

# City of Woodland

## COMPREHENSIVE WATER UTILITY RATE STUDY

FINAL REPORT  
December 2020

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**FCS GROUP**  
Solutions-Oriented Consulting

December 23, 2020

Mr. Peter Boyce, City Administrator  
City of Woodland, WA  
230 Davidson Avenue  
Woodland WA, 98674

Subject: Comprehensive Water Utility Rate Study

Dear Mr. Boyce:

FCS GROUP is pleased to submit this report summarizing the results of the Comprehensive Water Utility Rate Study. This study includes the following elements: Revenue Requirement, Cost Of Service, Rate Design and Assessment Charge Calculation. The recommendations for the water utility are pending council approval. The detailed methodology used to arrive at these results are covered within this report.

It has been a pleasure to work with you and other City of Woodland staff on this effort. Please let me know if you have any questions or need additional information on this report. I can be reached at (425) 274 – 2853.

Yours very truly,



Angie Sanchez-Virnoche, Principal



Martin Chaw, Project Manager



Paul Quinn, Project Consultant



Amanda Levine, Analyst

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# Section I. EXECUTIVE SUMMARY

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## I.A. INTRODUCTION

In 2018, the City of Woodland (“City”) contracted with FCS GROUP to conduct a Comprehensive Water Utility Rate Study which included the following elements: Revenue Requirement, Cost Of Service, Rate Design and Assessment Charge Calculation. The study reviewed the utility’s financial needs over the 11-year planning period, 2020 through 2030 with rates designed for the planning period 2021-2025. The overall objective of the study was to establish a financial plan for the water utility (revenue requirements analysis) that will inform future financial decisions and their impacts, maintain equitable rates (cost of service analysis), promote long-term sustainability of the system, and update the city’s assessment charges.

The comprehensive water utility rate study was completed and study results were presented to the Woodland City Council on July 6, 2020 and are currently pending adoption by City Council (scheduled for November 16, 2020). The Resolutions being considered by Council are as follows: Resolution 729 – Updating Water Rates, 730 – Updating Water Assessment Charges, and Resolution 734 – Revising Senior Disabled Discount.

## I.B. REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range operating and capital financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City. The 2020 operating budget was used as the baseline for the operating expense forecast. Rate revenues were projected based on the 2018 detailed monthly customer billing statistics.

### Financial Policy Framework

Financial policies form the backbone of the revenue requirement analysis. The City’s fiscal policies are formalized in Ordinance NO.1211, which can be found in the appendix. For topics not addressed in the fiscal policy Ordinance, FCS GROUP made industry standard assumptions with approval from the City. These policies and assumptions are described below.

- **Operating Reserves:** The industry standard is to maintain a minimum balance in the operating reserve between 60 and 90 days of O&M expenses. For this study, a minimum of 60 days of O&M expenses is targeted throughout the 2020-2030 study period.
- **Capital Contingency Reserve:** Industry practice ranges from maintaining a balance equal to 1 to 2 percent of fixed assets, an amount equal to a 5-year rolling average of CIP costs, or an amount determined sufficient to fund equipment failure (other than catastrophic failure). For this study, an annual target of \$1.7 million is used, representing the annual average value of the utility’s CIP over the study period.
- **Debt Reserve:** Typically specified in the related bond or loan agreement, the minimum balance for this reserve is most often linked to either average annual debt service, maximum

annual debt service, or the amount issued. This study specified a reserve requirement equal to one year’s debt service payment.

- **Debt Service Coverage:** Bond or loan covenants will identify the required debt service coverage ratio for each issue. Minimum debt service coverage is typically 1.25. Some jurisdictions may target a higher debt service coverage ratio per policy (for example 1.75 – 2.00). This study specified a debt service coverage ratio of 1.25.
- **System Reinvestment Funding:** To manage rate increases, this study does not account for a specific system reinvestment funding goal, but the City does fund system reinvestment in a way by allowing the surplus of revenue in the operating fund over the minimum target (60 days) to flow into the capital fund.

We recommend that the City consider the following fiscal policies for the utility:

**Exhibit 1: Water Utility Planning Policies**

Policy	Recommendation
Operating Reserve	60 Days
Capital Reserve	Average of Annual CIP Costs During the Forecast
Debt Service Coverage	1.25x
Capital Funding	Cash and Debt
System Reinvestment	Transfer to CIP operating reserves in excess of 60-day target

### Changes to Level of Service

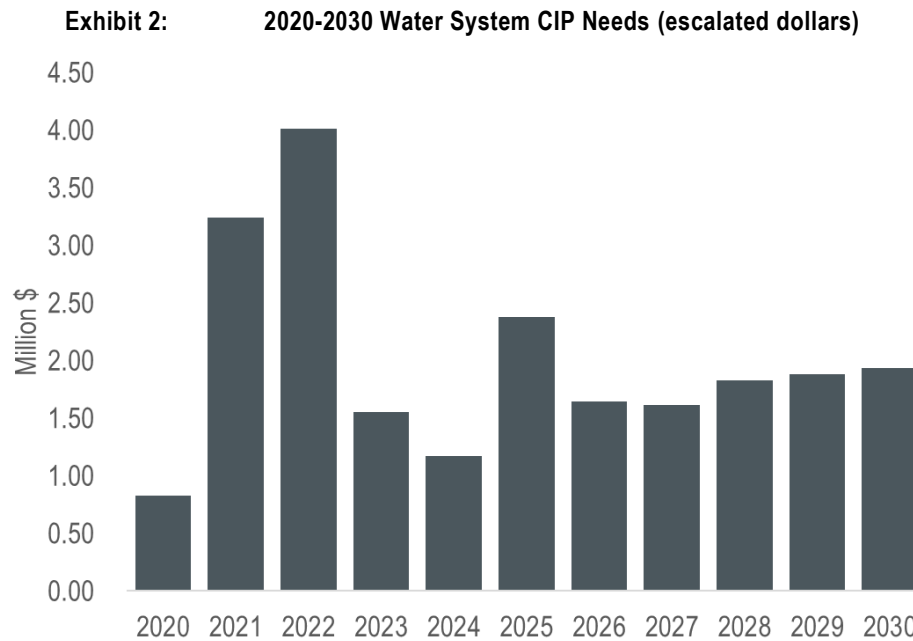
The study assumed no budget reductions. Assumed changes in level of service include:

- Shift to monthly utility billing effective February 2021.
- New 0.50FTE Utility Billing Clerk IV starting January 2021 to support monthly utility billing.
- New 0.50FTE Senior Engineer starting 2025 to support Public Works engineering workload.

### Capital Improvement Program Needs

Over the 11-year study period, 2020-2030, the water utility CIP program totals \$22.1 million (escalated dollars). Approximately 50% of the CIP is anticipated to occur in the first three years of the study period, reflecting the anticipated construction needs for a new reservoir, major water connector under W.Scott Avenue and improvements to the water treatment plant. The water utility’s CIP and anticipated new debt to support this CIP program is a major driver of rate increases for the water utility as discussed in further detail below.

The following chart illustrates the anticipated CIP spending need over the study period. See **Section III.B.2** for additional detail.



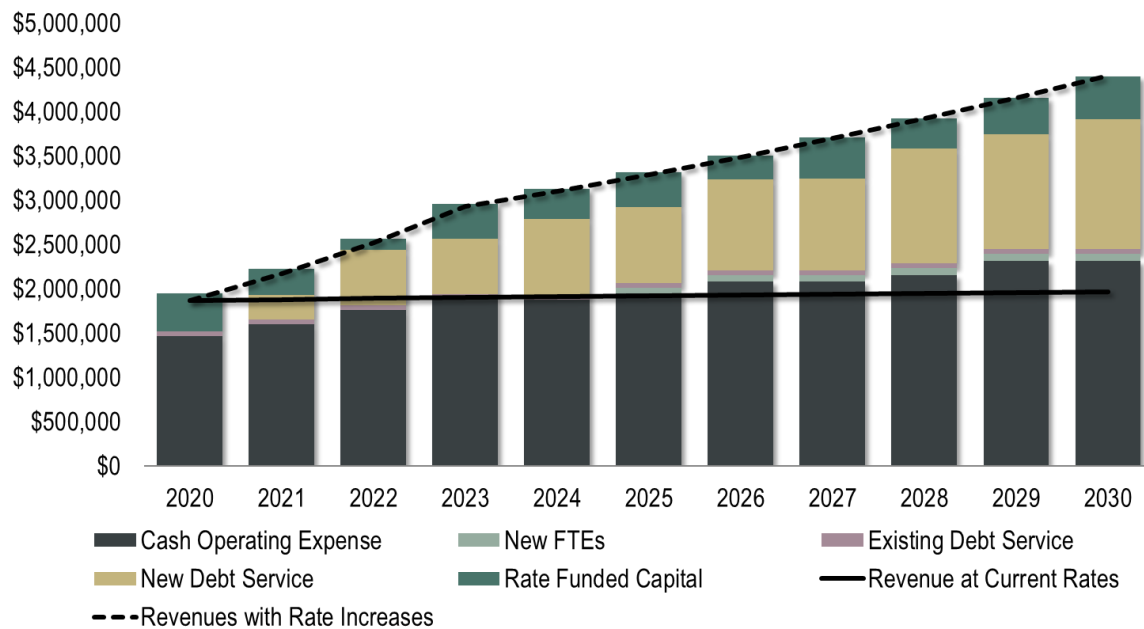
### Rate Revenue Requirements

Annual rate increases of 15.5% between 2021 through 2023 are needed to fund the utility’s needs. Starting in 2024, these annual rate increases drop down to 5.5% until 2030. The following summarizes the major rate increase drivers.

- Funding the capital improvement plan (CIP) needs over the study period, including supporting \$17.9 million in anticipated new debt from 2021 – 2030. These increases are largely due to a frontloaded capital improvement plan (CIP).
- Meeting operating reserves of 60 days of O&M expenditures throughout the study period.
- Maintaining debt coverage above the 1.25x minimum target.
- Implementing reserves for the capital program through the study period.

**Exhibit 3** provides a summary of the water system revenue requirement findings.

**Exhibit 3: 2020-2030 Water System Revenue Requirements**



## I.C. COST OF SERVICE & RATE DESIGN

The cost of service for the water utility determines equitable cost recovery in proportion to the demands each customer class places on the system based on functions of service and known or assumed cost causation. The functions of service reviewed for the water utility include:

- **Customer Costs:** associated with establishing, maintaining, and serving water customers.
- **Meters & Services Costs:** associated with the installation, maintenance, and repair of meters and services.
- **Base Costs:** related to the average level of service provided to meet demand on a year-round basis and are essentially correlated with year-round water consumption.
- **Peak Costs:** related to peak demand service typically associated with the ability of the system to provide capacity to customers with higher than average volume, which usually occurs during the summer months.
- **Fire Protection Costs:** associated with the ability of the system to provide adequate capacity and water flow corresponding to minimum fire safety standards required to serve its customer demographic.

**Exhibit 4** provides a summary of the water utility’s revenue distribution based on the cost of service analysis (COSA) conducted as part of this study.



**Exhibit 4: Existing Revenue 2021 vs. COSA 2021 Revenue**

Class	Existing 2021 Revenue	COSA 2021 Revenue	\$ Difference	%
Single Family	\$ 830,443	\$ 1,102,347	\$ 271,905	32.74%
Non-Single Family	353,106	202,017	(151,089)	-42.79%
Commercial	697,239	867,944	170,706	24.48%
<b>Total</b>	<b>\$ 1,880,787</b>	<b>\$ 2,172,309</b>	<b>\$ 291,522</b>	<b>15.50%</b>

Costs fluctuate each year, meaning the necessary increase by class can also fluctuate each year. Because of this, interclass rate changes are not suggested unless the class’s existing revenue is over 5.0 percent above or below the calculated cost of service including the effect of any proposed rate increases. The COSA results indicate that all classes are outside the typical cost of service range. In addition to altering the City’s billing practices structure from bi-monthly to monthly, the City also looked to evaluate intraclass equity through an evaluation of the existing water rate structure and tier thresholds.

Currently, each class has a fixed charge that increases with meter size, and a variable charge for water usage. For the multi-family and RV customers, their fixed charge is also based on units rather than account or meter. To mitigate the rate burden on one class over another, the recommended fixed charges do not adjust for cost of service. The single family, non-single family and commercial classes currently do not use a tiered system to charge consumption. However, the proposed structure includes four block tiers.

- Tier 1 is based on the average winter monthly water consumption (0-500cf);
- Tier 2 is based on the annual average monthly water consumption (501-700cf);
- Tier 3 is based on the average peak summer monthly water consumption (701-1,150cf), and
- Tier 4 would capture all water consumption above the summer peak.

The tiered water consumption structure would apply only to the single family class, as tiered rates are mostly used to shape outdoor discretionary usage behavior, which is not as applicable to non-residential and commercial classes.

To determine whether a change in tier thresholds is warranted, a bill frequency analysis was developed for the single-family residential class to begin evaluating customer usage patterns in each of the current tiers. For the single-family residential class, it was found that about 30% of all SFR customer bills in 2018 contained usage in the third or fourth tier, indicating room for conservation improvements.

**Exhibit 5** provides the proposed single-family residential volumetric tier break points for the water utility and the proposed single-family residential volumetric rates by tier.

**Exhibit 5: 2021-2025 Proposed Monthly Water Consumption Rates**

Class	Existing	\$/cf Variable Charge				
		2021	2022	2023	2024	2025
<b>Single Family</b>						
Inside						
Block 1 (0 - 500cf)	\$ 0.0296	\$ 0.0306	\$ 0.0364	\$ 0.0431	\$ 0.0459	\$ 0.0488
Block 2 (501 - 700cf)	n/a	0.0382	0.0455	0.0539	0.0574	0.0610
Block 3 (701 - 1,150cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
Block 4 (1,150+cf)	n/a	0.0611	0.0728	0.0862	0.0918	0.0976
Inside - Discount						
Block 1 (0 - 500cf)	n/a	\$ 0.0229	\$ 0.0273	\$ 0.0323	\$ 0.0344	\$ 0.0366
Block 2 (501 - 700cf)	n/a	0.0286	0.0341	0.0404	0.0430	0.0457
Block 3 (701 - 1,150cf)	n/a	0.0344	0.0409	0.0485	0.0516	0.0549
Block 4 (1,150+cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
<b>Non-Single Family</b>						
Inside	\$ 0.0296	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798
<b>Commercial</b>						
Inside	\$ 0.0296	\$ 0.0300	\$ 0.0357	\$ 0.0423	\$ 0.0450	\$ 0.0479

Note: Outside city customers are charged 1.5X the inside city rate, and discount customers receive a 25% discount.

In addition to examining the consumption structure for each class, changes to the fixed portion of the charge were considered. Current rate structure shows that with the exception of Multi-Family customers, all customers are charged the same fixed amount per account. The increase in charges by meter size is not consistent with American Water Works Association's (AWWA) ratios. We recommend changing the fixed charge scaling to match the AWWA ratio in addition to switching the NSF class from a per unit charge to a per meter charge. This applies to residential, non-residential and commercial classes.

**Exhibit 6** provides the schedule of proposed changes to the fixed charge.

**Exhibit 6: 2021-2025 Proposed Monthly Fixed Charges (Based on AWWA ratios)**

Meter Size	Existing	\$/Monthly Fixed Charge				
		2021	2022	2023	2024	2025
Inside						
5/8 or 3/4	\$ 24.57	\$ 25.00	\$ 29.77	\$ 35.28	\$ 37.54	\$ 39.92
1.0"	58.99	62.50	74.43	88.20	93.85	99.80
1.5"	68.83	125.00	148.86	176.41	187.70	199.61
2.0"	95.86	200.00	238.17	282.25	300.32	319.37
3.0"	294.94	400.00	476.34	564.50	600.63	638.74
4.0"	368.68	625.00	744.28	882.03	938.49	998.03
6.0"	540.73	1,250.00	1,488.56	1,764.05	1,876.98	1,996.05
Multi-Family	24.57	n/a	n/a	n/a	n/a	n/a

Note: Outside city customers are charged 1.5X the inside city rate, and discount customers receive a 25% discount.

