

Introduction

The City of Washougal operates and maintains water, sewer, and stormwater utilities, serving more than 17,200 customers; each of these utilities are standalone enterprises and each have their own rates. The safe and reliable delivery of these services is important to each individual customer and to the overall health and safety of the community. Utility systems are complex and require ongoing maintenance and investment to operate and maintain. The City establishes rates to support the operations of each standalone utility to ensure the reliability and safety of these services to the community. These rates are reviewed and updated on a regular basis to make sure the city can provide high quality drinking water, treat wastewater, and manage stormwater into the future. The City is conducting a study to determine rates for the next five years (2024-2028). As part of its public process to support the rate study, the city formed a Community Advisory Committee (CAC) to act as a sounding board and to provide input and feedback throughout the rate study. The CAC met six times over a nine-month period to receive detailed information on utility operations, revenue requirements, cost of service, and rate design. The CAC asked questions and provided feedback and input on these topics. This letter summarizes the CAC process and provides the recommendations for the City Council to consider as they make decisions on utility rates for the next five years.

CAC Process

The CAC was formed in a deliberative manner to ensure that it is representative of the full range of ratepayers in the city. The city required interested members of the community to apply to be on the CAC and provided information about the role and time commitment required. From the applications, the city selected the following individuals to serve on the CAC:

Name	Customer type
Jonathon Adams ¹	Residential
Tom Carroll	Commercial/Large Business
Joan Ellis	Residential
Paul Greenlee	Residential
Debra Itzen	Commercial/Industrial
Brian Johnson	Residential
Bolt Minister	Commercial/Small Business
Dr. Jerry Shiveley	Residential

CAC members have diverse backgrounds, experience and expertise, and include long-time and new community members, as well as individuals with experience in government, finance, and business, and administration. The CAC is facilitated by Chris Hoffman of Consor and supported by John Ghilarducci and Sergey Tarasov of the FCS Group, the consultants conducting the rate study on behalf of the city. City staff supporting the CAC include: Dave Scott, City Manager; Trevor Evers, Public Works Director; and Daniel Layer, Finance Director.

Recommendations

The CAC makes the following recommendations to City Council on a number of topics based on information provided by the city and the consultant team:

¹ Jonathon Adams withdrew from the CAC prior to its 3rd meeting due to work commitments.

Revenue Requirement

The revenue requirement analysis focuses on identifying the overall revenue need from each utility to cover ongoing obligations on a multi-year basis. At this point of the study, the overall need does not distinguish between class specific allocation, which is evaluated during the cost-of-service portion of the study. The revenue requirement obligations include operating and maintenance expenses, annual debt service obligations, annual capital improvement program and compliance with fiscal policies, such as, reserve targets, coverage targets on revenue bond debt and replacement reserve funding for aging infrastructure.

The CAC was presented with several options for rate scenarios to meet revenue requirements for the three utilities between 2024 and 2028. For all utilities the scenarios included an option with no increase in rates and another with a 10% decrease in rates over the 2024-2028 period. A third option sought to build and maintain “Replacement Reserve Funding” (RRF) at 100% of targets during the 2024-2028 period. This option resulted in cumulative increases ranging from 10% to 38% over the 2024-2028 period, varying between utilities. In considering these options, the CAC sought to find a balance that would work financially for the city and that would not be overly burdensome for ratepayers. Based on the information presented, we believe that the “no increases” and “decreases” scenarios would not be a responsible long-term strategy for the city specifically because there are negative impacts on Replacement Reserve Funding and on the Operations and Maintenance budget under both scenarios. The cuts required to the operations and maintenance budget are untenable. We also believe that the cumulative increases required to achieve 100% of RRF targets in the 2024-2028 period would be overly burdensome to ratepayers and feel strongly that the cumulative rate increase over the 5-year period should be no more than 15% for the combined utilities.

