

10 | FINANCIAL ANALYSIS

INTRODUCTION

This chapter was prepared by FCS GROUP to determine the total cost of providing water service to City of Woodland (City) customers. The financial analysis assesses the ability of the City's water utility to remain financially viable during the planning period, considering its recent historical performance and anticipated future needs. It also evaluates the affordability of the City's water rates, both at existing levels and with any rate increases needed to support its operations and planned capital program.

FINANCIAL HISTORY

The City's enterprise funds operate on a cash basis; therefore, annual balance sheets and income statements are not prepared. Note that the 2019 annual report has been submitted to the State Auditor's Office (SAO) for audit, but at this time is still under review. **Table 10-1** summarizes the financial performance of the City's water utility for the 2010 to 2019 time period as documented in the City's audited financial statements (Statement of Revenues, Expenses, and Changes in Fund Net Position). Note that totals in **Table 10-1** (and subsequent tables) may be off due to rounding.

Important take-aways from this analysis include:

- Charges for Goods and Services have fluctuated from a low of \$851,000 in 2010 to a high of \$1.8 million in 2019. This increase of 106 percent is in part due to the City's annual rate increases of 7 percent.
- Operating expenses increased by 80 percent during the financial history, fluctuating from \$650,000 in 2010 to \$1.2 million in 2019. Notably, there is a 17 percent increase from 2017 to 2018 in Operations, Maintenance, Administrations, and Taxes.
- The operating ratio provides a means of evaluating the self-sufficiency of the City's water utility as an enterprise, measuring the ability of annual operating revenues to cover annual operating costs. **Table 10-1** indicates that the water utility was able to cover operating costs for the entire 10-year period apart from 2010, 2011, and 2019 when the City fell short of the 1.00 ratio.
- Days of cash on hand is a measure of financial security, quantifying how long the water utility would be able to fund daily operating and maintenance costs if it received no additional revenue. It is calculated by dividing unrestricted cash by the average daily cost of operations. While there is no firm minimum standard for this metric, bond rating agencies recently have expressed a preference for a minimum of 180 days of cash on hand for utilities seeking the highest bond ratings. **Table 10-1** indicates that the water utility has been able to maintain 64 to 358 days of cash on hand over the past 10 years. There is an upward trend in the City's days of cash on hand, and by 2017, the City had well beyond the minimum 180 day balance.

Table 10-1
Historical Financial Performance (2010 – 2019, \$000s)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Beginning Cash and Investments										
Unreserved	\$681	\$439	\$196	\$320	\$401	\$433	\$469	\$908	\$1,352	\$1,958
Reserved	57	-	-	-	-	-	-	-	-	-
Operating Revenues										
Intergovernmental Revenues	\$-	\$35	\$12	\$-	\$60	\$-	\$-	\$-	\$-	\$-
Charges for Goods and Services	851	915	958	1,042	1,143	1,309	1,414	1,546	1,701	1,752
Miscellaneous Revenues	21	20	14	151	131	83	225	233	247	182
Total Operating Revenues	\$871	\$970	\$984	\$1,194	\$1,334	\$1,392	\$1,639	\$1,780	\$1,949	\$1,934
Operating Expenses										
Operation, Maintenance, Admin, & Taxes	\$650	\$687	\$714	\$792	\$796	\$813	\$824	\$862	\$1,009	\$1,146
Natural and Economic Environment	-	-	-	-	-	-	-	-	1	25
Total Operating Expenditures	\$650	\$687	\$714	\$792	\$796	\$813	\$824	\$862	\$1,010	\$1,170
Excess Revenues over Expenditures	\$221	\$282	\$270	\$401	\$539	\$579	\$815	\$918	\$939	\$764
Other Increases in Fund Resources										
Debt Proceeds	\$-	\$-	\$-	\$-	\$973	\$-	\$-	\$-	\$-	\$-
Transfers In	-	-	-	4	4	139	22	4	4	715
Custodial Activities	-	-	-	-	-	-	40	38	34	21
Other Resources	178	94	194	77	16	13	-	-	-	-
Total Other Increases in Fund Resources	\$178	\$94	\$194	\$80	\$993	\$152	\$62	\$41	\$37	\$736
Other Decreases in Fund Resources										
Capital Expenditure	\$71	\$23	\$16	\$118	\$1,163	\$171	\$44	\$108	\$61	\$906
Debt Service	57	25	21	144	156	193	156	153	55	55
Transfer Out	-	-	-	122	159	322	203	213	221	940
Custodial Activities	-	-	-	-	-	-	35	42	33	11
Other Uses	407	366	304	18	22	9	-	-	-	-
Total Other Decreases in Fund Resources	\$535	\$414	\$340	\$401	\$1,499	\$695	\$438	\$516	\$370	\$1,912
Increase in Cash and Investments	(\$136)	(\$38)	\$124	\$80	\$32	\$36	\$439	\$443	\$606	(\$412)
Total Ending Cash and Investments	\$602	\$402	\$320	\$401	\$433	\$469	\$908	\$1,352	\$1,958	\$1,546
<i>Operating Ratio</i>	<i>0.88</i>	<i>0.97</i>	<i>1.12</i>	<i>1.07</i>	<i>1.01</i>	<i>1.02</i>	<i>1.35</i>	<i>1.32</i>	<i>1.44</i>	<i>0.87</i>
<i>Days Cash on Hand</i>	<i>210</i>	<i>146</i>	<i>68</i>	<i>98</i>	<i>64</i>	<i>105</i>	<i>136</i>	<i>241</i>	<i>358</i>	<i>232</i>