## I.D. SUMMARY

The rate study completed for the water utility indicates a need for future rate increases to address forecasted increases in operating costs, fund the planned capital program, and to satisfy all financial obligations of the utility. Interclass cost of service adjustments were found to be warranted for the water utility, shifting costs away from the non-single family which is currently subsidizing the residential and commercial classes. Water rate design changes were identified to be necessary,

mainly in adding a tiered rate schedule and changing the ratios between the meter sizes to match those recommended by AWWA.

We recommend that the City revisit the results of this rate study annually and view the study findings as a living document by continuously comparing study outcomes to actual revenues and expenses. Any significant or unexpected changes may require adjustments to the rate strategy proposed.

# Section II. RATE SETTING PRINCIPLES AND METHODOLOGY

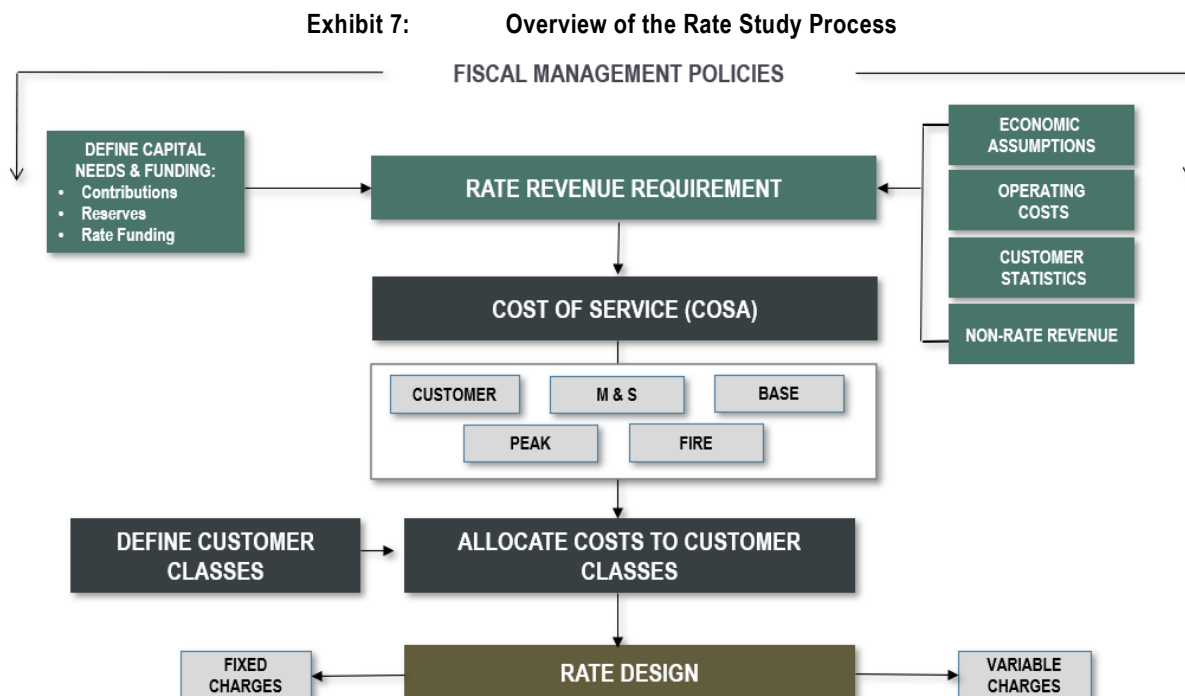
## II.A. OVERVIEW

The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that equitably recover costs from each class of customer by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to collect those revenues.

The three key analyses completed as part of the rate study process are listed below:

- **Revenue Requirement** – This analysis identifies the total revenue requirement to fully fund the water utility on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements and fiscal policy objectives.
- **Cost of Service** – This analysis equitably distributes costs to customer classes based on their proportional demand and use of the system.
- **Rate Design** – This analysis includes the development of rate structures that generate sufficient revenue to meet each system’s revenue requirement forecast and to address the City’s pricing objectives.

**Exhibit 7** illustrates the entire rate study process.



## II.B. FISCAL POLICIES

The basic framework for evaluating utility revenue needs consists of a set of fiscal policies. These policies, which can address a variety of topics including cash management, capital funding strategy, financial performance, and rate equity, are intended to promote long-term financial viability for the City's utilities. The City's fiscal policies are formalized in Ordinance NO.1211, which can be found in the appendix. For topics not addressed in the fiscal policy Ordinance, FCS GROUP made industry standard assumptions with approval from the City. These policies and assumptions are described below.

### II.B.1. Utility Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. Our financial modeling included the following reserve categories:

- **Operating Reserve** – Operating reserves are designed to provide a liquidity cushion to ensure that adequate cash will be maintained to deal with significant cash balance fluctuations such as seasonal fluctuations in billings and receipts, unanticipated cash expenses, or lower than expected revenue collections. Industry standard is to maintain a minimum balance in the operating reserve equal to between 60 to 90 days of operations and maintenance (O&M) expenses. These, of course, are guidelines and actual levels should be established based upon each jurisdiction's unique needs and tolerance for risk. It is assumed that any operating funds above the upper range are available for capital purposes and will be transferred to the capital reserve. Based on discussions with the City, the minimum balance of operating reserves is set to 60 days.
- **Capital Reserve** – A capital contingency reserve is an amount of cash set aside in case of an emergency should a piece of equipment or a portion of the utility's infrastructure fail unexpectedly. The reserve also could be used for other unanticipated capital needs including capital project cost overruns, as well as to help balance the capital needs of a utility. Industry practices range from maintaining a balance equal to one to two percent of fixed assets, an amount equal to a rolling average of Capital Improvement Program (CIP) costs, or an amount determined sufficient to fund equipment failure (other than catastrophic failure). The final target level should balance industry standards with the risk level of the City. The City does not currently have a capital reserve target. For this study, a target is set to equal the annual average of Capital Improvement Program (CIP) costs: \$1.73 million.

Reserves should fluctuate above and below targets, and such experience does not reflect on the quality of budgeting or management. In fact, if a reserve remains static for extended periods of time without use, this may indicate that it is not set appropriately, or is unnecessary. Utility reserves are intended to absorb fluctuation in revenues or expenditures without abrupt rate impacts. As reserve levels vary, a policy structure can define the mechanisms for regulating those levels and returning them to intended targets.

- **Debt Reserve** – Bond covenants often establish reserve requirements as a means of protecting against the risk of nonpayment and are typically specified as a part of these covenants. A common reserve requirement is one year's debt service payment and a debt service coverage ratio of 1.25 to 2.00 times. The balance held in reserve for a particular debt instrument may be used to make the final payment on that debt instrument. The City must continue to fully fund such reserves as required by bond covenant or loan agreement. Since the debt reserve provides a static

reserve against inability to pay, it is unnecessary to maintain operating reserves against debt repayment. This study specified a reserve requirement equal to one year's debt service payment and a debt service coverage ratio of 1.25.

## II.B.2. System Reinvestment

System reinvestment funding promotes long-term system integrity. Target system reinvestment funding levels are commonly linked to annual depreciation expense in the absence of a formal asset management plan. Depreciation expense is a measure of the decline in asset value associated with routine use of the system. Particularly for utilities that do not already have an explicit system reinvestment policy in place, implementing a funding level based on full depreciation expense could significantly impact rates.

A common alternative benchmark is annual depreciation expense less annual debt service expenses. This approach recognizes that customers are still paying for certain assets through the debt component of their rate and intends to avoid simultaneously charging customers for an asset and its future replacement. The specific benchmark used to set system reinvestment funding targets is a matter of policy that must balance various objectives including managing rate impacts, keeping long-term costs down, and promoting "generational equity" (i.e. not excessively burdening current customers with paying for facilities that will serve a larger group of customers in the future).

To manage rate increases, this rate forecast does not account for a specific dedicated system reinvestment funding goal, but the City does fund system reinvestment in a way by allowing the surplus of revenue in the operating fund over the minimum target (60 days) to flow into the capital fund.

## II.B.3. Debt Management

Debt issuance is a valuable tool for the City to use to finance certain costs, as it allows the City to spread a relatively large cost over multiple years. Debt repayment structures can be quite flexible (e.g. deferred principal repayment), allowing the City to "shape" its cost structure and facilitate a stable progression of moderate rate adjustments.

When developing its capital funding strategy, the City must weigh the pros and cons of issuing debt to pay for a project. On one hand, debt issuance comes with interest and issuance costs that increase the overall cost borne by the utilities; on the other hand, it may mitigate rate impacts and enhance "generational equity," given that the City would generally issue debt to fund infrastructure that is oversized to serve future growth. Too much debt issuance may limit the City's ability to manage its rates, as the debt service payments and related requirements (such as revenue bond coverage) are "rigid" costs that generally cannot be deferred or scaled back; it may also impact the City's credit rating and ability to secure low-cost debt. Excessive aversion to issuing debt can also create problems, as it shifts the burden of funding capital investment to existing customers and may require maintaining higher reserve levels to manage cash flow needs related to capital investment.

It is prudent to consider policies related to debt management as part of a broader utility financial policy structure. Common debt management policies may include the level of acceptable outstanding debt, debt repayment terms, bond coverage and total debt coverage targets.

## II.C. REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. It also enables the City to set utility rate structures which fully recover the total cost of operating the water system: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable not only sound financial performance for the City's utility funds, but also establishes a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis establishes the total annual financial obligations of the utility by bringing together the following core elements:

- **Fiscal Policy Analysis** – Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, rate funded capital and debt service coverage.
- **Capital Funding Plan** – Defines a strategy for funding the City's capital improvement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).
- **Operating Forecast** – Identifies future annual non-capital costs associated with the operation, maintenance, and administration of the system.
- **Sufficiency Testing** – Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.
- **Strategy Development**. Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the projection period.

## II.D. COST OF SERVICE

The purpose of a cost of service analysis is to provide a rational basis for distributing the full costs of providing water utility service to each class of customers in proportion to the demands they place on the system. Detailed cost allocations, along with appropriate customer class designations, help to sharpen the degree of equity that can be achieved in the resulting rate structure design. The key analytical steps of the cost of service analysis are as follows:

- **Functional Cost Allocation**. Apportions the annual revenue requirement to the major functions of the system:
  - » Water: base (average use), peak (highest use), meters & services (reading and servicing meters), fire protection (fire specific costs) and customer (general customer costs).
- **Customer Class Designation**. Identifies the customer classes that will be evaluated as part of the study. Existing as well as new or revised customer classes or class definitions may be considered. It is appropriate to group customers that exhibit similar usage characteristics and service requirements. The proposed class groupings consider three groups – single family, non-single family and commercial.
- **Cost Allocation**. Allocates the costs from the functional cost allocation to different customer classes based on their unique demands for service as defined by system planning documents (2012 Water System Plan), industry standards, and recorded user history (from billing data). The results identify shifts in cost recovery by customer class from that experienced under the existing rate structure.

## II.E. RATE DESIGN

The principal consideration of rate design is for the rate structure to generate sufficient revenues for the system which are reasonably commensurate with the cost of providing service. The pricing structure is largely dictated by the objectives of the system. Most water rate designs consist of fixed and variable charges. Fixed costs typically attempt to cover costs of the system that do not vary while variable costs will fluctuate with a change in user demand.

Other considerations include understandability by the rate payer; administrative ease; revenue stability; interclass and intraclass customer equity; and affordability. For additional detail refer to **Section III.D.**



## Section III. REVENUE REQUIREMENT

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### III.A. INTRODUCTION

The City of Woodland owns and operates its own Water Treatment Plant (WTP). The WTP delivers high quality drinking water to more than 5,000 people in the City of Woodland, operating 365 days of the year and designed to produce 3,000,000 gallons per day. In the City of Woodland, the water is collected by way of a series of pipes horizontally placed under the Lewis River. The water is then pumped and delivered to the WTP, which is located adjacent to the City's water reservoirs, at the top of Scott Hill Road. All chemical treatment is done at the treatment plant which includes chlorination for disinfection.

### III.B. REVENUE REQUIREMENT OVERVIEW

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the water system.

#### III.B.1. Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the water system. The 2020 budget formed the baseline for this forecast. The study reviewed the utility's financial needs over the 11-year planning period, 2020 through 2030. The following list highlights some of the key assumptions used in the development of the water utility operating forecast.

##### III.B.1.a Operating Revenue

- **Retail Rate Revenue** was based on 2018 actual detailed customer accounts and usage statistics from the City's billing system. These detailed statistics were then forecasted to 2019, which supports the forecast from 2020 onward. Rate revenues were forecast for each customer class.
- **Non-Rate Revenue** consists of investment interest, miscellaneous & water On/Off fees, hydrant relief, Cowlitz County Agreement charges, installation sales and installation deposits. These revenues, which represent less than four percent of total revenues, were forecast with minimal to no increase due to their unpredictable nature.
- **Customer Growth** was based on discussions with City staff, both customer growth and demand was forecast to be 0.50 percent annually from 2020 to 2030.
- **Interest Earnings** were based on the Investment Pool Nominal interest rate for Washington, and vary in an upward trend from 1.90 percent in 2020 to 2.89 percent in 2030.

##### III.B.1.b O&M Expenses

- **General Cost Inflation** referenced the King County Office of Economic and Financial Analysis, and ranges from 2.43 percent in 2020 to 2.61 percent in 2030.
- **Construction Cost Inflation (CCI)** was assumed to be 3.0 percent for all years in the study period, based on the feedback from the City.

- **Labor Cost Inflation** was set to be 4.5 percent for all years in the study period, based on feedback from the City.
- **Benefit Cost Inflation** was set to be 6.0 percent for all years in the study period, based on feedback from the City.
- **State Excise Taxes** was set to be 5.029 percent on all water rate revenue based on the prevailing tax rate.
- **State B&O Tax** was set to be 1.5 percent on all non-rate revenue based on the prevailing tax rate.
- **City Utility Tax** was set to be 12.5 percent based on the prevailing City tax rate. City utility taxes were treated as a pass through in this study – neither the revenue nor the expense were forecast.
- **Additional O&M Expenses** - while the 2020 budgeted expenses were used as the basis to forecast future expenses, the following incremental expenses were added for the study period:
  - » Additional 0.50 FTEs for a Clerk position with costs of \$46,792 starting in 2021.
  - » Additional 0.50 FTEs for a Senior Engineer with costs of \$65,845 starting in 2025.
  - » Professional Services - \$60,000 (2020 dollars) every third year for a review of the utility's financial standing.
  - » Additional costs related to transitioning from bi-monthly to monthly billing – additional tasks for Clerk IV, additional vendor expenses, 20% of supervisory time and additional staff expenses totaling \$43,417 starting in 2021

#### III.B.1.c Debt Service

- **Existing Debt Service** is approximately \$55,000 annually in 2020. The City has one outstanding loan:
  - » PWTF (Ranney 071) with approximately \$700,000 in total debt service from 2020 – 2032.
- **New Debt Service** - A total of \$17.9 million of new debt proceeds have been forecasted from 2020-2030. These issuances have conservatively been assumed to be revenue bonds, with an interest rate of 3.25 percent for years 2020-2022 and 5.00 percent for the years thereafter, an issuance cost of 1.25 percent, term of 20 years, coverage requirement of 1.25, and a debt reserve equal to one year of annual debt service.

