

Existing Structure	Proposed Change	Comments
Four-tiered volume charge, per dwelling unit ; based on Single Family usage patterns	▪ Seasonal, single-block volume rate applied to all usage ▪ Rate specific to the MFR class	▪ *Seasonal rate is more appropriate for customer class, as water patterns are similar to Commercial customers*

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Proposed Rates: Multi-family

	Multi-family	
	Current Rates	Proposed Rates
Fixed Charges		
3/4"		$ 22.71
1"		$ 34.78
1.5"		$ 64.32
2"		$ 100.58
3"		$ 202.94
4"		$ 311.39
6"		$ 611.08
Monthly fixed rate per Dwelling Unit	$ 13.95	
Volume Charges (per 100 cf)		
0-500cf	$ 2.82	
500-1200cf	$ 4.58	
1200-3000cf	$ 6.46	
3000cf +	$ 8.80	
Seasonal Volume Charges (per 100 cf)		
Winter		$ 4.84
Summer		$ 5.60
Rate Recovery:		
Fixed:	**60.04%**	**23.03%**
Volume:	**39.96%**	**76.97%**

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Sample Bills: Multi-family

- Overall class cost-of-service ***decrease***: 8.6%

Meter Size	Units	Avg Monthly Usage	Average Monthly Bill Current	Average Monthly Bill Proposed Rates	Existing to Proposed Increase ($)	Existing to Proposed Increase (%)
3/4"	2	6	$ 45.44	$ 54.29	$ 8.85	19.49%
1"	4	2	$ 60.27	$ 43.28	$ (16.99)	-28.19%
1 1/2"	10	31	$ 226.92	$ 221.89	$ (5.03)	-2.22%
2"	30	99	$ 697.21	$ 601.23	$ (95.98)	-13.77%
4"	165	413	$ 3,465.24	$ 2,395.70	$ (1,069.54)	-30.86%

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Water Rate Structure: Irrigation

Base Charge

Existing Structure	Proposed Change	Comments
Base charge increases by meter size	▪ No change	▪ *Fire costs not previously allocated to irrigation customers*

Volume Charge

Existing Structure	Proposed Change	Comments
Class-specific single block volume rate	▪ No change	▪ *Seasonal rate not appropriate as majority of class's water usage occurs in summer season* ▪ *Rate set to recognize higher peaking*

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Proposed Rates: Irrigation

	Irrigation Systems Current Rates	Irrigation Systems Proposed Rates
Fixed Charges		
3/4"	$ 12.28	$ 30.12
1"	$ 16.14	$ 47.16
1.5"	$ 22.60	$ 89.01
2"	$ 30.38	$ 140.09
3"	$ 51.01	$ 282.03
4"	$ 74.26	$ 434.96
6"	$ 138.89	$ 858.15
Volume Charges (per 100 cf)		
All consumption	$ 10.10	$ 8.12
Rate Recovery:		
Fixed:	**10.83%**	**34.16%**
Volume:	**89.17%**	**65.84%**

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Sample Bills: Irrigation

- Overall class cost-of-service ***increase***: 8.9%

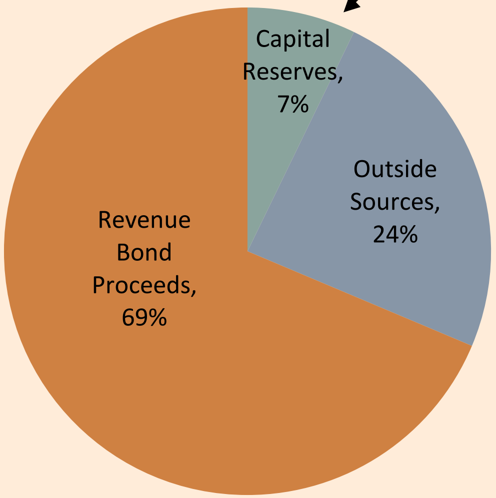
Meter Size	Avg Monthly Usage (ccf)	Average Monthly Bill Current	Average Monthly Bill Proposed Rates	Existing to Proposed Increase ($)	Existing to Proposed Increase (%)
3/4"	15	$ 163.78	$ 151.95	$ (11.83)	-7.22%
3/4"	50	$ 517.28	$ 436.22	$ (81.06)	-15.67%
3/4"	100	$ 1,022.28	$ 842.31	$ (179.97)	-17.60%
1"	15	$ 167.64	$ 168.99	$ 1.35	0.81%
1"	50	$ 521.14	$ 453.25	$ (67.89)	-13.03%
1"	100	$ 1,026.14	$ 859.35	$ (166.79)	-16.25%
1 1/2"	15	$ 174.10	$ 210.84	$ 36.74	21.10%
1 1/2"	50	$ 527.60	$ 495.10	$ (32.50)	-6.16%
1 1/2"	100	$ 1,032.60	$ 901.19	$ (131.41)	-12.73%
2"	20	$ 232.38	$ 302.53	$ 70.15	30.19%
2"	50	$ 535.38	$ 546.18	$ 10.80	2.02%
2"	100	$ 1,040.38	$ 952.28	$ (88.10)	-8.47%