Additional scenarios were developed evaluating compliance with all obligations and policies, including continuing replacement reserve funding at 100.0% of target – annual depreciation. These scenarios resulted in rate implementation strategies with double digit increases on an annual basis for at least one of the utilities. The CAC did not feel comfortable with the magnitude of the annual impacts presented by these alternatives and requested to evaluate a balanced approach, which would relax the policy requirements as the City addressed regulatory related capital improvement projects. In order to address the CAC’s request, the replacement reserve policy of funding 100.0% of depreciation was relaxed during the 5-year period. The study did project revenue requirements outside the 5-year period and attempted to recover replacement reserve funding during future rate setting periods.

The resulting rate strategy for the water and stormwater utilities required an annual rate increase of 3.8% for each utility and a 2.0% increase for the sewer utility. The combined average water, sewer and stormwater increase was 2.9% by year, which is below the current level of inflation.

Recommendation

- Implement annual rate increases for the water and stormwater utilities at 3.8% for each utility and 2.0% increase for the sewer utility. The combined average annual increase is 2.9% per year over the 5-year rate setting period of 2024-2028.

Cost-of-Service

The cost-of-service phase of the overall rate study allocates the revenue requirement among classes of service (e.g., residential, multi-family, commercial, etc.) to identify cost differences by class. The analysis

was performed for the water and sewer utilities and was not performed for the stormwater utility due to the simplistic nature of the rate structure.

The results presented to the CAC indicated that the sewer utility classes of service were paying rates within an acceptable range of reasonableness and did not require any additional adjustments. The results for the water utility identified that adjustments were warranted. In particular, the multi-family class of service has been paying more than their allocated share of costs and the commercial classes have been paying less than their allocated share.

The CAC indicated agreement that rates should be set to follow cost-of-service but did not want to significantly impact a particular class all at once. A phase-in strategy was developed to start transitioning the multi-family and commercial classes towards cost-of-service. The phase-in adjusted residential customers at or slightly below the overall average increase identified in the revenue requirement, multi-family 1.3% below average and commercial classes at 1.0%-1.2% above average.

Recommendations

- Implement a phased-in water cost-of-service allocation that includes average annual increases of 3.8% for the residential class, 2.5% for the multi-family class, a 4.8% for the commercial class and 5.0% for the large commercial class.
- Implement the overall utility specific annual increases for all classes of service for the sewer utility (2.0% per year) and stormwater utility (3.8% per year).

Rate Design

The last phase of the rate study process is rate design, which develops the bi-monthly fixed and variable charges assessed to customers. The fixed and variable charges need to generate the dollar targets identified in the revenue requirement and cost of service portions of the study and address policy goals and objectives of the City.

The water utility's rates consist of two components including a bi-monthly fixed charge and a volume charge assessed per 100 cubic feet of water (748 gallona). The fixed charges scale by meter size, increasing with larger meters, and are the same for all classes of service. The volume rates are charged uniformly, equally per unit no matter the level of usage, for the multi-family and commercial classes. The residential volume rate is assessed on a three-tier rate structure to promote conservation. As a customer exceeds a certain threshold of consumption, usage above the threshold is charged at a greater price per unit.

Similarly, the sewer utility's rates consist of two components including a bi-monthly fixed charge and a volume charge for most classes of service per 100 cubic feet of water. The fixed charges vary by class of service. The volume charge is assessed on a winter average basis for the residential class to avoid charging customers for water not going into the drain. The commercial customers have an allowance included in the fixed bi-monthly charge and pay an excess charge for all consumption thereafter. Commercial customers can install a "deduct meter" to capture water use that does not go into the drain, allowing such use to not be reflected in the sewer portion of their bill. Multi-family customers do not pay a volume fee and instead a per unit fixed charge is assessed.

The stormwater utility's rates consist of only the fixed bi-monthly charges, which are assessed on an equivalent residential unit (ERU) basis. An ERU is defined as 3,900 square feet of impervious surface area. Each residential home is assumed to equal one ERU. Non-residential customers are assessed based on

number of ERUs tied to their individual impervious surface area. A discounted bi-monthly fee per ERU is available for non-residential customers with on-site mitigation. An outside City multiplier is assessed for water and sewer customers located outside the City. A low-income rate is available for all utility services.