#### III.B.1.d Rate-funded Capital

- Rate-funded capital is a way to ensure system integrity through reinvestment in the system. Ideally, the minimum funding would be an amount equal to or greater than the annual depreciation expense. A formal rate-funded capital policy was not recommended as a part of this study, due to the large impact on rates which would be necessary to fund the policy. Once the City has completed the large capital projects that are scheduled during the first several years of the study period, the feasibility of a rate-funded capital policy should be re-examined.

### III.B.2. Capital Funding Plan

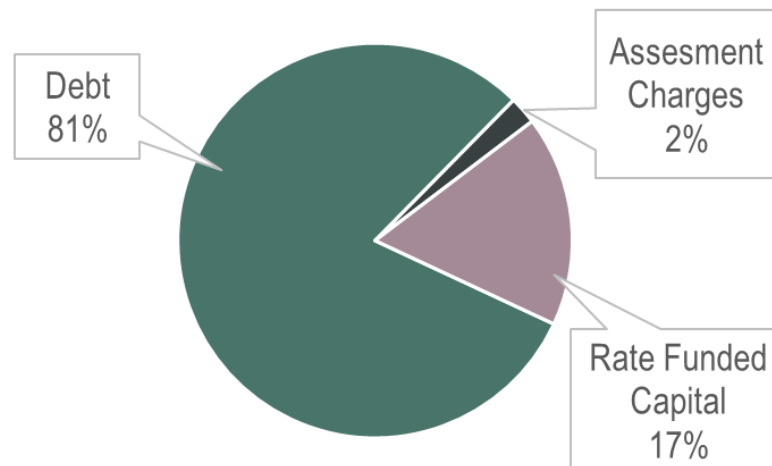
The water utility is anticipating \$22 million in capital costs from 2020 through 2030 (escalated to year of construction). Major projects include (in escalated dollars): Additional Reservoir Storage (1 MG) in 2021-2022 for \$3.6 million, Water Main (Lakeshore and Island Aire Drives) in 2025 for \$1.5 million, Water main (Scott Ave/SR503) in 2027 for \$1.6 million and Water Meter Upgrades – Efficiency in 2025 – 2026 for \$1.7 million.

Funding for the capital plan comes from a number of different sources:

- **Cash balances (including interest) and rate-funded capital** – Cash balances and rate-funded capital include the beginning capital fund balance available after meeting the capital fund reserve target, any cash flow from the operating fund above what is needed to meet the operating fund reserve target as well as developer and inspection capital contributions. Cash balances and rate funded capital are forecast to fund \$3.8 million of the capital plan, about 17.0 percent of total expenditures.
- **Revenue bond proceeds** – Six revenue bond issuances are forecasted totaling \$17.9 million. Revenue bond proceeds are forecasted to fund 81.0 percent of the capital plan.
- **Assessment Charge revenue** – Assessment Charge revenues are forecast at the existing fee levels and are based on the assumed customer growth rate of 0.5 percent resulting in 14 new connections annually. Assessment Charge revenue is anticipated to total \$507,000 over the study period and fund approximately 2.0 percent of the capital plan.

**Exhibit 8** shows the breakdown of funding sources.

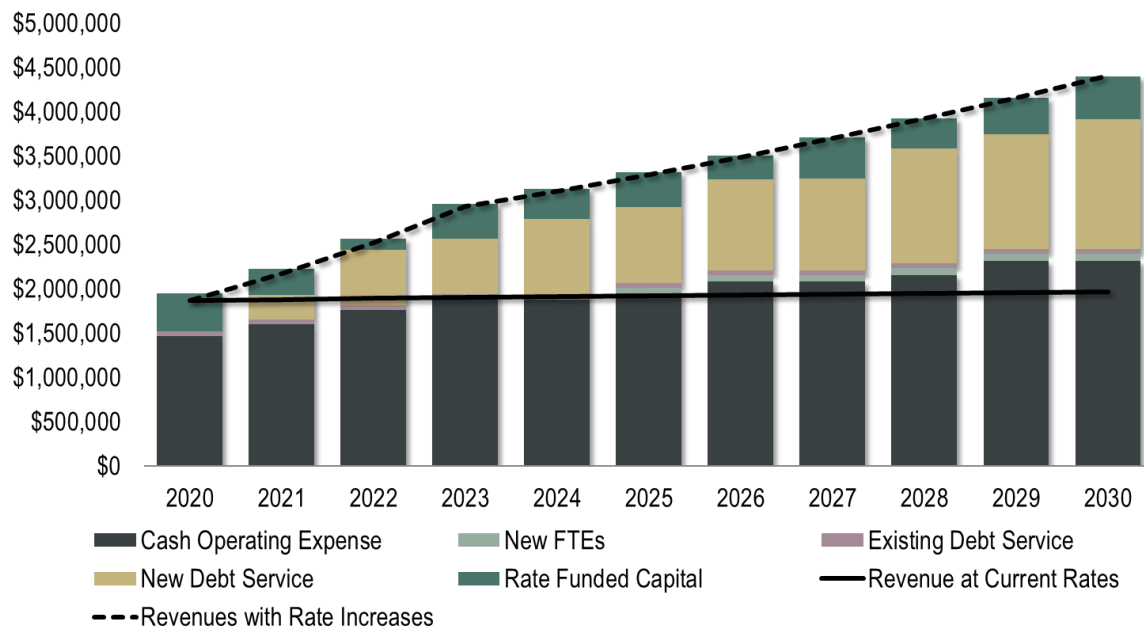
**Exhibit 8: Water Capital 2020-2030 Funding Strategy by Percentage**



### III.B.3. Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service and rate-funded capital come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the water system to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibit 9** provides a summary of the water system revenue requirement findings.

**Exhibit 9: Water Utility Revenue Requirement Summary**



**Summary of water utility revenue requirement:**

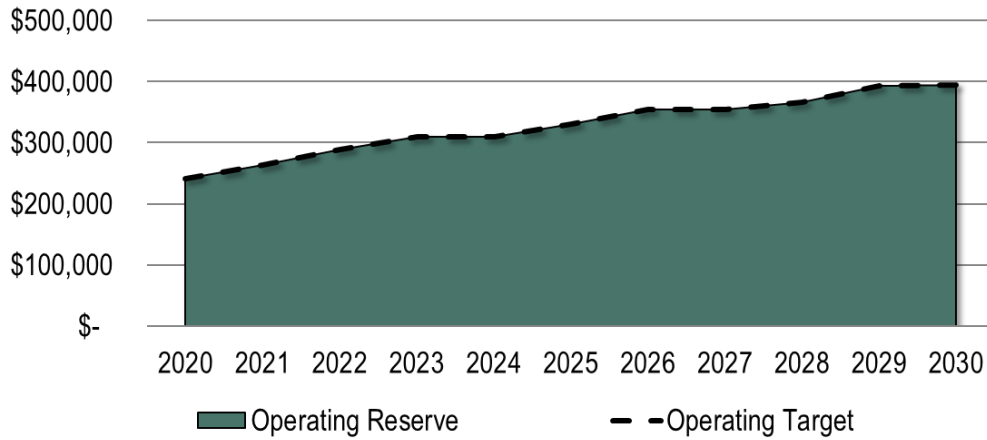
- To meet the projected financial obligations of the water utility, rate increases are proposed at 15.5 percent per year 2021-2023 and 5.5 percent per year 2024-2030. These large increases early on in the forecast are largely due to a frontloaded capital improvement plan (CIP). With these annual rate adjustments:
- The operating reserve of 60 days of O&M expenditures is met throughout the study period.
- Debt coverage remains above the 1.25x minimum target.
- The capital reserve is implemented and fluctuates above and below the target level through the study period.
- The City will continue to revisit the proposed rate increases to re-evaluate the financial standing of the utility once rate increases have been implemented and major capital projects have been constructed or are underway.

**III.B.4. Reserves**

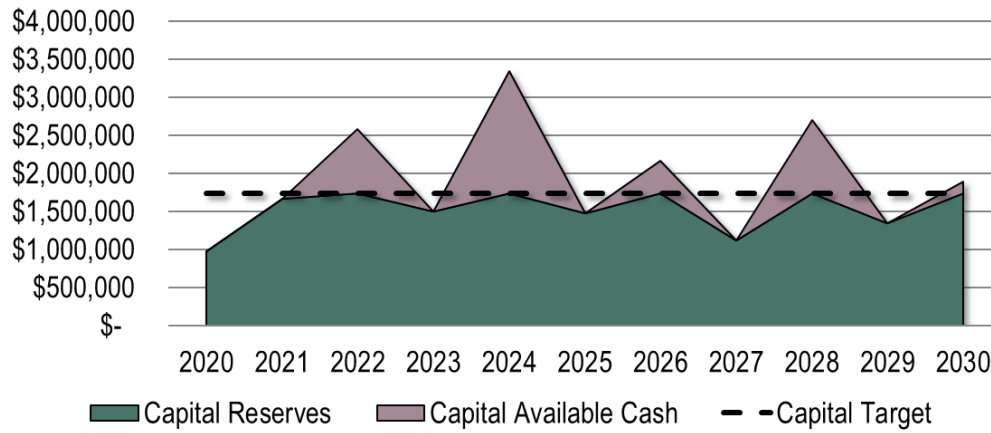
**Exhibit 10-11** shows a summary of the projected Operating Reserve and Capital Reserve through 2026 based on the rate forecasts presented above. The Operating Reserve has a minimum balance target of approximately 16.5 percent, or 60 days, of operating and maintenance (O&M) expenses (\$241,000 to \$394,000). The Capital Reserve has a minimum target of \$1.73 million based on the average capital project costs throughout the study period.

The Operating Reserve maintains its minimum target balance throughout the study period. The Capital Reserves fluctuates above and below the target balance throughout the study period.

**Exhibit 10: Operating Reserve vs. Target**



**Exhibit 11: Capital Reserve vs. Target**



## Section IV. COST OF SERVICE ANALYSIS

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### IV.A. COST OF SERVICE OVERVIEW

A cost of service analysis determines the equitable recovery of costs from customers according to unique demands each customer class places on the system. There are three fundamental steps to allocating the annual revenue requirement to customer classes and developing the final rates:

- 1) allocate utility assets and total utility costs by function,
- 2) develop customer-specific allocation factors and
- 3) allocate costs to customer classes.

The methodology used conforms to industry standards as identified by the American Water Works Association (AWWA) Principles of Water Rates, Fees and Charges, M1 Manual.

### IV.B. ALLOCATION OF UTILITY ASSETS BY FUNCTION

The City's water utility assets in service were reviewed to identify what infrastructure assets are in use and relate to providing water service. This allocation assigns value and costs to functional categories based on documented system requirements, including engineering criteria, (e.g. average demand, peak demand, etc.) and industry standard practice based on the relationship of each class of asset and their function in the system. Assets are allocated to the functions of service according to known or assumed cost "causation". The functions of service to which the City's water assets were allocated are discussed below.

- **Customer Costs:** associated with establishing, maintaining, and serving water customers and tend to include administrative, billing, and customer service costs. These costs are generally uniform by customer regardless of their meter size or demand placed on the water system.
- **Meters & Services Costs:** associated with the installation, maintenance, and repairs of meters and services. These costs are typically allocated based on number of connections and meter size.
- **Base Costs:** related to average water use and are essentially correlated with year-round water consumption.
- **Peak Costs:** related to peak demand service typically associated with the ability of the system to provide capacity to customers with higher than average volume, which usually occurs during the summer months.
- **Fire Protection Costs:** associated with the ability of the system to provide adequate capacity and water flow corresponding to minimum fire safety standards required to serve its customer demographic. These are mostly incremental costs related to providing storage, distribution capacity, and hydrants for fire protection.

**Exhibit 12: Water Utility Functional Plant (Assets) in Service**

Plant in Service	Total Costs	FUNCTIONS OF WATER SERVICE						TOTAL	ALLOCATION BASIS
		CUSTOMER	METERS & SERVICES	BASE	PEAK	FIRE FUNCTION	AS ALL OTHERS		
Supply/ Treatment Pumping	\$ 3,050,531	0.00%	0.00%	74.60%	25.40%	0.00%	0.00%	100.00%	As Peak Demand Ratio
Storage	378,617	0.00%	0.00%	74.60%	25.40%	0.00%	0.00%	100.00%	As Pumping
Transmission & Distribution	12,625,637	0.00%	0.00%	67.51%	16.42%	16.07%	0.00%	100.00%	As Storage
Meters & Services	-	0.00%	100.00%	30.90%	10.52%	58.58%	0.00%	100.00%	As T&D Proportional - System
Hydrants	-	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	All Meters & Services
General Plant	1,025	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	100.00%	All Fire Function
									All As All Others
Total Utility Plant	\$ 16,055,810	\$ -	\$ -	\$ 6,432,704	\$ 2,165,715	\$ 7,456,367	\$ 1,025	\$ 16,055,810	
Wastewater Service Functions		0.00%	0.00%	40.07%	13.49%	46.44%		100.00%	
Allocation of "As All Others"		\$ -	\$ -	\$ 411	\$ 138	\$ 476	\$ (1,025)	\$ -	
<b>TOTAL Allocation Percentages</b>	<b>\$ 16,055,810</b>	<b>0.00%</b>	<b>0.00%</b>	<b>\$ 6,433,114</b>	<b>\$ 2,165,853</b>	<b>\$ 7,456,843</b>	<b>\$ -</b>	<b>\$ 16,055,810</b>	<b>100.00%</b>

The allocation basis (shown in **Exhibit 12**) used for the major functions of service are as follows:

- **Supply and Treatment Assets** are allocated based on the Water System Plan Table II-6, peak demand ratio of average day demand and maximum day demand of 1.34. Assets were allocated 74.6 percent to base and 25.4 percent to peak.
- **Pumping Assets** are allocated based on a pumping analysis that evaluated each pump on the system and identified the purpose of the pump as meeting average, peak, fire requirements or a combination. Assets were allocated 74.6 percent to base and 25.4 percent to peak. Based on conversations with the City, it is assumed that the City’s existing pumping assets are included in the Supply/Treatment asset cost totals.
- **Storage Assets** are allocated based on a storage analysis that categorized storage into operating, equalizing, standby, fire suppression and dead storage. The storage analysis was based on Table III-3 Woodland Storage Requirements in Gallons in the Water Comprehensive Plan and was used to determine the use of storage facilities to meet average, peak, fire requirements or a combination. Assets were allocated to 67.51 percent to base, 16.42 percent to peak, and 16.07 percent to fire.
- **Transmission and Distribution Assets** are allocated based on a pipe analysis of the transmission and distribution network. The proportional method established a methodology for determining the percentage of the water distribution system value related to fire flow in response to the 2008 Washington Supreme Court ruling in Lane v. Seattle.

This methodology allocates costs to fire protection by designating those pipes in the distribution network that have been upsized for additional capacity related to fire. Pipes 4” and below are considered to provide domestic water distribution while all pipes larger than 12” are considered strictly for transmission needs and have no fire related costs. Pipe sizes ranging from 6” to 12” are considered to include capacity to meet fire needs and use the proportional method to allocate fire increment costs. Under this approach, the fire increment is considered to be the area of the pipe that is upsized in order to provide fire protection.

For example, for a 6” pipe the allocation considers 4” for domestic purposes and the remainder is allocated to fire. The portion related to this increased size increment is calculated by determining the percent of the pipe that is oversized for fire needs by calculating the change in hydraulic capacity. Considering that hydraulic capacity grows exponentially with the diameter of the pipe, this means that the share of hydraulic capacity related to fire for a 6” pipe is 55.565 percent

( $4 \times 4 = 16$ ;  $6 \times 6 = 36$ ;  $1 - (16/36) = .5556$ ). Under this approach the allocation is 30.90 percent to base, 10.52 percent to peak, and 58.58 percent to fire.