SEWER UTILITY RESULTS

Capital Financing Plan Summary

CAPITAL FINANCING PLAN	2009	2010	2011	2012	2013	2014
Replacement Projects	$ 1,598,996	$ 1,408,118	$ 310,713	$ 5,306,903	$ 206,932	$ 330,105
Upgrade/Expansion Projects	5,396,308	1,430,979	27,560	86,820	21,305	42,947
Total Capital Projects	**$ 6,995,304**	**$ 2,839,097**	**$ 338,273**	**$ 5,393,723**	**$ 228,237**	**$ 373,052**
Funding Sources						
Capital Reserves	$ 92,179	$ -	$ 338,273	$ 878,617	$ 228,237	$ 373,052
Outside Sources	3,903,125	-	-	-	-	-
Interfund Loan from Water Utility	3,000,000	-	-	-	-	-
Revenue Bond Proceeds	-	2,839,097	-	4,515,106	-	-
Total Funding Sources	**$ 6,995,304**	**$ 2,839,097**	**$ 338,273**	**$ 5,393,723**	**$ 228,237**	**$ 373,052**

- $6.1M Bond Issue to fund needs 2010-2011 and repay water loan
- $5.0M Bond Issue to fund needs 2012-2014



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Capital Financing Plan Cashflow

CAPITAL FINANCING CASHFLOW	2009	2010	2011	2012	2013	2014
Beginning Balance	**$ 691,015**	**$ 796,061**	**$ 1,059,335**	**$ 878,617**	**$ 640,326**	**$ 564,261**
Plus: Add'l Funding Sources						
Rate Funded System Reinvestment	$ -	$ -	$ -	$ -	$ -	$ -
Outside Sources	3,903,125	-	-	-	-	-
SPF Revenues	183,405	61,450	136,368	137,859	139,365	153,613
Revenue Bond Proceeds	-	6,100,000	-	5,000,000	-	-
Loan from Water Utility	3,000,000	(3,075,000)	-	-	-	-
Interest Earnings	13,820	15,921	21,187	17,572	12,807	11,285
Surplus from Operating Fund	-	-	-	-	-	16,948
Subtotal: Add'l Funding Sources	**$ 7,100,350**	**$ 3,102,371**	**$ 157,555**	**$ 5,155,432**	**$ 152,172**	**$ 181,847**
Less: Capital Projects	**$ (6,995,304)**	**$ (2,839,097)**	**$ (338,273)**	**$ (5,393,723)**	**$ (228,237)**	**$ (373,052)**
Ending Balance	**$ 796,061**	**$ 1,059,335**	**$ 878,617**	**$ 640,326**	**$ 564,261**	**$ 373,056**

- $6.1M Bond Issue to fund needs 2010-2011 and repay water loan
- $5.0M Bond Issue to fund needs 2012-2014

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Operating Forecast

OPERATING & MAINTENANCE EXPENSE	Budget 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014
Salaries	$ 866,092	$ 887,744	$ 939,882	$ 963,380	$ 987,464	$ 1,012,151
Benefits	289,277	303,741	318,928	334,874	351,618	369,199
Services and Supplies	759,725	776,122	792,929	810,156	827,813	845,912
Taxes (State and Utility)	195,103	194,614	197,936	200,239	202,562	205,083
Total O&M Expenses	**$ 2,110,197**	**$ 2,162,221**	**$ 2,249,675**	**$ 2,308,649**	**$ 2,369,457**	**$ 2,432,345**
Average Annual Operating Escalation		**2.5%**	**4.0%**	**2.6%**	**2.6%**	**2.7%**

[a] Includes an allowance for annual inflation

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Revenue Requirements

- Major cost drivers:
  - ✓ Incremental debt service
  - ✓ Recovery of current annual rate deficit