FINANCIAL PLAN

The water utility is responsible for funding all of its costs. The primary source of funding is derived from ongoing bi-monthly charges for service, with additional revenues coming from hydrant rentals, water on and off fees, installation sales, installation deposits, and other miscellaneous revenue. The main goal of the financial plan is to develop a multi-year rate strategy that generates enough revenue to cover the City's operating and capital costs. This study focuses on defining the amount of revenues needed to meet the system's financial obligations, including:

- Operation and maintenance costs;
- Administrative and overhead costs;
- Policy-based needs (e.g. reserve funding);
- Capital costs; and
- Existing and new debt service obligations.

The City's water utility operates as an enterprise, relying on revenue from water rates rather than taxes or other external resources. The financial plan examines the water utility's ability to maintain affordable water rates while executing the recommended capital improvement plan (CIP) and meeting its ongoing financial obligations. It is a comprehensive analysis that includes both operating and capital elements.

- **The Capital Funding Plan.** Develops a funding strategy for the CIP that considers rate revenues, existing reserves, assessment charges, debt financing, and other anticipated resources (e.g. grants, developer contributions). It can impact the overall financial plan through the use of debt financing (resulting in annual debt service) and capital funding embedded in rates.
- **The Revenue Requirement Analysis.** Determines the amount of revenue necessary to fund the ongoing operation, maintenance, and administration of the utility on an annual basis. This analysis focuses specifically on the needs funded from operating revenues. It includes a framework of fiscal policies intended to promote long-term financial stability and viability.

Financial Policies

The ensuing discussion summarizes the key financial policies used in this analysis.

Utility Reserves

Reserves are a key component of any utility financial strategy, as they provide the ability to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. For the purpose of this analysis, resources are separated into the following funds:

- **Operating Fund:** This fund provides an unrestricted fund balance to accommodate short-term cycles of cash flow. It intends to address variations in revenues and expenses, whether anticipated (e.g. billing/receipt cycles, payroll cycles) or unanticipated (e.g. weather, economic conditions). This analysis incorporates City staff input that the water

utility maintain a minimum balance equal to 60 days of operating expenses. Based on the 2020 Budget, this target is approximately \$241,000.

- **Capital Fund:** This fund provides a source of cash for unanticipated capital expenditures, such as an emergency asset replacement or capital project overruns. In the context of the financial analysis, it also enforces an appropriate segregation of resources restricted or otherwise designated for capital purposes. This analysis assumes a minimum balance equal to the average annual 2019 to 2027 CIP, which is approximately \$1,730,000.
- **Debt Reserve:** Bond covenants often establish reserve requirements as a means of protecting bondholders against the risk of nonpayment. This analysis assumes a debt reserve requirement of approximately \$270,000 starting in 2021, and \$1,468,000 in 2030.

System Reinvestment

System reinvestment funding promotes system integrity by ensuring adequate capital to fund the replacement of aging system facilities. Related funding policies intend to generate a reasonable level of cash funding for capital investment, rather than guarantee full cash funding at any particular point in time. When choosing a benchmark or target amount for system reinvestment funding, it is worth noting that a higher target will have a greater upfront impact on existing ratepayers but will reduce future debt issuance and result in lower costs in the long-term. The financial forecast does not have a specific system reinvestment plan for the City, but rather transfers cash in excess of the operating minimum target balance from the operating fund to the capital fund. Therefore, there is some level of system reinvestment in the form of operating fund transfers.

Financial Performance Standards

The revenue requirement analysis uses a pair of sufficiency tests to establish the amount of revenue needed in any given year to meet the water utility's annual financial obligations.