- **Meters & Service Assets** are allocated 100 percent to the meters and service function.
- **Hydrant Assets** are allocated 100 percent to fire.
- **General Assets** are allocated as all other plant assets.

The result of the functional asset allocation is 40.07 percent to base, 13.49 percent to peak and 46.44 percent to fire. The resulting asset allocation is referred to as the “plant in service” allocation and is used to allocate annual costs if the cost supports the total utility system.

#### IV.B.1. Allocation of Utility Operating Expenses by Function

The annual test period costs were also grouped by function as described below. Total rate revenue requirements are calculated by taking the total expenses, deducting non-rate revenue, and adding net cash flow resulting from the proposed annual rate increase. The line by line utility cost allocation results in costs being allocated to the functional cost pools identified in **Exhibit 13**.

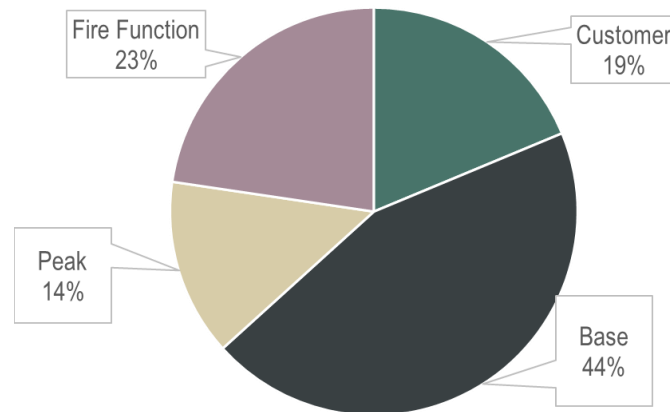
**Exhibit 13: 2021 Water Utility Functional Cost Allocation**

REVENUE REQUIREMENT	TOTAL COSTS	FUNCTIONS OF WATER SERVICE						TOTAL	ALLOCATION BASIS
		CUSTOMER	METERS & SERVICES	BASE	PEAK	FIRE FUNCTION	AS ALL OTHERS		
<b>OPERATING AND CAPITAL EXPENSES</b>									
Cash Operating Expenses	\$ 1,602,566	28.10%	0.00%	45.15%	13.89%	12.86%	0.00%	100.00%	As O&M
Existing Debt Service	54,856	0.00%	0.00%	40.07%	13.49%	46.44%	0.00%	100.00%	As Plant in Service
New Debt Service	269,509	0.00%	0.00%	40.07%	13.49%	46.44%	0.00%	100.00%	As Plant in Service
Rate Funded Capital	-	0.00%	0.00%	40.07%	13.49%	46.44%	0.00%	100.00%	As Plant in Service
<b>Total Expenses</b>	<b>\$ 1,926,931</b>	<b>23.37%</b>	<b>0.00%</b>	<b>44.29%</b>	<b>13.82%</b>	<b>18.51%</b>	<b>0.00%</b>	<b>100.00%</b>	
<b>OTHER REVENUES AND ADJUSTMENTS</b>									
<b>Less:</b>									
401-000-000-361-11-00-00 - Investment Interest	\$ (4,093)	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	All As All Others
401-000-000-369-91-00-00 - Misc & Water On/Off Fee	(19,000)	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	All Customer
401-000-000-397-00-00-00 - Hydrant Rental	(20,000)	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	All As All Others
401-000-000-343-40-00-01 - Cowlitz County Agreement	(293)	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	All As All Others
401-000-000-343-40-02-00 - Installation Sales	(6,444)	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	All Customer
401-000-000-389-10-00-00 - Installation Deposits [Extra]	(16,080)	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	All Customer
	-	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	All As All Others
<b>Plus:</b>									
Additional State and City Taxes Due to Rate Increases	\$ 14,661	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	All As All Others
Net Cash Flow After Rate Increase	296,627	0.00%	0.00%	40.07%	13.49%	46.44%	0.00%	100.00%	As Plant in Service
Partial Year Adjustment	-	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	All As All Others
Rate Revenue Requirement	\$ 2,172,309	\$ 408,803	\$ -	\$ 972,354	\$ 306,384	\$ 494,493	\$ (9,725)	\$ 2,172,309	
Water Service Functions		18.73%	0.00%	44.56%	14.04%	22.66%		100.00%	
Allocation of "As All Others"		\$ (1,822)	\$ -	\$ (4,334)	\$ (1,366)	\$ (2,204)	\$ 9,725	\$ -	
<b>Rate Revenue Requirement Allocation Percentages</b>	<b>\$ 2,172,309</b>	<b>\$ 406,981</b>	<b>\$ -</b>	<b>\$ 968,020</b>	<b>\$ 305,018</b>	<b>\$ 492,289</b>	<b>\$ -</b>	<b>\$ 2,172,309</b>	
		<b>18.73%</b>	<b>0.00%</b>	<b>44.56%</b>	<b>14.04%</b>	<b>22.66%</b>	<b>0.00%</b>	<b>100.00%</b>	

The cost allocation indicates that the largest portion of costs, 44.56 percent, relate to meeting base (average) water demands, followed by 22.66 percent related to fire function, 14.04 percent to meet peak water demands, and 18.73 to customer costs. **Exhibit 14** provides a summary of the functional cost allocation results.



**Exhibit 14: 2021 Water Utility Functional Cost Allocation Summary**



### IV.C. CUSTOMER CLASS DISTINCTIONS

The cost of service initially analyzed seven different customer groupings: single family residential, multi-family, commercial, City of Woodland, Motel, RV, and Church/School. Due to customer similarities, these groups were condensed into three classes – single-family residential (single family residential), non-single family (multi-family and RV), and commercial (commercial, City of Woodland, Motel, and Church and School).

### IV.D. ALLOCATION FACTORS

Once the customer classes were defined, functional cost pools were then allocated to these customer classes based on the demand each class places on the system. In order to complete this task, the analysis consisted of first developing allocation factors that identified customer characteristics including number of accounts, consumption levels, peak demand patterns, and fire flow requirements. The allocation factors are intended to equitably allocate total functional cost pools to those benefitting from the service. For this study, the water fund costs were allocated based on the following:

- **Customer Costs** - number of customer accounts.
- **Meters & Services Costs** - number of customer accounts.
- **Base Costs** - total billed volume.
- **Peak Costs** - the ratio between each class's peak month use to their average total use, multiplied by their total billed volume.
- **Fire Protection Costs** - number of accounts and their associated fire flow gallons per minute and duration requirements (based on Table III-1 Minimum Fire Flow per WAC 246-293-640 of the Water Comprehensive Plan).

**Exhibit 15** summarizes the allocation factors used for the customer classes evaluated in the cost of service analysis.

**Exhibit 15: 2021 Water Utility Customer Allocation Factors**

Class	Accounts	Billed Volume (cf)	Class Peak Factor	Total Fire Flow Req. (gpm)
Residential	1,508	12,919,216	1.65	15,000
Multi-Family	66	3,163,452	1.29	24,600
Commercial	277	13,141,529	1.41	45,000
City of Woodland	1	8,037	1.56	45,000
Motel	9	594,619	1.45	45,000
RV	6	1,243,457	1.49	45,000
Church/School	50	2,165,751	2.37	45,000

Class	Accounts	Billed Volume	Class Peak Factor	Total Fire Flow Req. (gpm)
Residential	78.66%	38.87%	41.10%	57.0%
Multi-Family	3.43%	9.52%	7.90%	4.1%
Commercial	14.45%	39.54%	35.78%	31.4%
City of Woodland	0.05%	0.02%	0.02%	0.1%
Motel	0.48%	1.79%	1.67%	1.0%
RV	0.31%	3.74%	3.58%	0.7%
Church/School	2.61%	6.52%	9.93%	5.7%

The cost of service by class was calculated by multiplying the functional cost pools by the allocation factor distribution percentages. Ultimately, this element of the analysis defines the total annual revenue that should be generated from each customer class, in order to achieve cost-based recovery from rates.

## IV.E. WATER COST OF SERVICE ANALYSIS RESULTS

**Exhibit 16** provides a comparison of current rate revenue distribution between customer classes and the results of the cost of service analysis. The second table shows the cost of service results for the combined classes.

**Exhibit 16: Comparison of Water Current Revenue Distribution to Cost of Service Distribution**

Class	Existing 2021 Revenue	COSA 2021 Revenue	\$ Difference	%
Residential	\$ 830,443	\$ 1,102,347	\$ 271,905	32.74%
Multi-Family	243,515	150,288	(93,226)	-38.28%
Commercial	557,041	705,354	148,313	26.63%
City of Woodland	1,379	1,072	(307)	-22.28%
Motel	26,692	29,553	2,861	10.72%
RV	109,591	51,728	(57,862)	-52.80%
Church/School	112,126	131,965	19,839	17.69%
<b>Total</b>	<b>\$ 1,880,787</b>	<b>\$ 2,172,309</b>	<b>\$ 291,522</b>	<b>15.50%</b>

Class	Existing 2021 Revenue	COSA 2021 Revenue	\$ Difference	%
Single Family	\$ 830,443	\$ 1,102,347	\$ 271,905	32.74%
Non-Single Family	353,106	202,017	(151,089)	-42.79%
Commercial	697,239	867,944	170,706	24.48%
<b>Total</b>	<b>\$ 1,880,787</b>	<b>\$ 2,172,309</b>	<b>\$ 291,522</b>	<b>15.50%</b>

It should be noted, given the need for assumptions to complete a cost of service analysis, the margin of error for class-specific results is typically considered to be plus-or-minus 5.0 percent, relative to the system average. Because costs fluctuate each year, the needed increase by class can also fluctuate and interclass rate changes are not suggested unless the class’s revenue difference is outside of the 5.0 percent threshold. Adjustments in the 6.0-10.0 percent range should be considered on the “watch-list” and would benefit from another analysis in the future to determine if the resulting subsidization was an anomaly or indicative of an ongoing trend.

The COSA results indicate that revenues for the single family, non-single family and commercial classes are outside their cost of service. The results show that because of the nature of the current non-single family charges (they are charged on a unit basis rather than account or meter basis) they are currently being overcharged. In the proposed rate design, a rate phase in over 5 years will work to move these classes towards cost of service.

# Section V. RATE DESIGN

## V.A. RATE DESIGN OVERVIEW

The principal objective of the rate design stage is to implement water rate structures that collect the appropriate level of revenue. Establishing rates is a blend of “Art” and “Science” and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates and include revenue stability and efficiency of use. The main objectives in this rate design was to standardize the City’s fixed charges consistent with AWWA meter ratios and implement an inclining four-block volume rate structure for the single family residential class to incentivize water conservation, and to move all rates to a monthly rate structure.

## V.B. EXISTING WATER RATES

The existing water structure is composed of a fixed bimonthly charge and a variable consumption charge billed per cubic feet (CF) of water use. For single-family, non-single family and commercial customers, the same fixed rate is charged to each customer, and then increases by meter size. The variable charge is a single uniform rate with the same variable charge for all customers inside the city.

**Exhibit 17** provides a summary of the existing bimonthly water utility rates.

**Exhibit 17: Existing Bimonthly Water Rates**

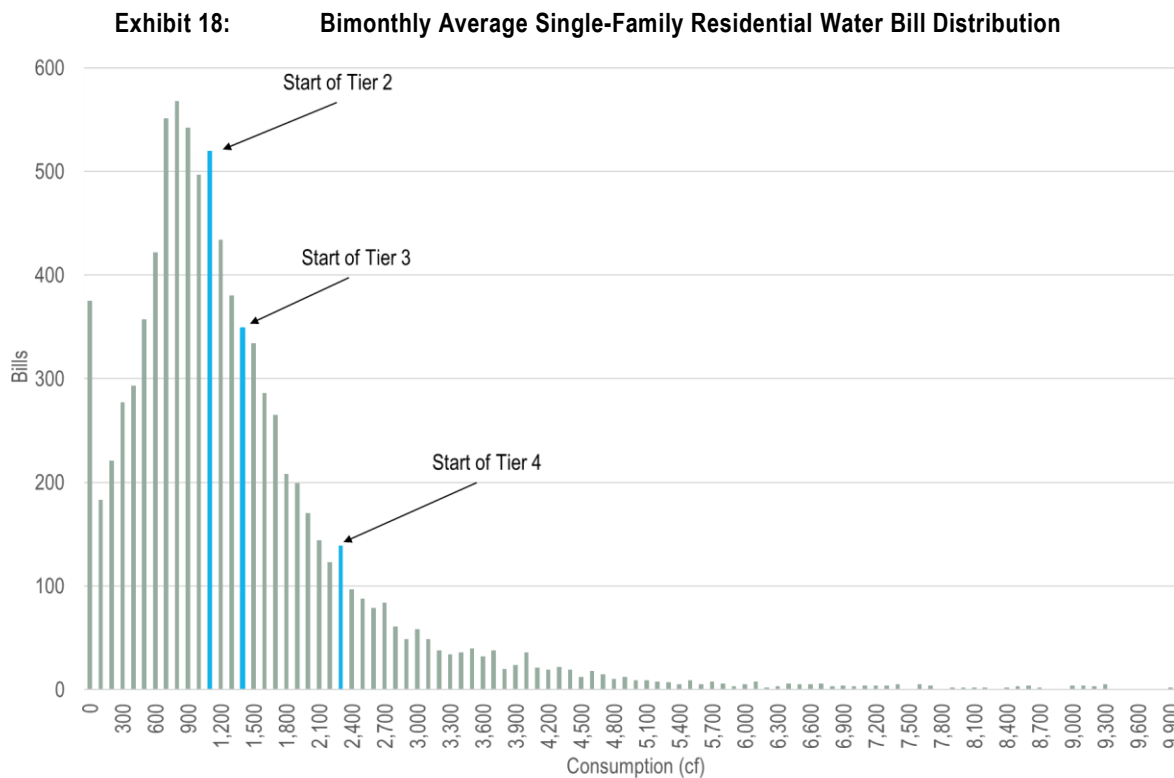
Class	Existing
<b>Single Family, Non-Single Family and Commercial</b>	
<b>Bi-Monthly Fixed Charge</b>	
Inside	
5/8 or 3/4	\$ 49.14
1.0"	117.97
1.5"	137.65
2.0"	191.72
3.0"	589.88
4.0"	737.36
6.0"	1,081.46
Multi-Family	49.14
<b>Variable Charge</b>	
Inside	
All Usage (\$/cf)	\$ 0.0296

Currently there is no low income discount for water customers. For customers outside of City limits, rates are 150 percent of the fixed and variable rates.

## V.C. PROPOSED WATER RATES

In addition to assessing interclass equity, the City looked to evaluate intraclass equity through an evaluation of the existing water rate structure and tier options.

Using billing data for calendar year 2018, a bill frequency analysis was developed for the single-family residential class to begin evaluating customer usage patterns in each of the proposed tiers. For the single-family residential class, it was found that there was substantial use in the third and fourth tiers. **Exhibit 18** shows a distribution of the amount of consumption for each single-family customer bill in 2018.



The proposed structure is developed to include four water use tiers to the rate structure. The objective of this change is to establish the tier thresholds based upon seasonal average usage levels that is more reflective of how customers use water over the course of any given year. For single-family residential customers, the new tier thresholds were set to approximately the average class winter usage (tier 1), average annual usage (tier 2), summer peaking usage (tier 3), and tier four contains any excess usage. **Exhibit 19** provides a summary of the proposed tier changes. As the City develops a history of usage under the new rate structure, the new rate structure can be recalibrated either in rate differential or block size for appropriateness. The uniform consumption charge will remain for the non-single family and commercial classes.