REVENUE REQUIREMENTS SUMMARY	2009	2010	2011	2012	2013	2014
Revenues						
Rate Revenue under Existing Rates	$ 2,529,391	$ 2,547,716	$ 2,577,473	$ 2,607,479	$ 2,637,737	$ 2,668,248
Other Revenues	494,365	321,897	221,179	221,179	221,179	221,179
Interest Earnings	10,000	9,838	20,166	22,600	30,338	30,338
Total Revenues	**$ 3,033,756**	**$ 2,879,452**	**$ 2,818,818**	**$ 2,851,258**	**$ 2,889,254**	**$ 2,919,766**
Expenses						
Operating & Maintenance Expenses	$ 2,110,197	$ 2,162,274	$ 2,249,793	$ 2,308,767	$ 2,369,577	$ 2,432,477
Existing Debt Service	925,045	982,362	975,640	973,605	966,035	973,141
New Debt Service	-	516,388	516,388	939,657	939,657	939,657
Rate Funded System Reinvestment	-	-	-	-	-	-
SD7 Rate-Funded Grinder Pump Maintenance	6,608	7,017	7,425	7,833	8,242	8,650
Additions to Operating Reserves	-	-	-	-	-	-
Total Expenses	**$ 3,041,850**	**$ 3,668,041**	**$ 3,749,246**	**$ 4,229,863**	**$ 4,283,511**	**$ 4,353,926**
Annual Surplus/(Deficiency)	**$ (8,094)**	**$ (788,589)**	**$ (930,427)**	**$ (1,378,605)**	**$ (1,394,257)**	**$ (1,434,160)**
Annual Rate Adjustment [a]	**0.00%**	**33.50%**	**8.00%**	**8.00%**	**0.96%**	**0.61%**
Cumulative Rate Adjustment	**0.00%**	**33.50%**	**44.18%**	**55.71%**	**57.21%**	**58.17%**

[a] 2009 increase of 8.15% included in existing rate revenue

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SD7 Allocation Methodology

- Base methodology on fact that City does not provide treatment for SD7customers, only collection service
  - ✓ Allocate portion of O&M costs to Treatment based on percentage of treatment-related plant assets / CIP costs
    - 51% of plant assets / CIP are treatment-related
    - $1.1M of O&M costs allocated to treatment (compared to $2.2M total O&M)
  - ✓ Allocate collection portion of O&M costs to all customers (SD7 & Winslow Way)
    - $1.1 M of O&M costs allocated to collection
    - Total ERU basis (SD7 & Winslow Way): 4,339 ERUs
    - Results in unit cost of $20.36 / month
  - ✓ Calculate incremental grinder pump cost (per ERU) based on additional grinder pump maintenance costs
    - Results in incremental unit cost of $4.17 for those with grinder pumps

Proposed Rates

Customer Class	Existing 2009		Proposed Service Area Cost of Service Rates 2010	
	Fixed Charge $ per acct [1]	Volume Charge $ per ccf [2]	Fixed Charge $ per acct [1]	Volume Charge $ per ccf [2]
Winslow Customers			33.96%	
Metered Rate				
Single Family	$ 30.42	$ 5.19	$ 40.75	$ 6.95
Senior	15.21	2.60	20.38	3.48
Multi-Family	26.64	5.19	35.69	6.95
Non-Residential	88.13	5.19	118.06	6.95
Flat Rate				
Single Family	$ 85.36		$ 114.35	
Senior	42.68		57.17	
Non-Residential	92.22		123.54	
SD7 WWTP Customers [3]				**% increase**
With Grinder Pumps	$ 64.34		$ 64.52	**0.28%**
Without Grinder Pumps	54.01		60.36	**11.75%**

[1] Multi-family fixed charge is applied per living unit

[2] Residential sewer volumes based on actual water usage in non-summer months and winter average water usage in summer months; Non-residential volumes based on actual annual water usage