The City has been working on implementing significant changes to their rate structures since the 2013 rate study through 2023. The changes for the water utility included phasing-out allowances from fixed charges, introducing conservation-based rates for residential customers and modifying fixed charges to scale with meter sizes. The sewer utility introduced, and gradually phased-in, volumetric rates for residential customers based on winter average usage. The stormwater rates reevaluated the level of credit provided to non-residential customers with onsite mitigation.

With the recent implementation of the previous rate structure changes it was proposed to defer any additional modifications to rate structures. The CAC agreed with the staff recommendation, and in addition, requested to evaluate modifying existing tiers in the residential rate structure for the water utility. A working session was held to evaluate a number of alternatives. Based on the working session, and in light of potential disproportionate impacts that some customers may experience, the CAC recommended to keep the current residential rate design in place. The CAC reviewed a range of rate designs presented by the consultants. The current rate design rewards conservation, while it also leads to increased bills for customers who use a lot of water during a billing cycle. Given the fact that the current rate design fully phased-in this year and that the alternatives the CAC reviewed held significant implications for changes to customer bills, the CAC is advising that the current rate design be maintained for now and re-evaluated in the next rate study.

Overall, the proposed rate design recovered the revenue requirement increases for the sewer and stormwater utilities on an across-the-board basis, applying the system wide annual increase equally to both the fixed and volume charges, if applicable. For the water utility, the average annual system increase of 3.8% was applied to the fixed charges to keep them the same for every class of service. The remaining revenue target identified in the cost-of-service analysis was recovered through the volume charge for each class of service.

Based on these changes, an average residential customer with 15 ccf bi-monthly water usage and 11 ccf of bi-monthly winter average usage may experience an increase of \$8.08, or a monthly increase of \$4.04, in 2024. The table below shows the combined annual increases for each customer class.

Class of Service	Class Based Combined Annual Increase (Water, Sewer & Stormwater)				
	2024	2025	2026	2027	2028
Single-family	2.90%	2.91%	2.91%	2.92%	2.92%
Multi-family	2.31%	2.31%	2.31%	2.32%	2.32%
Commercial	3.26%	3.28%	3.29%	3.30%	3.32%
Large Commercial	3.24%	3.26%	3.28%	3.31%	3.33%
System Wide Average	2.89%	2.90%	2.90%	2.91%	2.92%

Recommendations

- Maintain the current rate structures for all classes of service in each utility.
- Adjust the water fixed charges by the overall average increase and adjust the volume rates for each class of service to collect the cost-of-service phase-in specific revenue targets.

Other considerations

Monthly Billing

While not specifically part of the rate study, the CAC requested that the city provide a high-level cost estimate for implementing monthly billing. The estimates presented could potentially require additional rate increases of approximately 0.3% to 0.6% per year for several years for all utilities. Some CAC members supported converting to monthly billing because it would allow customers to budget on a monthly basis, to get quicker feedback on their usage, and to pay smaller bills on a more frequent basis. However, some members were concerned about the increased costs of generating additional bills and weren't convinced that most customers would support that and suggested that the city conduct outreach to ratepayers about monthly billing. Since the CAC was unable to come to consensus on this issue, there is no specific advice regarding a change to monthly billing. Rather, the CAC's advice is to conduct outreach on this issue in the future. Billing technology is changing rapidly, which might make it possible to revisit in the near future. While not specifically related to monthly billing, the CAC recommended the city to make the bill easier to understand. This process is underway and staff expects to release an improved bill format in 2024.

Recommendation

- The city should revisit going to monthly bills to reduce the impact of bi-monthly bills.
- The city should seek out public input on monthly billing, which could include asking a question about monthly billing in the next community survey.

We appreciate the opportunity to be involved in this process. We look forward to the opportunity to meet with you on November 13, when the consultants and staff will present the results of the study, which are supported by the CAC.

Signed,

Tom Carroll



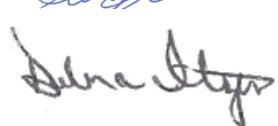
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