- **Cash Flow Test:** This test defines "sufficient revenue" as the amount needed to fund all known cash requirements, including operations and maintenance (O&M) expenses, debt service payments, system reinvestment funding (and other rate-funded capital outlays), and reserve funding.
- **Coverage Test:** Intended to ensure compliance with the City's bond covenants, satisfying this test requires that "net revenue" (generally defined as system revenue net of operating expenses) is greater than or equal to a specified multiple of annual parity debt service. This analysis assumes a minimum coverage ratio of 1.25 times annual debt service. Targeting a higher coverage ratio can help the City achieve a better credit rating, which will help lower the interest rates for future debt issues.

The annual revenue requirement can be loosely defined as the amount needed to satisfy both of these tests. Cash flow deficits may occur as part of a strategy to phase in rate increases, but the City must always meet any applicable coverage standards.

Capital Funding Plan

Capital Funding Resources

In addition to cash financing, the City may use multiple sources to fund the water capital improvement program described in detail as follows.

Government Programs

Federal and state grant programs were historically available to local utilities for capital funding assistance. However, these assistance programs have been mostly eliminated, significantly reduced in scope and amount, or replaced by low-interest loan programs. Remaining grant programs are usually lightly funded and heavily subscribed. Nonetheless, even the benefit of low-interest loans makes the effort of applying worthwhile. Funding programs for which the City might be eligible include the following.

Public Works Trust Fund (PWTF) Loan Program

Cities, counties, special purpose districts, public utility districts, and quasi-municipal governments are eligible to receive loans from the PWTF. Eligible projects include repair, replacement, and construction of infrastructure for domestic water, sanitary wastewater, stormwater, solid waste, road, and bridge projects that improve public health and safety, respond to environmental issues, promote economic development, or upgrade system performance. No funding is currently available for Construction loans, and the applications for Pre-Construction loans currently are closed. However, the emergency loan application cycle is continuously open. Information regarding the application process, status of the funding process, as well as rates and terms, are posted on the PWTF website. Further detail is available at <https://www.commerce.wa.gov/building-infrastructure/pwb-financing/>.

Drinking Water State Revolving Fund (DWSRF) Loan Program

DWSRF funding has historically targeted protection of public health and compliance with drinking water regulations. Loan repayments can range from 20 to 30 years, and in some cases, provide partial loan forgiveness. Applicants need an approved water system plan (or plan amendment) containing the DWSRF project prior to applying. All public water systems that receive a DWSRF loan must undergo an environmental review, a cultural review, and an Investment-Grade Efficiency Audit (IGEA). The IGEA is an effort to apply energy efficiency to water systems and may be financed as part of the DWSRF loan. The 2020 Construction loan program funding cycle opens on October 1, 2020 and closes November 30, 2020. The Water Main Replacement Loan and the Consolidation Feasibility Study Grant are both closed for 2020.

More information regarding the DWSRF Loan Program can be found at <https://www.doh.wa.gov/CommunityandEnvironment/DrinkingWater/WaterSystemAssistance/DrinkingWaterStateRevolvingFundDWSRF>.

Community Economic Revitalization Board (CERB) Grant and Loan Program

A division of the Washington State Department of Commerce, CERB was formed in 1982 to respond to local economic development issues in Washington communities. It provides funding to local governments and federally recognized tribes for public infrastructure (including water, stormwater, wastewater, public buildings, telecommunications, and port facilities) that supports private business growth. It prioritizes projects that create or retain jobs for low and moderate-income residents. CERB generally provides funding through four programs:

- **Committed Private Partner Program:** This program provides loans and grants to public agencies that have a commitment from the private sector to help fund the construction of infrastructure necessary for private business expansion. Applicants must submit evidence that private development is contingent on CERB funding and demonstrate that no other timely source of funding is available at terms comparable to what CERB offers.
- **Planning Grant Program:** This program provides limited funding for studies to evaluate high-priority economic development projects that target job growth and long-term economic prosperity.
- **Prospective Development Program:** This program offers loans and grants to rural communities for public infrastructure that facilitates future business development. It requires an economic feasibility study demonstrating that the project will lead to a significant level of job creation and private capital investment. Applicants must also show a need for CERB assistance and evidence that no other timely source of funding is available at terms comparable to what CERB offers.
- **Rural Broadband Program:** This program provides funding for construction and planning of broadband projects only in rural counties and communities.

CERB has invested \$176 million across the state. They offer a maximum of \$2 million per project, per policy, with interest rates ranging from 1 percent to 3 percent. The Board meets every 2 months to consider projects and make funding decisions. Even if funding were available, CERB is intended to be a “last-resort” measure relative to other funding sources; therefore, the City might not qualify for assistance under this program.