[3] Includes SD7 Treatment Charge ($40) and City rate component

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Sample Bills

Customer Class	No. of Units	Billed Volume (ccf)	Existing Rates	2010	Increase ($)	Increase (%)
	Winslow Service Area Customers					
Residential	1	3	$ 45.99	$ 61.61	$ 15.62	33.96%
	1	**6.7**	**65.19**	**87.33**	**22.14**	33.96%
	1	10	82.32	110.28	27.96	33.96%
	1	15	108.27	145.04	36.77	33.96%
Multi-Family	2	9	$ 99.99	$ 133.95	$ 33.96	33.96%
	4	15	184.41	247.04	62.63	33.96%
	10	30	422.10	565.45	143.35	33.96%
	30	65	1,136.55	1,522.53	385.98	33.96%
Non-Residential	1	15	$ 165.98	$ 222.35	$ 56.37	33.96%
	1	25	217.88	291.87	73.99	33.96%
	1	65	425.48	569.98	144.50	33.96%
	1	100	607.13	813.32	206.19	33.96%
	Kitsap County Sewer District #7 Treatment Plant Customers [a]					
With Grinder Pumps	1	n/a	$ 64.34	$ 64.52	$ 0.18	0.28%
Without Grinder Pumps	1	n/a	$ 54.01	$ 60.36	$ 6.35	11.75%

[a] Includes SD7 WWTP charge of $40.00

$22.14 increase:

- ***$12.20 needed to pay Treatment plant debt service***
- ***$2.30 needed to pay Winslow Way debt service***
- ***$7.64 needed to meet current expenditure levels***

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SSWM UTILITY RESULTS

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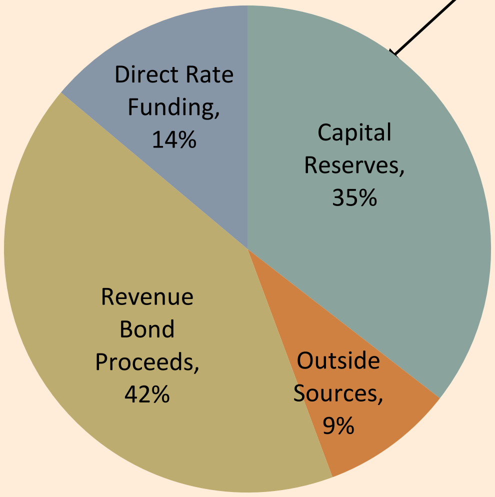
Capital Financing Plan Summary

CAPITAL FINANCING PLAN	2009	2010	2011	2012	2013	2014
Replacement Projects	$ -	$ -	$ -	$ -	$ -	$ -
Upgrade/Expansion Projects	569,364	199,958	688,587	376,246	282,966	455,508
Total Capital Projects	**$ 569,364**	**$ 199,958**	**$ 688,587**	**$ 376,246**	**$ 282,966**	**$ 455,508**
Funding Sources						
Capital Reserves	$ -	$ -	$ 688,587	$ 260,965	$ 282,966	$ 455,508
Outside Sources	212,052	15,000	-	-	-	-
Revenue Bond Proceeds	-	184,958	-	115,281	-	-
Direct Rate Funding	357,312	-	-	-	-	-
Total Funding Sources	**$ 569,364**	**$ 199,958**	**$ 688,587**	**$ 376,246**	**$ 282,966**	**$ 455,508**

- $675M Bond Issue to fund needs 2010-2011
- $400K Bond Issue to fund needs 2012-2014



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Capital Financing Plan Cashflow

CAPITAL FINANCING CASHFLOW	2009	2010	2011	2012	2013	2014
Beginning Balance	**$ -**	**$ -**	**$ 711,108**	**$ 260,965**	**$ 513,960**	**$ 471,164**
Plus: Add'l Funding Sources						
Rate Funded System Reinvestment	$ -	$ 221,066	$ 224,222	$ 224,022	$ 229,891	$ 233,820
Outside Sources	212,052	15,000	-	-	-	-
Revenue Bond Proceeds	-	675,000	-	400,000	-	-
Interest Earnings	-	-	14,222	5,219	10,279	9,423
Direct Rate Funding	357,312	-	-	-	-	-
Surplus from Operating Fund	-	-	-	-	-	-
Subtotal: Add'l Funding Sources	**$ 569,364**	**$ 911,066**	**$ 238,444**	**$ 629,241**	**$ 240,170**	**$ 243,243**
Less: Capital Projects	**$ (569,364)**	**$ (199,958)**	**$ (688,587)**	**$ (376,246)**	**$ (282,966)**	**$ (455,508)**
Ending Balance	**$ -**	**$ 711,108**	**$ 260,965**	**$ 513,960**	**$ 471,164**	**$ 258,899**

- $675M Bond Issue to fund needs 2010-2011
- $400K Bond Issue to fund needs 2012-2014