**Exhibit 19: Existing and Proposed Water Consumption Charges**

Class	Existing	\$/cf Variable Charge				
		2021	2022	2023	2024	2025
<b>Single Family</b>						
Inside						
Block 1 (0 - 500cf)	\$ 0.0296	\$ 0.0306	\$ 0.0364	\$ 0.0431	\$ 0.0459	\$ 0.0488
Block 2 (501 - 700cf)	n/a	0.0382	0.0455	0.0539	0.0574	0.0610
Block 3 (701 - 1,150cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
Block 4 (1,150+cf)	n/a	0.0611	0.0728	0.0862	0.0918	0.0976
Inside - Discount						
Block 1 (0 - 500cf)	n/a	\$ 0.0229	\$ 0.0273	\$ 0.0323	\$ 0.0344	\$ 0.0366
Block 2 (501 - 700cf)	n/a	0.0286	0.0341	0.0404	0.0430	0.0457
Block 3 (701 - 1,150cf)	n/a	0.0344	0.0409	0.0485	0.0516	0.0549
Block 4 (1,150+cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
<b>Non-Single Family</b>						
Inside	\$ 0.0296	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798
<b>Commercial</b>						
Inside	\$ 0.0296	\$ 0.0300	\$ 0.0357	\$ 0.0423	\$ 0.0450	\$ 0.0479

Note: Outside city customers are charged 1.5X the inside city rate, and discount customers receive a 25% discount.

In addition to examining the consumption structure for each class, changes to the fixed portion of the rate were considered. The proposed change scales the fixed charge based on the AWWA's standard meter capacity equivalents. This approach is a common and accepted industry practice and provides for rate equity between meter sizes. **Exhibit 20** provides a schedule of existing and proposed fixed rates for each year 2021 through 2025 for all customer classes. These proposed rates are shown as monthly charges, as the City is in the process of changing their billing period from bi-monthly to monthly. Customer classes that were previously charged on a unit basis like multi-family and RV are now charged on a meter size rate.

**Exhibit 20: Existing and Proposed Monthly Water Fixed Charges**

Meter Size	Existing	\$/Monthly Fixed Charge				
		2021	2022	2023	2024	2025
Inside						
5/8 or 3/4	\$ 24.57	\$ 25.00	\$ 29.77	\$ 35.28	\$ 37.54	\$ 39.92
1.0"	58.99	62.50	74.43	88.20	93.85	99.80
1.5"	68.83	125.00	148.86	176.41	187.70	199.61
2.0"	95.86	200.00	238.17	282.25	300.32	319.37
3.0"	294.94	400.00	476.34	564.50	600.63	638.74
4.0"	368.68	625.00	744.28	882.03	938.49	998.03
6.0"	540.73	1,250.00	1,488.56	1,764.05	1,876.98	1,996.05
Multi-Family	24.57	n/a	n/a	n/a	n/a	n/a

Note: Outside city customers are charged 1.5X the inside city rate, and discount customers receive a 25% discount.

# Section VI. ASSESSMENT CHARGE

## VI.A. ASSESSMENT CHARGE OVERVIEW

In addition to reviewing the necessary rate increases and existing rate structures, the water utility’s Assessment Charges were reviewed. Assessment Charges are a one-time charge imposed as a condition of service on new customers connecting to the system. The Assessment Charge is typically based on a blend of historical and planned future capital investments in system infrastructure – its underlying premise is that growth (future customers) will pay for growth-related costs that the utility has incurred (or will incur) to provide system capacity to serve new customers.

The purpose of the Assessment Charge is two-fold: 1) to provide a source for capital financing and 2) to equitably recover a proportionate share of utility plant-in-service costs from new customers. In the absence of Assessment Charges, growth-related costs would be borne in large part by existing customers. The cost of the system to be recovered by Assessment Charges can be defined in two parts:

- Existing cost basis, based on historical investments in existing infrastructure, and
- Future cost basis, which recovers costs related to planned capital projects.

Revenues generated from the Assessment Charges can be used to fund capital projects or debt service incurred to finance capital projects but should not be used to pay for operating and maintenance costs.

Section 35.92.025 of the Revised Code of Washington (RCW) authorizes cities to impose Assessment Charges; however, it does not outline a specific methodology for calculating them. The City has considerable latitude in choosing from a variety of legally defensible approaches used in the industry, but it is important that the City’s Assessment Charges are based on an equitable allocation of system capacity costs to new connections. Since the calculated charges represent the maximum allowable charge, the City may choose to implement a charge at any level up to the calculated charge. The calculation methodology uses an “average” approach to compute the Assessment Charges, which is summarized in **Exhibit 21**.

**Exhibit 21: Assessment Charge Methodology**

$$\frac{\text{Existing Cost Basis}}{\text{Allocable Customer Base}} + \frac{\text{Future Cost Basis}}{\text{Allocable Customer Base}} = \text{AC}$$

## VI.B. EXISTING COST BASIS

The existing cost basis is intended to recognize the current ratepayers’ net investment in the original cost of the system assets. The existing cost basis includes the following components:

- **Plant in Service:** As the City practices cash-basis accounting, some asset information, such as acquisition date or original cost, has not always been closely tracked. In discussions with the City’s engineering consultant and information from insurance records, plant asset description names and installation year were determined. Estimated replacement costs were deflated using the ENR CCI to arrive at the total original cost of \$16.1 million for the system’s assets.

- **Less: Contributed Capital** – The total original cost is reduced to recognize known third party contributions. The outside contributions provide a source of capital at no new cost to the City’s ratepayers. Since the Assessment Charge is cost based, the net investment by the City excludes those contributions. Developer contributions have not always been closely tracked, and in discussions with the City’s engineering consultant, it was estimated that there is \$10.9 million in contributed capital.
- **Less: Outstanding Debt Principal** - Another adjustment to the existing system cost basis is to deduct the net liability of outstanding utility debt, recognizing that new customers will bear a proportionate share of this debt related to existing assets through their utility rates. Therefore, the cost of those assets charged to new development is offset to some degree by the remaining debt liability. Since the utility typically has cash resources that are not included in the system asset basis, the net debt load is defined as total debt minus outstanding cash and investments. The result is no reductions for outstanding debt principal.
- **Less: Provisions for Retirement** – As an asset ages and reaches retirement and its replacement is added to the City’s asset schedule, the retired asset is removed from the cost basis to avoid double counting. This is estimated based on the ratio of the Engineering News Record’s construction cost index based on when the original asset was placed into service compared to today, and the cost of any capital projects that are scheduled to replace existing assets. The total value of retired assets that are removed from the existing cost basis total \$1.6 million.
- **Plus: Construction Work in Progress** – The costs of construction work in progress is added to the existing cost basis to recognize investments that the City has made in capital projects that are currently underway, despite the fact that these projects have not yet been booked as assets. The utility did not identify any capital projects currently in progress.
- **Plus: Interest on Non-Contributed Plant in Service** – RCW 35.92.025 provides that such charges include interest on an asset at the rate applicable during the time of construction. Using the historical Bond Buyer Index for 20-year term bonds, interest can accumulate for a maximum of ten years from the date of construction for any particular asset and cannot exceed the original cost of the asset or 10 percent for 10 years. Conceptually, this interest provision attempts to account for opportunity costs that the City’s customers incurred by supporting investments in infrastructure rather than having it available for investment or other uses. Calculated interest for the water utility results in an addition of \$3.2 million.

After factoring in the above adjustments, the existing cost basis will be spread across the total customer base (existing and incremental future growth), as all existing infrastructure will continue to benefit all customers. The existing cost basis is shown below in **Exhibit 22**.

**Exhibit 22: Existing Cost Basis**

<b>EXISTING COST BASIS</b>	<b>Total</b>
Plant in Service	\$ 16,055,810
less: CIAC	(10,895,419)
less: Net Debt Principal Outstanding	-
less: Provision for Retirements	(1,635,134)
plus: Interest	3,175,902
<b>EXISTING COST BASIS</b>	<b>\$ 6,701,159</b>



## VI.C. FUTURE COST BASIS

The future cost basis portion of the Assessment Charge is intended to recover a share of the costs associated with planned future capital projects. As provided by RCW 35.92.025, future facilities planned for construction can be included in the Assessment Charge. Consistent with the legal requirement that the costs be borne by the City, funding by developers or special property assessments are not included in the calculation. There are two main types of capital projects, described below.

- **Plus: Upgrade Projects** - Upgrade projects generally involve upgrading the level of service for all customers to comply with regulatory requirements imposed by state and federal agencies.
- **Plus: Expansion Projects** - This type of project will increase system capacity to serve growth and would generally not be needed in the absence of growth.
- **Less: Repair and Replacement Projects** –These are projects related to the repair or replacement of existing infrastructure and are most often needed because existing facilities have deteriorated due to use by existing customers. The integrated approach removes these projects from the future cost basis on the grounds that: (a) these projects are attributable to existing customers; and (b) new customers will pay for their share of these projects through rates when they connect.

The City’s capital plan identifies \$15.5 million in capital project costs under these categories. City staff allocated \$1.4 million of the total cost to Meters and Service projects, which are deducted from the future cost basis as described above. No developer contributions or grants were identified.

**Exhibit 23** provides a summary of the future cost basis.

**Exhibit 23: Future Cost Basis**

<b>FUTURE COST BASIS</b>	<b>Total</b>
Capital Improvement Program	\$ 15,496,101
less: Meters & Services	(1,441,055)
<b>FUTURE COST BASIS</b>	<b>\$ 14,055,046</b>

## VI.D. SYSTEM CAPACITY

The system capacity base is separated into two groups: existing subscribed capacity and available system capacity. Given that new connections can impose different demands on the water system, the Assessment Charge calculation uses the concept of Meter Capacity Equivalents (MCEs) to “standardize” connections. An MCE compares the total flow capacity of different meter sizes in comparison to the capacity of the smallest meter size used by the water system.

- **Existing Subscribed Capacity** - Existing system capacity from FCS GROUP’s customer forecast and AWWA standard ratios was used to determine the number of MCEs the existing system currently supports. It was determined the existing system capacity in 2020 is 2,785 MCEs.
- **Available System Capacity**- The future system capacity was developed based on the total system capacity minus the existing system capacity.
- **Total Capacity**- The total system capacity was determined by multiplying the existing subscribed capacity with the ratio of the equivalent residential units (ERUs) projected for 2020 (4,825) and the maximum ERUs supported by the limiting factor for the water system (in this case, Storage). The projected ERUs came from the 2012 Water System Plan. The ratio of projected 2020 ERUs

to ERUs at the system’s limiting capacity is calculated to be 1.76, and this multiplied by the existing subscribed capacity (2,785) gives the total customer base, 4,888 MCEs.

## VI.E. CALCULATION OF THE ASSESSMENT CHARGE

As described previously, the existing cost basis and the future cost basis are divided by the total existing and future MCEs. The results are added together to determine the maximum allowable AC.

**Exhibit 24** provides a summary of the Assessment Charge calculation per MCE for the City’s water system.

**Exhibit 24: Assessment Charge Calculation per MCE**

<b>ASSESSMENT CHARGE CALCULATION</b>	<b>Total</b>
Existing Cost Basis	\$ 6,701,159
Allocable Capacity	4,888
<b>Total Existing Cost Basis</b>	<b>\$ 1,371</b>
Future Cost Basis	\$ 14,055,046
Allocable Capacity	4,888
<b>Total Future Cost Basis</b>	<b>\$ 2,875</b>
<b>TOTAL ASSESSMENT CHARGE</b>	<b>\$ 4,246</b>

The resulting maximum allowable Assessment Charge is \$4,246 per MCE (5/8” or 3/4” inch base), \$1,005 higher than the City’s existing charge of \$3,241. This fee may be adjusted annually by inflation, preferably inflation as measured by the ENR index for construction costs. The City is currently working to refine its fixed asset schedule, and CIP and once more detail becomes available, the calculated water Assessment Charge should be updated. Revenues generated from the charge will vary depending on whether or not the full charge is implemented. Delaying or otherwise limiting assessment charges will generally reduce the amount of revenue available, which could result in delays in completing the capital improvement program and/or additional existing customer rate increases. If a customer needs to upsize their meter size due to fire flow requirements, it is our recommendation that they are not charged a water assessment charge based on this bigger meter size, rather charged based on the meter size they would have needed without fire flow requirements. Proposed charges use AWWA meter capacity standard ratios. Proposed charges represent the maximum defensible charge. The City can elect to charge equal to or less than, but not more.

**Exhibit 25: Water Assessment Charge Rate Schedule by Meter Size**

<b>Meter Size</b>	<b>Current</b>	<b>Proposed</b>
5/8" or 3/4"	\$3,241	\$4,246
1"	\$4,283	\$10,615
1-1/2"	\$7,177	\$21,230
2"	\$11,113	\$33,968
3"	\$22,574	\$67,936
4"	\$38,433	\$106,150

## Section VII. SUMMARY

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The analysis described above concludes the rate study for the water utility. A water service rate revenue increase of 15.5 percent per year for 2021-2023 and 5.5 percent per year for 2024-2030 are recommended to address near-term capital improvement project needs, an increase in overall operating costs and to satisfy all financial obligations of the water utility. In addition, the City would need \$17.9 million in debt proceeds to fund the 2020-2030 CIP needs identified.

Based on the test year analyzed, cost of service shifts are recommended for the water utility and the suggested rate increases will be applied to each class over a five year phase-in period. In order to address intraclass inequities, rate design changes were made to add consumption tiers for the single-family residential class and instituting meter-based fixed charges utilizing AWWA standard meter equivalencies. Also, the non-single family class would be charged on a meter basis, rather than a unit basis. The revised maximum Assessment Charge was calculated to be \$4,246 per MCE.

We recommend that the City revisit the study findings during each budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenues and expenses. Any significant or unexpected changes will require adjustments to the rate strategy proposed.

The detailed technical exhibits developed as part of the water rate study can be found at the end of this report in the Technical Appendix.

## Section VIII.APPENDIX

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VIII.A. CITY OF WOODLAND FINANCIAL MANAGEMENT  
POLICIES ORDINANCE NO 1211

VIII.B. RESOLUTION 729 – WATER RATES

VIII.C. RESOLUTION 730 – WATER ASSESSMENT  
CHARGES

VIII.D. RESOLUTION 734 – SENIOR DISABLED DISCOUNT

VIII.E. RATES MEMORANDUM

**CITY OF WOODLAND, WASHINGTON**

**ORDINANCE NO. 1211**

**AN ORDINANCE ADOPTING A FINANCIAL POLICY FOR THE CITY OF WOODLAND**

**Recitals**

**WHEREAS**, the City Council is responsible for setting financial policy for the City of Woodland;

**WHEREAS**, the Finance Committee has reviewed current Woodland financial management policies and compared them to the policies of other Washington cities. After examination of the current Woodland policy and the policies of other cities, the Finance Committee recommended that that City of Woodland adopt the policies set forth in this Ordinance;

**WHEREAS**, the Council, upon the recommendation of the Finance Committee, wishes to rescind prior financial and budgetary policies adopted by the City, including but not limited to Resolution No. 543 and Resolution 445;

**WHEREAS**, the Council affirms that the purpose and objectives stated in the attached Financial Management Policies are in the best interest of the City of Woodland;

**AND, WHEREAS**, the Council finds that these policies are in the best interest of the City because the adoption of the policies improves the financial management of the City, provides sufficient guidance to staff and provides a framework for future Council action on decisions which have a financial consequence.