More information can be found at <http://www.commerce.wa.gov/building-infrastructure/community-economic-revitalization-board>.

Infrastructure Assistance Coordination Council

The Infrastructure Assistance Coordinating Council (IACC) is comprised of state and local agencies whose function is to provide funding for infrastructure repair and development. Its purpose is not to directly provide funding, but to assist local governments in coordinating funding efforts for infrastructure improvements. As a result, they are a valuable resource to provide awareness of any new funding opportunities. An example of this is their annual conference where they offer sessions dedicated to teaching attendees about available resources. Registration is now open; the 2020 IACC Online Conference will be October 20th to 22nd.

More information can be found at <http://www.infracfunding.wa.gov/>.

Bond Financing

Revenue Bonds

Commonly used to fund capital improvements that exceed a utility's financial resources, revenue bonds are secured by revenues of the issuing utility. With this limited commitment, revenue bonds typically bear higher interest rates than other types of debt and often require additional security measures to protect bondholders from default risk. Such measures may include the maintenance of dedicated reserves and minimum financial performance standards (e.g. bond debt service coverage).

Washington State law does not require a public vote for issuing revenue bonds. While there is no explicit statutory bonding limit, the conditions that come with revenue bonds often impose practical limits on a utility's level of indebtedness. Excessive levels of debt may reduce flexibility to phase in rate increases and increase the overall cost of capital investment given the related interest payments. It is important to note that bond rating agencies also consider debt service coverage when assigning a debt rating – higher levels of indebtedness make it more difficult for a utility to meet the coverage ratios that the rating agencies require for the highest rating. In recent years, the coverage ratios required for higher ratings have often exceeded the minimum legal standards outlined in the applicable bond covenants. Ratings are financially important because higher ratings generally provide access to lower interest rates.

Other Funding Sources

Assessment Charges (ACs)

Under the authority of Revised Code of Washington (RCW) 35.92.025, the City imposes an AC on development as a condition of connecting to its water utility. This charge recovers an equitable share of the cost of utility infrastructure from growth, promoting equity between new and existing customers. AC revenues provide a source of cash funding for utility capital needs and related debt service payments. The current water AC is \$3,241 per Meter Capacity Equivalent (MCE). The City periodically reviews its rates and ACs to verify that they adequately and equitably recover costs from the City's customers. Rates recover the City's ongoing cost of providing service.

Based on City input, the financial plan assumes that the City does *not* adopt a new AC, and new connections for the forecast are charged the existing \$3,241 to be conservative.

Existing Cost Basis

The AC cost basis includes costs associated with existing assets to recognize that those assets will provide benefit to new customers. In addition, RCW 57.08.005 more specifically allows the City to recover a provision for up to 10 years of interest accrual on assets. Conceptually, this interest provision attempts to account for opportunity costs that the City's customers incurred by supporting investments in infrastructure rather than having the money available for investment or other uses. This cost basis is adjusted to:

- Include construction work in progress, reflecting infrastructure investments that the City has not yet booked as completed fixed assets;

- Exclude assets not funded by the City (e.g. developer extensions, utility local improvement districts (ULIDs)). This adjustment includes donated transmission and distribution pipes;
- Exclude a provision for asset retirements. To avoid double charging customers for an asset and its replacement, the AC cost basis is reduced to account for the estimated value of assets being replaced as part of the planned capital projects; and
- Exclude outstanding debt principal net of available cash balances to recognize that new customers connecting to the City's system will pay for a proportionate share of the City's outstanding debt as ratepayers. The City has higher ending reserves than debt principal outstanding, so in this case there is no deduction.

The resulting existing cost basis is \$6,701,159.

Future Costs Basis

RCW 57.08.005(11) allows the City to recover costs associated with future capital projects that it plans to undertake within a 10-year planning period, provided that they are part of an adopted comprehensive plan. The future cost basis is generally based on the capital program summarized in **Table 10-3** but is adjusted to exclude projects anticipated to be funded by grants, developer extensions, ULIDs, or other outside sources. It also excludes meters and services projects, totaling roughly \$1.4 million. The resulting future cost basis is \$14,055,046.

Customer Base

After adjusting the 2018 customer data for growth (0.50 percent a year), there are 2,785 Meter Capacity Equivalent (MCEs) in 2020. The City administers its AC on an MCE basis, but projects growth in Equivalent Residential Units (ERUs). The ERU growth forecast in the Water System Plan indicates that the system will serve 8,468 ERUs at full capacity, which compared to the Water System Plan 2020 existing ERUs is a ratio of 1.76. To calculate total capacity in MCEs, the 2020 MCE total of 2,785 is multiplied by the ERU growth ratio. This gives a total MCE capacity of 4,888. Therefore, the existing subscribed capacity in MCEs is 2,785, the available system capacity is 2,103 MCEs, and the total capacity is 4,888 MCEs.