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Operating Forecast

OPERATING & MAINTENANCE EXPENSE	Budget 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014
Salaries	$ 884,795	$ 906,922	$ 959,614	$ 983,612	$ 1,008,212	$ 1,033,426
Benefits	224,925	236,171	247,980	260,379	273,398	287,068
Services and Supplies	463,950	473,336	482,957	492,819	502,927	513,287
Taxes (State and Utility)	170,617	171,470	173,185	174,917	178,415	181,983
Total O&M Expenses	**$ 1,744,287**	**$ 1,787,900**	**$ 1,863,736**	**$ 1,911,727**	**$ 1,962,951**	**$ 2,015,764**
Average Annual Operating Escalation		**2.5%**	**4.2%**	**2.6%**	**2.7%**	**2.7%**

[a] Includes an allowance for annual inflation

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Revenue Requirements

REVENUE REQUIREMENTS SUMMARY	2009	2010	2011	2012	2013	2014
Revenues						
Rate Revenue (w/ existing rates)	$ 2,274,894	$ 2,286,269	$ 2,309,131	$ 2,332,223	$ 2,378,867	$ 2,426,444
Other Revenues	98,800	42,200	-	-	-	-
Interest Earnings	-	3,259	8,620	11,073	13,087	14,312
Total Revenues	**$ 2,373,694**	**$ 2,331,728**	**$ 2,317,752**	**$ 2,343,296**	**$ 2,391,954**	**$ 2,440,756**
Expenses						
Operating & Maintenance Expenses	$ 1,744,287	$ 1,787,900	$ 1,863,736	$ 1,911,727	$ 1,962,951	$ 2,015,764
Existing Debt Service	98,339	54,711	54,458	54,204	53,951	53,697
New Debt Service	-	52,682	52,682	83,900	83,900	83,900
Rate-Funded CIP	357,312	-	-	-	-	-
Rate-Funded System Reinvestment	-	221,066	224,222	224,022	229,891	233,820
Total Expenses	**$ 2,199,938**	**$ 2,224,751**	**$ 2,195,097**	**$ 2,273,853**	**$ 2,330,693**	**$ 2,387,182**
Annual Surplus/(Deficiency)	**$ 173,756**	**$ 106,977**	**$ 122,655**	**$ 69,443**	**$ 61,261**	**$ 53,575**
Annual Rate Adjustment [a]	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Cumulative Rate Adjustment	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Monthly Rate per ESU	$ 12.89	$ 12.89	$ 12.89	$ 12.89	$ 12.89	$ 12.89

[a] 2009 increase of 3.4% included in existing rate revenue

NPDES Phase 2 Requirements not included in forecast

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Alternative Scenario

- Incorporating City policy of minimum increases consistent with CPI; assumes 2.5% per year

OPERATING FUND	2009	2010	2011	2012	2013	2014
Beginning Balance [a]	$ (10,796)	$ 162,960	$ 431,199	$ 663,043	$ 901,604	$ 1,197,923
plus: Net Cash Flow after Rate Increase	173,756	268,239	231,844	238,561	296,320	359,840
Ending Balance (without use of Addl Workiing Capital	$ 162,960	$ 431,199	$ 663,043	$ 901,604	$ 1,197,923	$ 1,557,763
less: Working Capital from Previous Years	-	-	24,171	237,654	464,723	749,102
less: Year End Additional Working Capital	*-*	*24,171*	*213,483*	*227,069*	*284,379*	*347,521*
Net Ending Balance (with use of Addl Working Cap)	*162,960*	*407,028*	*425,389*	*436,881*	*448,821*	*461,140*
Minimum Target Balance	*198,221*	*271,352*	*283,592*	*291,254*	*299,214*	*307,426*
Maximum Funds to be Kept as Operating Reserves	*264,295*	*407,028*	*425,389*	*436,881*	*448,821*	*461,140*
Info: No of Days of Cash Operating Expenses	*37*	*90*	*90*	*90*	*90*	*90*

Generates roughly $1.1M in additional working capital, which could be used towards NPDES costs

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SYSTEM PARTICIPATION FEES

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Water Utility: SPF Calculation