**Ordinance**

**NOW, THEREFORE**, the City Council of the City of Woodland hereby ordains as follows:

1. Repeal of Prior Policies. Prior City of Woodland financial policies and Resolutions 543 and 445 are hereby repealed and superseded in their entirety.

2. Adoption of Financial Management Policy. The Financial Management Policy for the City of Woodland, attached hereto and incorporated by reference herein as Attachment "A," is hereby adopted.

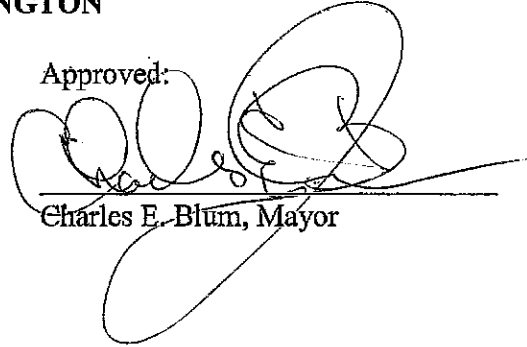
3. Severability. If any one or more sections, subsections, or sentences of this Ordinance are held to be unconstitutional or invalid, such decision shall not affect the validity of the remaining portion of this Ordinance and the same shall remain in full force and effect.

4. Effective Date. This Order shall take effect five days after its publication in the City's newspaper of record.

ADOPTED in an Open Public Meeting this 18<sup>th</sup> day of July, 2011.

**CITY OF WOODLAND,  
WASHINGTON**

Approved:



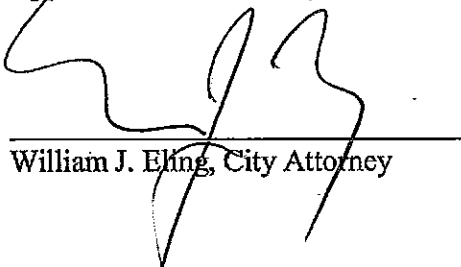
Charles E. Blum, Mayor

Attest:



Mari E. Ripp, Clerk-Treasurer

Approved as to form only:



William J. Eling, City Attorney

## **CITY OF WOODLAND FINANCIAL MANAGEMENT POLICIES**

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### **PURPOSE**

To provide the necessary tools to ensure the City is capable of meeting its immediate and long-term financial and service objectives. These policies serve as guidelines for both financial planning and internal financial management of the City.

The City of Woodland is accountable to its citizens for the use of public dollars. Resources must be wisely used to ensure adequate funding for the services, public facilities, and infrastructure necessary to meet the community's present and future needs.

### **OBJECTIVES**

1. To guide City Council in management policy decisions that have significant fiscal impact.
  2. To set forth operating principles that minimize the cost of government and financial risk.
  3. To implement balanced and fair revenue policies that provide adequate funding for desired programs.
  4. To maintain appropriate financial capacity for present and future needs.
  5. To promote sound financial management by providing accurate and timely information on the City's financial condition.
  6. To protect the City's credit rating and provide for adequate resources to meet the provisions of the City's obligations on all municipal debt.
  7. To ensure the legal use of financial resources through an effective system of internal controls.
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**CITY OF WOODLAND  
FINANCIAL MANAGEMENT POLICIES**

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**OUTLINE**

- I. General Information
  - Funds
- II. Budget Management
  - Adjustments
  - Monitoring
- III. Revenue Policies
- IV. Expenditure Policies
- V. Fixed Assets
- VI. Fund Balance
- VII. Purchasing
- VIII. Capital Improvements
- IX. Local Improvement Districts
- X. Latecomer Agreements
- XI. Short Term Debt
- XII. Long Term Debt
- XIII. Investments
- XIV. Accounting, Auditing and Financial Reporting

**CITY OF WOODLAND  
FINANCIAL MANAGEMENT POLICIES**

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**I. GENERAL INFORMATION**

The City of Woodland uses the Washington State Auditor's Office prescribed budgetary, accounting and reporting system (BARS) for local governments.

**Funds**

Funds are used to account and record designated information. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

**Fund Types:**

**General Government:**

General Government funds are accounted for on a modified accrual basis of accounting. Following are the General Government funds used by the City.

*General Fund:* The General fund is used to account for revenues that are not designated for specific activities or programs.

*Special Revenue:* The City will establish and maintain Special Revenue Funds used to account for the proceeds of specific revenue sources to finance specific activities which are required by statute, ordinance, resolution, or executive order.

*Debt Service:* The Debt Service fund accounts for the payment of principal and interest on general long-term debt associated with the general government. It does not include the payment of principal and interest on debt created by an enterprise fund.

*Capital Projects:* This fund is used to account for financial resources and expenditures incurred for the purchase of land, purchasing or constructing buildings and structures used for general purposes, acquisition or construction of street improvements, park development, and cemetery improvements. It also includes the development and updating of capital improvement plans associated with these projects. This fund does not include capital projects associated with an enterprise fund.

**Proprietary/Enterprise Funds**

Enterprise funds account for operations that are financed and operated in a manner similar to private businesses, where the cost for providing services to the general public are recovered primarily through user fees. Enterprise funds are used for Water, Sewer and Storm Water facilities. Debt service is accounted for in the appropriate operating fund and capital projects are accounted for in the Utility Capital Projects Fund. Enterprise funds are maintained on a full accrual basis of accounting.

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FINANCIAL MANAGEMENT POLICIES**

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**II. BUDGET MANAGEMENT**

**General**

Department directors have primary responsibility for formulating budget proposals in accordance with City Council and Mayor priority direction, and for implementing the budget once they are adopted.

The Clerk-Treasurer Department is responsible for conducting the overall preparation and administration of the City's budget. This includes providing information on revenues and expenditures, updating costs and revenues, organizing data in an understandable fashion, and creating and providing tools for budget development.

The Clerk-Treasurer Department assists department management in identifying budget problems, formulating solutions and alternatives, and implementing any necessary corrective actions.

The budget is prepared and implemented on an annual basis in accordance with RCW 35A.33.

Budgets are developed and used for the General, Special Revenue and Enterprise funds of the City. Budgets are also used in the Debt Service fund to account for principal and interest payments and in the Capital Project fund to account for capital expenditures and associated capital funding sources.

**Adjustments and Amendment Process**

Budget adjustments are needed when:

- Total expenditures in a fund will exceed the total budget for that fund, or
- Revenue sources increase or decrease for a fund, and if revenues are projected to be less than budget, the corresponding expenditures for the fund must also be adjusted accordingly, or
- Departments request authorization to allocate funds for an item or activity that was not included in the original budget.

Adjustments or amendments to the budget proceed as follows:

- The Clerk-Treasurer Department receives a request for a budget adjustment from a department or through Council action. Budget changes can also occur based on new information or documentation that the Clerk-Treasurer Department receives.
- The Clerk-Treasurer Department can process changes, with the approval of the Mayor or Clerk-Treasurer, if the requested adjustment does not change the total budget for the fund.
- Council approval is required if the requested adjustment changes the total budget for a fund. The Clerk-Treasurer Department will verify whether

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FINANCIAL MANAGEMENT POLICIES**

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there are sufficient resources for the adjustment, and prepare a budget adjustment and ordinance for Council approval.

**Monitoring**

Budgets are developed and monitored at the line item level, but are managed at the fund level. A manager can overspend on one line item as long as it is balanced out by an under expenditure on another line item. The total expenditures for a fund cannot exceed the total budget for the fund.

Department heads are responsible and accountable for their department budget.

Monthly reports that compare budget to actual will be created by the Clerk-Treasurer Department and provided to the appropriate manager for review and response if large discrepancies are identified.

**III. REVENUES**

The City will strive to maintain a diversified and stable revenue system to shelter it from short-term fluctuations in any one revenue source.

The City will work to develop and maintain sustainable revenue sources to ensure its viability over the long term.

Revenue estimates adopted by City Council should be made with consideration to the sensitivity of both local and regional economic activities.

The City will establish all user charges at a level associated with the cost of providing the service.

The City will set fees and user charges for each enterprise fund, such as Water, Sewer and Garbage, at a level that fully supports the total direct and indirect cost of the activity.

Grant sources of revenue will be acquired and used whenever possible.

**IV. EXPENDITURES**

The City will only propose operating expenditures that can be supported by ongoing operating revenues.

The City will maintain a level of expenditures consistent with the level of services that will meet the goals and mission of the City.

Expenditures funded by one-time only sources, such as grants, must be identified and noted as such. Expenditures funded by these sources will be eliminated once the funding source no longer exists.

## CITY OF WOODLAND FINANCIAL MANAGEMENT POLICIES

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The City will maintain expenditure categories according to State statute and administrative regulation.

Expenditures associated with a grant source of revenue will be identified and recorded against the corresponding grant.

### V. **FIXED ASSETS** *(see Resolution No. 543 or any successor resolution)*

It is the policy of the City to maintain accountability over all tangible fixed assets having a life expectancy exceeding one year and costing \$5,000 or more. This policy also includes those assets of a lesser value that may be attractive to theft. The Clerk/Treasurer shall maintain the asset records. The asset records shall be verified by a physical inventory at least once a year.

This policy applies to all land improvements, all buildings and building renovations, equipment purchased and additions to existing equipment that increases its useful value and all donated items.

The City of Woodland reports on a cash basis which is a departure from Generally Accepted Accounting Principles (GAAP) The City is not required to account for depreciation.

A fixed asset system will be maintained to identify all City assets and their condition per city policy.

Fixed assets are maintained for both the General Government and Enterprise funds.

### VI. **FUND BALANCE**

Fund balances are created and maintained to provide capacity to:

- 1) Offset significant downturns in the economy.
- 2) Provide sufficient cash flow to meet daily financial needs at all times.
- 3) Meet all statutorily required reserve funds to guarantee debt service.
- 4) Maintain ability to meet scheduled equipment repair and replacement that sustains city services at an acceptable level and prevents physical deterioration of city assets, as budget allows.
- 5) Provide the capacity to pay large unanticipated expenses, such as the payment of vacation and sick leave balances for employees that retire or leave employment with the City.

Fund Balance is defined as the amount of total resources that exceed total expenditures that results from the activity associated with the operations and functions of a fund. A positive fund balance should be maintained to properly manage a fund.

Reserves are a portion of the fund balance that is restricted or categorized to use for a designated purpose. The following definitions (though the City may not use

**CITY OF WOODLAND  
FINANCIAL MANAGEMENT POLICIES**

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all of these categories at one time) are published by the Government Accounting Standards Board – Pronouncement No. 54:

- **Non-spendable:**
  - Amounts that cannot be spent due to form; for example, inventories, prepaid amounts, long-term and notes receivables, and other restricted items. Also includes amounts that must be maintained intact legally or contractually.
- **Restricted:**
  - Amounts constrained for a specific purpose by external parties, or constitutional provision, such as a requirement for revenue bonds to set aside funds in a debt service reserve account.
- **Committed:**
  - Amounts constrained or restricted for a specific purpose by a government using its highest level of decision-making authority. Action by the legislative authority is required to remove or change this amount.
- **Assigned:**
  - Used for funds to classify any remaining positive amounts not identified as non-spendable, restricted or committed. These amounts should not result in a deficit in unassigned fund balance.
- **Unassigned (remaining fund balance that is not reserved):**
  - This is the excess or residual amount of resources that exceed the amount expended, less amounts identified as non-spendable, restricted, committed or assigned. If the residual amount is negative, the assigned amount should be reduced accordingly.

The City has determined the need to create the following reserves and fund balances with the priority identified:

***Priority #1:***

***General Unassigned Fund Balance: (001-General fund)***

***Purpose:*** This is the fund balance that remains after allocating to a reserve account and is used by any fund that budgets operating expense activities in the fund. The purpose of this account is to create the financial ability to cover operating expenses during short term revenue shortfalls or temporary downturns in the economy. Revenue receipts are cyclical in nature, such as the first major receipt of property taxes comes in April, some utility taxes are paid quarterly, and water usage and consequent receipt of these revenues is higher during the summer, however, expenses are normally more evenly disbursed throughout the year.

***Amount:*** The goal is to maintain an amount equal to [3 months] of the annual operating expenses incurred for a fund.

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The allocation will come from the amount of annual operating revenue that exceeds the annual operating expenses for a fund.

*Category:* Identified as "Unassigned" fund balance.

*Priority #2:*

*General Assigned Reserve: (Fund 001- General )*

*Purpose:* This reserve sub-account will be used by any fund that budgets operating expense activities in the fund. The purpose of this account is to create the financial ability to pay for large "one-time" expenses, such as the payout of vacation and sick time for employees that leave city service, cover major unexpected police investigations, or to pay for large building repairs. This reserve can also be used to cover operating expenses during temporary, yet more long-term, economic downturns.

*Amount:* The amount allocated will be based upon the annual financial forecast model and/or during the annual budget process. Efforts will be made to build this fund up to the established amount through the annual budget development process. The amount will come from a portion of the annual operating revenue generated in the fund that pays for these types of expenses.

*Category:* Identified as "Assigned" reserve portion of fund balance.

*Priority #3:*

*Equipment Repair and Replacement Reserve: (Fund 304-Equipment Acquisition Reserve)*

*Purpose:* This reserve account will be used by any General fund department that budgets equipment repair and replacement as an expense item in its fund, or uses a capital projects fund to budget these expenses or uses a designated equipment, repair and replacement fund. The purpose of this account is to create the financial ability to pay for these types of expenses that include computer systems, vehicles, roads, parks, building maintenance, and general facilities, as they occur and deemed necessary to properly manage city equipment.

*Amount:* The amount allocated will be 1% of annual sales tax or as determined by the need identified in an updated financial forecast model and/or during the annual budget process.

*Category:* Identified as a "Committed" reserve portion of fund balance.

*Priority #4:*

*Capital Project Reserve: General: (Fund 301)*

*Purpose:* This reserve account will be used by General fund departments that budget capital and/or large maintenance projects as an expense item in the fund or uses a capital projects fund to budget and pay for these expenses. The purpose of this account is to create the financial ability to pay for these types of projects, identified in the Capital Facilities Plan, as deemed appropriate to meet community needs and properly manage city infrastructure.

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FINANCIAL MANAGEMENT POLICIES**

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*Amount:* The amount allocated is 10% of Annual Sales tax and Real Estate Excise tax 1Q% & 2Q% pursuant to RCW 35.43.040, 82.46.010(2), 35.43.040 or will be determined by the need identified in an updated financial forecast model and/or by the department director.

*Category:* Identified as a "Committed" reserve portion of fund balance.

*Priority #5:*

*Capital Project Reserve: Utilities: (Fund 302)*

*Purpose:* This reserve account will be used by Proprietary/Enterprise Funds that budget capital and/or large maintenance projects as an expense item in the fund or uses a capital projects fund to budget and pay for these expenses. The purpose of this account is to create the financial ability to pay for these types of projects, identified in the Capital Facilities Plan, as deemed appropriate to meet community needs and properly manage city infrastructure.

*Amount:* The amount allocated is through Water and Sewer Assessments and transfers in from the Water and/or Sewer fund or will be determined by the need identified in an updated financial forecast model and/or by the department director.

*Category:* Identified as a "Committed" reserve portion of fund balance.

The City will make every effort to create and maintain the fund balances and reserves identified above and based on the priorities established. The City is aware that needs may change over time and fund balance reserve amounts may be redistributed within a fund to meet the needs that occur at a given time. If it is determined that funds need to be redistributed within a fund, the fund balance with the lowest priority will be redistributed first to allow the ability to meet the need of a higher priority fund balance. In all cases, council approval or budget enactment is required before changing or redistributing the amounts allocated to a reserve account.

**VII. PURCHASING** – *(See Ordinance No. 1178 adopted 7/5/2010 or any ordinance which supersedes this ordinance.)*

The City shall commit to the following guidelines:

- o Comply with all federal, state, and local laws, adopted codes, ordinances, and stated policies in its procurement process.
- o Buy competitively and wisely to obtain maximum value for the community's dollars spent.
- o Afford all bidders an equal opportunity to quote and compete on equal terms.
- o Initiate and promote good, continuous vendor relations, as well as, reliable alternate sources of supply.



**CITY OF WOODLAND  
FINANCIAL MANAGEMENT POLICIES**

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- o Buy from suppliers who maintain adequate financial strength, high ethical standards, a record of adhering to specifications and who will maintain integrity in payment terms, delivery and service.

**VIII. CAPITAL IMPROVEMENTS**

The City will make capital improvements in accordance with an adopted capital improvement plan.

The capital investment program and the base operating budget will be reviewed at the same time. This will insure that the City's capital and operating needs are balanced with each other.

The City will develop a multi-year plan for capital improvements including operations and maintenance costs and update it every two years or sooner if needed. Future capital expenditures necessitated by changes in population, changes in real estate development, or changes in the economic base will be calculated and included in the capital budget projections.

The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval. The City will use intergovernmental grants, loans and other outside resources whenever possible.

**IX. LOCAL IMPROVEMENT DISTRICTS (LID):**

LID's are formed to provide an alternative means of financing for property owners, within a defined geographical area, to make improvements benefiting their property.

Improvements financed by the Local Improvement District (LID) may include street and sidewalk construction, and construction of water distribution and sewer and stormwater collection facilities. Assessments are determined by the size and location of each property in relation to the improvement and the benefit to the property.

An LID may be initiated by City Council resolution or by petition of the majority of property owners along the frontage of the improvement, within the boundaries of the district. Refer to RCW 35.43 for authority.

The formation of a Local Improvement District is limited to specific instances and can apply as follows:

- When a group of property owners wish to accelerate development of a certain improvement; or
- When a group of property owners desire a higher standard of improvement than the City's project contemplates; or

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- When a group of property owners request City assistance in LID formation to fund internal neighborhood transportation facilities improvements.

LID projects may or may not have City funding involved. If City funding is proposed by the project sponsors (property owners), they shall request it from the City Council (through the City Clerk-Treasurer) in writing before the LID promotion activity begins.

**X. LATECOMER AGREEMENTS**

As a source of financing capital improvements, the City shall work with private developers to construct projects identified in the capital facilities plan.

The City shall collect a connection or impact fee from future developers that utilize the capital improvement and reimburse the developer that built the initial capital improvement.

Construction projects considered under this agreement:

- The project must be a project identified in the adopted capital facilities plan
- The project extension must serve anticipated future development lots.
- Project requires prior approval by the Public Works Director.

Approval of the latecomer provisions for any extension shall be made by the Public Works Director in advance of construction.

Payment of any latecomer fee shall occur within 15 years of final acceptance of construction.

Documentation of the actual project costs and the agreement with current participants must be made prior to any reimbursements.

The reimbursements shall not exceed that amount which brings participant costs equal to zero.

**XI. SHORT TERM DEBT**

Short-term debt covers a period of two years or less.

The City may use short-term debt to cover temporary cash flow shortages that may be caused by a delay in receipting revenues or issuing long-term debt.

The City may issue Interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of those funds will not impact the fund's current operations. All short-term borrowing will be subject to Council approval by ordinance or resolution, and will bear interest based upon the current bank rates.

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**XII. LONG TERM DEBT**

Debt financing will not be undertaken without identification of a cash stream sufficient to repay the debt.

The City will confine long-term borrowing to capital improvements that cannot be financed from current revenue sources.

Acceptable uses of bond and loan proceeds can be viewed as items which can be capitalized and depreciated.

The City will not use long-term debt for current operations.

The City will maintain communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.

Bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed.

Loans may be obtained to fund capital projects identified in the Capital Improvement Plan.

**XIII. INVESTMENTS**

The policy on investment applies to the investment of all City funds excluding pension funds or trust accounts. The primary objective of investment activities shall be: 1) Safety of principal that seeks to minimize potential losses; 2) Liquidity of cash to sufficiently meet all operating requirements; and 3) Return on Investment that allows for the highest market rate of return throughout budgetary and economic cycles.

The City of Woodland authorized investment officers will perform their duties in a manner consistent with the standard of a "prudent person," as defined in RCW 43.250.040. A prudent person is defined as "exercising the judgment and care under the circumstances then prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income as well as the probable safety of the capital." Investment officers include the Clerk-Treasurer and the Deputy Clerk-Treasurer.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

The City may invest in any of the securities identified as eligible investments as defined by RCW's: 35.59.020, 39.59.030, 35.39.030 and 43.84.080. These include: Certificates of Deposit, United States Securities, Bankers' Acceptances,

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Repurchase Agreements and Certificates, and Notes and Bonds of the State of Washington. The City may also create investment accounts with the Clark County Treasurer's Office per RCW 36.29.020, and the Local Government Investment Pool per RCW 43.250.040. Speculative investments are not allowed.

Investment transactions shall be conducted with approved broker/dealers selected by credit worthiness and other selection criteria. Broker/dealers must be registered to provide investment services in the State of Washington.

The policy shall be to assure no single institution or security is invested into, to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency.

**XIV. ACCOUNTING, AUDITING AND FINANCIAL REPORTING**

The City will establish and maintain a high standard of accounting practices.

The accounting system will maintain records on a basis consistent with accepted standards for local government accounting and the State of Washington Budgeting, Accounting, and Reporting Systems.

Regular monthly and annual financial reports will present a summary of financial activity by major types of funds. Monthly reports will also include a summary of the investment activities by type of investment.

Where feasible, the reporting system will also provide monthly information on the total cost of specific services by type of expenditure and, if necessary, by fund.

The State Auditor's Office will audit City records annually or biannually, depending upon audit requirements; and will issue a financial opinion.

**RESOLUTION NO. 729**

**A RESOLUTION** of the City Council of the City of Woodland establishing certain rates, charges and fees relating to the city's water service.

**WHEREAS**, Ordinance No. 1113 and Ordinance No. 797 provides that rates, charges and fees relating to the city's water service will be established by resolution of the city council; and

**WHEREAS**, the City Council received a briefing on the results of a utility rate study on June 15, 2020, July 6, 2020, August 3, 2020, August 17, 2020, and on September 8, 2020;

**WHEREAS**, the City Council discussed and directed City staff to convert from bi-monthly billing to monthly billing;

**WHEREAS**, following a duly advertised public hearing held on November 16, 2020 the city council directed staff to prepare documents modifying water rates from those established in Resolution No. 590 as set forth herein.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WOODLAND** that the following rates, charges and fees applicable to the city's water service be and hereby are fixed and imposed.

(1) Monthly Fixed Water Service Rates:

A. Fixed monthly meter charges for city water service.

Size of Meter	Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
5/8" or 3/4"	\$ 25.00	\$ 29.77	\$ 35.28	\$ 37.54	\$ 39.92
1"	\$ 62.50	\$ 74.43	\$ 88.20	\$ 93.85	\$ 99.80
1 1/2"	\$ 125.00	\$ 148.86	\$ 176.41	\$ 187.70	\$ 199.61
2"	\$ 200.00	\$ 238.17	\$ 282.25	\$ 300.32	\$ 319.37
3"	\$ 400.00	\$ 476.34	\$ 564.50	\$ 600.63	\$ 638.74
4"	\$ 625.00	\$ 744.28	\$ 882.03	\$ 938.49	\$ 998.03
6"	\$ 1,250.00	\$ 1,488.56	\$ 1,764.05	\$ 1,876.98	\$ 1,996.05

(2) Single Family Residential Volumetric Water Service Rates:  
 A. Monthly usage charges for city water service.

Usage Tiers	Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
0-500cf	\$ 0.0306	\$ 0.0364	\$ 0.0431	\$ 0.0459	\$ 0.0488
501-700cf	\$ 0.0382	\$ 0.0455	\$ 0.0539	\$ 0.0574	\$ 0.0610
701-1,150cf	\$ 0.0458	\$ 0.0546	\$ 0.0647	\$ 0.0688	\$ 0.0732
Above 1,150+cf	\$ 0.0611	\$ 0.0728	\$ 0.0862	\$ 0.0918	\$ 0.0976

(3) Non-Single Family Residential Volumetric Water Service Rates:  
 A. Monthly Usage charges for city water service.

Usage Tiers	Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
All usage	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798

(4) Commercial Volumetric Water Service Rates:  
 A. Monthly Usage charges for city water service.

Usage Tiers	Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
All usage	\$ 0.0300	\$ 0.0357	\$ 0.0423	\$ 0.0450	\$ 0.0479

(5) Pursuant to WMC 13.02.210 - All customers outside the corporate city limits of the city furnished by water by the city shall pay one hundred fifty percent (150%) of the rates as set forth in WMC 13.04.170 (Ord 666 (9), 1988; Ord 377 (20), 1973).

(6) A low-income, senior citizens' or disabled persons' water, sewer and stormwater rate is available within the city to individuals who occupy residential dwellings, not federally subsidized, and meet the qualifying conditions as set forth in WMC 13.17.

(7). Water obtained from fire hydrants. Anyone desiring to obtain water from a city-owned fire hydrant shall first complete a Construction Meter Rental Agreement and pay all applicable fees and deposits. Use of a fire hydrant to obtain water shall be temporary only, and shall not exceed a 12-month duration unless otherwise approved by the Director of Public Works.

All water obtained from a hydrant shall be through a water meter provided by the city, except that the Director of Public Works may authorize the permittee to provide

their own meter. The hydrant meter user shall pay a deposit in advance of receiving a city-provided meter, and shall pay a daily meter rental charge. Such deposit is for the purpose of assuring that said meter will be returned to the city undamaged. Upon return of the meter, said deposit may be used to pay the cost of meter use, repair to the meter, and for the cost of water obtained by the user. If a meter is returned to the city in a damaged condition, the user shall be responsible to pay all meter replacement or repair costs that exceed the deposit amount, in addition to the costs of meter use and water used. Meter replacement or repair costs shall become payable to the City within thirty (30) calendar days after notification and subsequent delivery of an invoice.

Hydrant meter water usage fees shall be set by resolution as approved by the City Council.

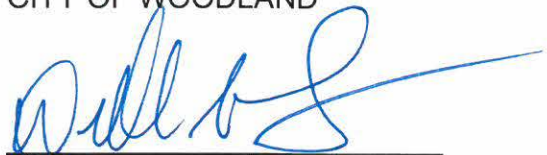
Hydrant meter users will be charged for a month at the base rate for a 2-inch meter plus 600 cubic feet of water in accordance with the rates contained within this resolution. All additional consumption above 600 cubic feet will be charged at the above rate for all usage as stated in this resolution.

The rental agreement shall be in the possession of the person obtaining water pursuant thereto, and shall be subject to examination on request by employees of the water department. The authorized user shall comply with the requirements set forth in 97 UFC (Uniform Fire Code), Section 1001.6.2. and WMC Chapter 13.04. The hydrant meter user shall be fully responsible for any damage or loss to the hydrant, and/or the hydrant meter. All charges shall be based on a time and materials. The user shall certify that the water truck or tank (if used) has an approved air gap or backflow preventor. When the meter is no longer needed the user shall contact the Public Works Department to have the meter read and removed. The city clerk-treasurer shall determine the final billing and either process a refund of any balance remaining from the deposit, or issue an invoice to the permittee in the event the final charge is in excess of the deposited amount.

(8) At such time as the new rates take effect, the rates set forth in Resolution No. 590 shall be null and void.

**PASSED** this 7<sup>th</sup> day of December, 2020.

CITY OF WOODLAND



William A Finn, Mayor

ATTEST:

  
\_\_\_\_\_  
Mari E. Ripp, Clerk/Treasurer

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Frank F. Randolph, City Attorney



**RESOLUTION NO. 730**

**A RESOLUTION** of the City Council of the City of Woodland establishing certain charges and fees relating to the city's water service.

**WHEREAS**, Ordinance No. 1113 and Ordinance No. 797 provides that rates, charges and fees relating to the city's water service will be established by resolution of the city council; and

**WHEREAS**, following a duly advertised public hearing held on November 16, 2020 the city council directed staff to prepare documents modifying water rates from those established in Resolution No. 622; and

**WHEREAS**, the City Council previously approved on January 7, 2013 a resolution modifying Water Service Assessments and Deposits.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WOODLAND** that the following charges and fees applicable to the city's water service be and hereby are fixed and imposed, effective January 1, 2021.

(1) Water Service Assessment Charges (WMC 13.04.040):

<u>Size of Service</u>	<u>Assessment</u>
5/8" or 3/4"	\$ 4,246
1"	10,615
1½"	21,230
2"	33,968
3"	67,936
4"	106,150

(2) All Assessment charges and meter deposits shall be increased five percent (5%) on January 1<sup>st</sup>, 2022 and annually on January 1<sup>st</sup> of each year thereafter.

**PASSED** this 7<sup>th</sup> day of Dec, 2020.

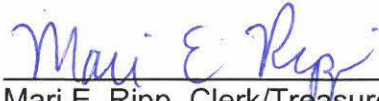
CITY OF WOODLAND



William A Finn, Mayor

ATTEST:

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Mari E. Ripp, Clerk/Treasurer

  
\_\_\_\_\_  
Frank F. Randolph, City Attorney

## RESOLUTION NO. 734

**A RESOLUTION** of the City Council of the City of Woodland establishing certain rates, charges and fees relating to the city's sewer service and rate schedule for low income senior citizens and low income disabled persons.

**WHEREAS**, Ordinance No. 1113 and Ordinance No. 797 provides that rates, charges and fees relating to the city's water service will be established by resolution of the city council; and

**WHEREAS**, Ordinance No. 798 provides that rates, charges and fees relating to the city's sewer service will be established by resolution of the city council and pursuant thereto the city council adopted Resolution No. 428 establishing such rates and fees for sewer service and rate schedule for low income senior citizens and low income disabled persons; and

**WHEREAS**, the City Council received a briefing on the results of a utility rate study on June 15, 2020, July 6, 2020, August 3, 2020, August 17, 2020, and on September 8, 2020;

**WHEREAS**, the City Council discussed the desire to modify the low income senior citizens and low income disabled persons rates for sewer services and establishing the low income senior citizens and low income disabled persons rates to water and stormwater services;

**WHEREAS**, following a duly advertised public hearing held on November 14, 2020, the city council directed staff to prepare documents modifying the low income senior citizens and low income disabled persons rates for sewer services as established in Resolution 591 and establishing the low income senior citizens and low income disabled rates for water and stormwater services;

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WOODLAND** that the following rates, charges and fees applicable to the city's water, sewer and stormwater service and charges and fees relating to the city's low income senior citizens and low income disabled persons. hereby are fixed and imposed.

A. Single Family Low Income Senior Citizens and Low Income Disabled Persons Residential Water Service Rates and Charges:

(1) Monthly Fixed Water Service Rates:

A. Fixed monthly meter charges for city water service.

Size of Meter	Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
5/8" or 3/4"	\$ 18.75	\$ 22.33	\$ 26.46	\$ 28.15	\$ 29.94

(2) Single Family Residential Volumetric Water Service Rates:

A. Monthly usage charges for city water service.

Usage Tiers	Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
0-500cf	\$ 0.0229	\$ 0.0273	\$ 0.0323	\$ 0.0344	\$ 0.0366
501-700cf	\$ 0.0286	\$ 0.0341	\$ 0.0404	\$ 0.0430	\$ 0.0457
701-1,150cf	\$ 0.0344	\$ 0.0409	\$ 0.0485	\$ 0.0516	\$ 0.0549
Above 1,150+cf	\$ 0.0458	\$ 0.0546	\$ 0.0647	\$ 0.0688	\$ 0.0732

B. Single Family Low Income Senior Citizens and Low Income Disabled Persons Residential Sewer Service Rates and Charges:

(1) Single Family Residential Sewer Service Rates

A. A monthly fixed charge.

Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
\$ 25.37	\$ 26.26	\$ 27.18	\$ 28.13	\$ 29.12

B. A monthly usage charge per cubic feet of water used based on the winter-average water consumption.

Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
\$ 0.0453	\$ 0.0469	\$ 0.0486	\$ 0.0503	\$ 0.0520

C. For purposes of these charges, winter-average consumption is the average monthly water volume recorded during the previous November through April. The winter-average consumption for each residence will be recomputed before the start of each year and that volume will be used to compute the monthly sewer volume charge for the residence for the entire calendar year.