EXISTING COST BASIS			Notes
Plant-in-Service			
Utility Capital Assets		$ 14,989,365	Original cost of plant-in-service as of 2008, excluding LIDs
less: Contributions In Aid of Construction		$ (1,665,049)	Estimated by City
plus: Construction Work-In-Progress [a]		$ 229,246	Year-end 2008 CWP
plus: Interest on Non-Contributed Plant		$ 7,405,503	Interest on assets up to a maximum 10-year period
Existing Cash Balances	3,707,848		Beginning cash balances for year 2009
less: Debt Principal Outstanding [b]	(116,875)		Principal outstanding on existing debt for plant-in-service
less: Net Debt Principal Outstanding		-	Debt principal outstanding, net of cash reserves
Total Existing Cost Basis		**$ 20,959,065**	
FUTURE COST BASIS			
Capital Improvement Plan			
Total Future Projects		$ 7,495,248	Total projects identified in the 6-year CIP
less: Identified Repair & Replacement Projects		$ (3,617,392)	R&R projects are not eligible for SPF
less: Contributed Future Upgrade & Expansion Assets		$ (26,922)	Not eligible for recovery through SPF
Total Future Cost Basis		**$ 3,850,934**	
CUSTOMER BASE			
Existing Equivalent Residential Units		3,158	Existing equivalent residential units as of year end 2008
Future Equivalent Residential Units (Incremental)		7,266	Incremental growth in equivalent residential units
Total Customer Base		**10,424**	System capacity in ERUs, per City Engineer
RESULTING CHARGE			
Total Cost Basis		$ 24,809,998	
Total Customer Base		10,424	
TOTAL CHARGE PER EQUIVALENT RESIDENTIAL UNIT [a]		**$ 2,380**	**Maximum Allowable SPF per ERU**

[a] Year End 2008 balance, as provided in UtilFA-2008 DONE.xls, UB CIP tab

[b] Principal balance as of year end 2008. (1995 LT General Obligation Refunding Bond - Water Share: 42.5%)

CURRENT CHARGE	**$ 2,754**

Proposed policy to discount SPF 70% for eligible affordable housing

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Water Utility: Schedule of Charges

Meter Size	Existing				Proposed
	Single Family	Multi-family	Commercial	Irrigation	All Customers
3/4"	$ 2,754	$ 4,515	$ 5,692	$ 4,498	$ 2,447
1"	6,885	11,287	14,231	11,245	4,086
1 1/2"	13,770	22,575	28,462	22,490	8,148
2"	22,033	36,120	45,539	35,984	13,042
3"	44,066	72,241	91,079	7,198	26,109
4"	68,854	112,876	142,311	112,450	40,791
6"	137,708	225,753	284,623	224,901	81,558

- Recommend changing from class-specific charges to single charge for all customers
  - ✓ Consistent with industry standards
  - ✓ Simplifies structure

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Sewer Utility: SPF Calculation

			Notes
EXISTING COST BASIS			
Plant-in-Service			
Utility Capital Assets		$ 14,070,060	Original cost of plant-in-service as of 2008, less LID Assets
less: Assets Serving SD7 Customers Only		(1,701,372)	Original cost of plant-in-service as of 2008
less: Contributed Capital		(1,585,088)	CIAC, Grants, and other contributed capital
plus: Construction Work-in-Progress		8,929,019	Year-end 2008 CWP
plus: Interest on Non-Contributed Plant		4,918,943	Interest on assets up to a maximum 10-year period
Existing Cash Balances	1,191,015		Beginning cash balances for year 2009
less: Debt Principal Outstanding (Year End 2008)	(12,756,482)		Principal outstanding on existing debt for plant-in-service
less: Net Debt Principal Outstanding		(11,565,467)	Debt principal outstanding, net of cash reserves
Total Existing Cost Basis		**$ 13,066,095**	
FUTURE COST BASIS			
Capital Improvement Plan			
Total Future Projects		$ 15,965,706	Total projects identified in the 6-year CIP
less: Identified Repair & Replacement Projects		(9,059,348)	Not eligible for recovery through SPF
less: Assessment-Funded Future Projects		(758,203)	Not eligible for recovery through SPF
Total Future Cost Basis		**$ 6,148,155**	
CUSTOMER BASE			
Existing Equivalent Residential Units		4,100	Existing equivalent residential units as of 2009
Future Equivalent Residential Units (Incremental)		1,184	Incremental ERUs
Total Customer Base		**5,284**	Provided by City, based on WWTP BOD capacity
RESULTING CHARGE			
Total Cost Basis		$ 19,214,250	
Total Customer Base		5,284	
TOTAL CHARGE PER EQUIVALENT RESIDENTIAL UNIT		**$ 3,636**	**Maximum Allowable SPF per ERU [a]**
		$ 2,256	***MFR (62% of SFR)***

[a] Applies to Winslow Service Area only; 1 Commercial ERU = 20 fixture units

CURRENT CHARGE	**$ 5,123**	
	$ 3,178	***MFR (62% of SFR)***

Proposed policy to discount SPF 70% for eligible affordable housing

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Discussion