D. If a residential customer has partial monthly volume for the previous November through April, the City will determine an average winter monthly usage based on the usage information the City has for that customer.

E. If a residential customer has no monthly volume for the previous November through April, the City will determine an average winter monthly usage based on the average winter usage from all residential customers until

such time the residential customer's winter monthly usage information is available.

C. Single Family Low Income Senior Citizens and Low Income Disabled Persons Residential Stormwater Service Rates and Charges:

(1) Stormwater Service Charge:

A. A monthly charge, per Equivalent Service Unit

Effective Feb 16, 2021	Effective Nov 16, 2021	Effective Nov 16, 2022	Effective Nov 16, 2023	Effective Nov 16, 2024
\$ 3.36	\$ 3.49	\$ 3.63	\$ 3.77	\$ 3.92

D. At such time as the new rates take effect, the rates set forth in Resolution No. 591 shall be null and void.


PASSED this 7<sup>th</sup> day of Dec., 2020.


CITY OF WOODLAND

  
William A Finn, Mayor

ATTEST:

APPROVED AS TO FORM:

  
Mari E. Ripp, Clerk/Treasurer

  
Frank F. Randolph, City Attorney

**To:** Pete Boyce, City Administrator  
Tracey Coleman, Public Works Director  
Mari Ripp, Finance Director

**Date:** September 21, 2020

**From:** Martin Chaw, Project Manager

**CC:** Angie Sanchez Virnoche, Principal

**RE:** City of Woodland – Council Approved Utility Rates for inclusion in rate ordinances

This memorandum memorializes the new rates based upon our corresponding financial rate studies and as approved by Council.

Council action: Tuesday, September 8, the City Council endorsed new cost-of-service based rates for the Water and Sewer utilities, and approved initial rates to support formation of a new Stormwater utility. The Council approved Water Option #3, Sewer Option #3, and Stormwater Option #2 – see attached appendix. The Council also approved moving to monthly billing.

These new rates become effective February 16, 2021, the first day of the second billing cycle in 2021. We understand that the Council is expected to approve these rates at their regular meeting on or about November 16, 2020. Once the new rate ordinances are adopted, please send to us signed copies for our files.

Utility taxes: The rates presented are exclusive of City utility taxes. Utility taxes in our modeling is a pass-through expense. If the City Council approves the reduction in the City Water Utility tax, as assumed in our rate study from 12.50% to 10.87%, this can be achieved without affecting the presented rates.

Assessment charges: Also included below are the updated Water and Sewer connection charges. These charges represent the maximum amount that the City can defensibly charge to new utility connections. The City may elect to charge less, but should not charge more than the amounts shown.

**Table 1. Water Utility Monthly Fixed Charges**

Meter Size	\$ / Monthly Fixed Charge					
	Existing	2021	2022	2023	2024	2025
<b>Inside</b>						
5/8 or 3/4	\$ 24.57	\$ 25.00	\$ 29.77	\$ 35.28	\$ 37.54	\$ 39.92
5/8 or 3/4 - Discount	-	18.75	22.33	26.46	28.15	29.94
1.0"	58.99	62.50	74.43	88.20	93.85	99.80
1.5"	68.83	125.00	148.86	176.41	187.70	199.61
2.0"	95.86	200.00	238.17	282.25	300.32	319.37
3.0"	294.94	400.00	476.34	564.50	600.63	638.74
4.0"	368.68	625.00	744.28	882.03	938.49	998.03
6.0"	540.73	1,250.00	1,488.56	1,764.05	1,876.98	1,996.05
Multi-Family	24.57	n/a	n/a	n/a	n/a	n/a
<b>Outside</b>						
5/8 or 3/4	\$ 36.86	\$ 37.50	\$ 44.66	\$ 52.92	\$ 56.31	\$ 59.88
5/8 or 3/4 - Discount	-	28.13	33.49	39.69	42.23	44.91
1.0"	88.48	93.75	111.64	132.30	140.77	149.70
1.5"	103.24	187.50	223.28	264.61	281.55	299.41
2.0"	143.80	300.00	357.25	423.37	450.48	479.05
3.0"	442.41	600.00	714.51	846.75	900.95	958.10
4.0"	553.02	937.50	1,116.42	1,323.04	1,407.73	1,497.04
6.0"	811.10	1,875.00	2,232.84	2,646.08	2,815.47	2,994.08
Multi-Family	36.855	n/a	n/a	n/a	n/a	n/a

**Table 2. Water Utility Monthly Volumetric Charges (Monthly Usage Tiers)**

Class	\$ / cf					
	Existing	2021	2022	2023	2024	2025
<b>Single Family</b>						
<b>Inside</b>						
Block 1 (0 - 500cf)	\$ 0.0296	\$ 0.0306	\$ 0.0364	\$ 0.0431	\$ 0.0459	\$ 0.0488
Block 2 (501 - 700cf)	n/a	0.0382	0.0455	0.0539	0.0574	0.0610
Block 3 (701 - 1,150cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
Block 4 (1,150+cf)	n/a	0.0611	0.0728	0.0862	0.0918	0.0976
<b>Outside</b>						
Block 1 (0 - 500cf)	\$ 0.0444	\$ 0.0458	\$ 0.0546	\$ 0.0647	\$ 0.0688	\$ 0.0732
Block 2 (501 - 700cf)	n/a	0.0573	0.0682	0.0809	0.0860	0.0915
Block 3 (701 - 1,150cf)	n/a	0.0688	0.0819	0.0970	0.1032	0.1098
Block 4 (1,150+cf)	n/a	0.0917	0.1092	0.1294	0.1376	0.1464
<b>Inside - Discount</b>						
Block 1 (0 - 500cf)	n/a	\$ 0.0229	\$ 0.0273	\$ 0.0323	\$ 0.0344	\$ 0.0366
Block 2 (501 - 700cf)	n/a	0.0286	0.0341	0.0404	0.0430	0.0457
Block 3 (701 - 1,150cf)	n/a	0.0344	0.0409	0.0485	0.0516	0.0549
Block 4 (1,150+cf)	n/a	0.0458	0.0546	0.0647	0.0688	0.0732
<b>Outside - Discount</b>						
Block 1 (0 - 500cf)	n/a	\$ 0.0344	\$ 0.0409	\$ 0.0485	\$ 0.0516	\$ 0.0549
Block 2 (501 - 700cf)	n/a	0.0430	0.0512	0.0606	0.0645	0.0686
Block 3 (701 - 1,150cf)	n/a	0.0516	0.0614	0.0728	0.0774	0.0823
Block 4 (1,150+cf)	n/a	0.0688	0.0819	0.0970	0.1032	0.1098
<b>Non-Single Family</b>						
Inside	\$ 0.0296	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798	\$ 0.0798
Outside	0.0444	0.1197	0.1197	0.1197	0.1197	0.1197
<b>Commercial</b>						
Inside	\$ 0.0296	\$ 0.0300	\$ 0.0357	\$ 0.0423	\$ 0.0450	\$ 0.0479
Outside	0.0444	0.0450	0.0535	0.0635	0.0675	0.0718

**Table 3. Sewer Utility Monthly Fixed Charges**  
 (Assumes Year Round Average Winter Billing)

Customer Class	\$ /Monthly Fixed Charge 2021-2025					
	Existing	2021	2022	2023	2024	2025
<b>Inside</b>						
Single Family	\$ 32.69	\$ 33.83	\$ 35.01	\$ 36.24	\$ 37.51	\$ 38.82
Single Family - Discount	24.52	25.37	26.26	27.18	28.13	29.12
Non-Single Family	32.69	31.34	30.06	28.73	27.36	25.94
Commercial	32.69	33.83	35.01	36.24	37.51	38.82
<b>Outside</b>						
Single Family	\$ 49.03	\$ 50.74	\$ 52.52	\$ 54.36	\$ 56.26	\$ 58.23
Single Family - Discount	36.77	38.06	39.39	40.77	42.20	43.67
Non-Single Family	49.03	47.01	45.09	43.10	41.04	38.90
Commercial	49.03	50.74	52.52	54.36	56.26	58.23
<b>Industrial</b>						
Columbia River Carbonates	\$ 211.55	\$ 223.71	\$ 236.58	\$ 250.18	\$ 264.57	\$ 279.78
Hamilton Materials	16.35	17.28	18.28	19.33	20.44	21.62
Monitored Customers	32.69	33.83	35.01	36.24	37.51	38.82

**Table 4. Sewer Utility Monthly Volume Charges**  
 (Assumes Year-Round Average Winter Billing)

Customer Class	\$ /cf Variable Charges 2021-2025					
	Existing	2021	2022	2023	2024	2025
<b>Inside</b>						
Single Family	\$ 0.0587	\$ 0.0605	\$ 0.0626	\$ 0.0648	\$ 0.0670	\$ 0.0694
Single Family - Discount	0.0587	0.0453	0.0469	0.0486	0.0503	0.0520
Non-Single Family	0.0587	0.0605	0.0626	0.0648	0.0670	0.0694
Commercial	0.0881	0.0912	0.0944	0.0977	0.1011	0.1046
<b>Outside</b>						
Single Family	\$ 0.0881	\$ 0.0907	\$ 0.0939	\$ 0.0972	\$ 0.1006	\$ 0.1041
Single Family - Discount	0.0881	0.0680	0.0704	0.0729	0.0754	0.0781
Non-Single Family	0.0881	0.0907	0.0939	0.0972	0.1006	0.1041
Commercial	0.1320	0.1368	0.1416	0.1465	0.1516	0.1570
<b>Industrial</b>						
Columbia River Carbonates	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hamilton Materials	0.0441	0.0466	0.0493	0.0522	0.0552	0.0583
Monitored Customers	0.0883	0.0903	0.0903	0.0903	0.0903	0.0903



**Table 5. New Stormwater Utility Monthly Rates per Equivalent Service Unit  
 (Assumes 4,000sft per ESU)**

<b>Baseline Monthly Rates Exclusive of City Utility Taxes</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Residential	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43
Non-Residential, per ESU	\$4.48	\$ 4.65	\$ 4.83	\$ 5.03	\$ 5.23	\$ 5.43

**Table 6. Water Assessment Charge on New Connections**

<b>Meter Size</b>	<b>Current</b>	<b>Proposed</b>
5/8" or 3/4"	\$3,241	\$4,246
1"	\$4,283	\$10,615
1-1/2"	\$7,177	\$21,230
2"	\$11,113	\$33,968
3"	\$22,574	\$67,936
4"	\$38,433	\$106,150

\*Proposed charges use AWWA meter capacity standard ratios. Proposed charges represent the maximum defensible charge. The City can elect to charge equal to or less than, but not more.

**Table 7. Sewer Assessment Charge on New Connections**

<b>Meter Size</b>	<b>Current</b>	<b>Proposed</b>
5/8" or 3/4"	\$4,920	\$5,243
1"	\$6,078	\$13,106
1-1/2"	\$9,261	\$26,213
2"	\$13,603	\$41,941
3"	\$26,336	\$83,883
4"	\$44,858	\$131,068

\*Proposed charges use AWWA meter capacity standard ratios. Proposed charges represent the maximum defensible charge. The City can elect to charge equal to or less than, but not more.

Appendix: Council Options Reviewed on September 8, 2020

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**Utility Rate Adjustment Options**

**Water: 2020: \$50.95/mo (700cf usage; ¾ inch water meter)**

- **Option 1: \$54.52** (maintain historical rate increases; keep existing rate structure)
  - o Reduce CIP
    - by 90% (10% of CIP completed); assuming no new debt or
    - by 50% (50% of CIP completed); assuming \$8M new debt
  - o Implement no utility billing
  - o No cost-of-service based rates; SFR customers would be paying more than their equitable share of costs
  
- **Option 2: \$57.66** (starting with Option 1, add equivalent savings from Sewer and apply to Water; keep existing rate structure)
  - o Reduce CIP
    - By 30% CIP funded (70% of CIP completed); assuming \$11M new debt
  - o Implement no utility billing
  - o Uniform 25% low income discount
  - o No cost-of-service based rates; SFR customers would be paying more than their equitable share of costs
  
- **Option 3: \$53.13/mo** (fully funds capital and implements cost-of-service rates to ensure all classes pays equitable share of costs)
  - o 100% CIP funded; \$17.8M new debt
  - o Implement no utility billing
  - o Uniform 25% low income discount
  - o Implement cost-of-service based rates (phased in over 2 years); SFR customers would be paying their equitable share of costs
  - o **FCS GROUP recommendation**

**Sewer: 2020: \$83.00/mo (700cf usage)**

- **Option 1: \$88.81/mo** (maintain historical rate increases; keep existing rate structure)
  - o 100% CIP funded; No new debt needed
  - o Implement no utility billing
  - o Uniform 25% low income discount
  - o No cost-of-service based rates; SFR customers would be paying more than their equitable share of costs
  
- **Option 2: \$85.67/mo** and move bill savings over Option 1 (\$3.14) to Water (see Option 2)
  - o 100% CIP funded; \$7.5M new debt
  - o Implement no utility billing
  - o Uniform 25% low income discount
  - o Implement cost-of-service rates; SFR customers would be paying their equitable share of costs
  
- **Option 3: \$85.67/mo** (fully funds capital and implements cost-of-service rates to ensure all classes pays equitable share of costs)
  - o 100% CIP funded; \$7.5M new debt
  - o Implement no utility billing
  - o Uniform 25% low income discount
  - o Implement cost-of-service rates
  - o **FCS GROUP Recommendation**



[www.fcsgroup.com](http://www.fcsgroup.com)

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**Stormwater: 2020: No stormwater utility**

- **Option 1: \$0/mo Status Quo (do not form new stormwater utility)**
  - o Maintain current level of service
  - o Continue funding stormwater needs out of streets budget
  - o Semi-annual street sweeping; as-needed repairs and replacement; culvert / right-of-way maintenance
- **Option 2: \$5.03/mo Form stormwater utility and fund baseline level needs**
  - o Semi-annual street sweeping; as-needed repairs and replacement; culvert / right-of-way maintenance
  - o Street projects funded (see below)
- **Option 3: \$7.73/mo Form stormwater utility at full level of service needs**
  - o SR 503 stormwater project and pipe replacement
  - o Pipe connection 2<sup>nd</sup> avenue
  - o Fully fund CIP replacement and repairs
  - o Street projects funded (see below)

**List of Street projects that can be funded if stormwater utility is formed (applies only to options 2 and 3)**

- CDBG Sidewalks city portion about \$87k
- Pacific Sidewalk project was about \$60k
- Hoffman sidewalks city portion about \$40k
- In 2018 the city hall roof repair was about \$53.5k under general fund (001-518-30-48-00) – thus this is funds that could be used in streets
- The small works road repairs run between \$10k-\$20K per year
- West Scott Pacific to RR will have City funds of \$125,866
- West Scott/Guild RR to Schurman, City funds \$125,433
- Lakeshore, city funds \$131,936