AC Calculation

The City's AC calculation is based on an "average cost" methodology, which computes a charge per MCE by dividing allocable costs by the applicable number of MCEs. **Table 10-2** shows the calculations for existing and future costs basis.

Table 10-2
Assessment Charge Calculation

Assessment Charge Calculation	Total
Existing Cost Basis	\$ 6,701,159
Allocable Customer Basis	4,888
Total Existing Cost Basis	\$ 1,371
Future Cost Basis	\$ 14,055,046
Allocable Customer Basis	4,888
Total Future Costs Basis	\$ 2,875
Total Assessment Charge	\$ 4,246

Table 10-2 indicates that the City could adopt a maximum AC of \$4,246 per MCE, reflecting additions of assets and accrual of interest on those assets since the City last reviewed its AC calculation. To be conservative, the financial forecast does not assume implementation of this updated AC.

The 2019 to 2030 CIP identifies \$19.8 million in project costs (in 2020 dollars). Escalating these costs to year of construction at an assumed rate of approximately 3 percent per year, the total projected 12-year CIP expenditure is \$22.6 million. **Table 10-3** summarizes the annual CIP expenditures in 2020 and escalated dollars. Notably, the City plans to spend over \$10.2 million of the total \$22.6 million between 2019 and 2023. These near-term projects include the Scott Hill Booster Pump Station, an increase in reservoir storage that will add 1 million gallons to the water system, the West Scott Avenue Connector, and the Water Main Upgrades. These large and near-term costs to the City are driving the need for rate increases, as well as new debt service associated with revenue bonds required to support the CIP.

Table 10-4 summarizes the projected capital funding strategy and reflects an approach to fund the CIP that includes both cash and debt. This approach targets partial cash funding for the projected capital expenditures through a combination of existing cash balances, interest earnings, system reinvestment, and ACs, and relies on debt to keep rates reasonable and the utility reserves healthy.

Table 10-3
Capital Improvement Program in Escalated Dollars (2019 – 2030) (\$000s)

Description	Year											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Supply/Treatment	\$46	\$379	\$391	\$402	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Pumping	448	448	-	-	-	-	-	-	-	-	-	-
Storage	-	-	1,770	1,823	-	-	-	-	-	-	-	-
Transmission & Distribution	-	-	-	1,785	1,557	1,172	1,540	785	1,617	-	-	-
Meters & Services	-	-	-	-	-	-	835	860	-	-	-	-
Hydrants	5	-	-	-	-	-	-	-	-	-	-	-
General Plant	19	-	-	-	-	-	-	-	-	-	-	-
Annual Average	-	-	-	-	-	-	-	-	-	1,826	1,881	1,937
Total (Escalated Dollars)	\$517	\$828	\$3,242	\$4,011	\$1,557	\$1,172	\$2,375	\$1,646	\$1,617	\$1,826	\$1,881	\$1,937

Table 10-4
Summary of Projected Capital Funding Strategy (2019 – 2030) (\$000s)

Description	Year											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Beginning Capital Fund Balance	\$1,271	\$1,263	\$973	\$1,667	\$2,581	\$1,499	\$3,348	\$1,476	\$2,160	\$1,121	\$2,704	\$1,339
Plus: Transfers from Operating Fund	885	469	274	97	374	339	373	243	471	330	391	479
Plus: Assessment Charge Revenue	181	45	45	45	46	46	46	46	47	47	47	47
Plus: Revenue Bond Proceeds	-	-	3,600	4,750	-	2,600	-	2,000	-	3,000	-	1,930
Plus: Interest Earnings	28	24	17	32	55	36	85	40	61	32	78	39
Less: Upgrade Expansion Projects	(224)	(224)	(2,851)	(2,936)	(433)	(1,033)	(1,958)	(822)	(808)	-	-	-
Less: Repair & Replacement Projects	(293)	(603)	(391)	(1,074)	(1,124)	(139)	(417)	(823)	(809)	(1,826)	(1,881)	(1,937)
Ending Capital Fund Balance	\$1,848	\$974	\$1,667	\$2,581	\$1,499	\$3,348	\$1,477	\$2,160	\$1,122	\$2,704	\$1,339	\$1,897
<i>Minimum Target Balance</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>	<i>\$1,730</i>

Revenue Requirement

The revenue requirement analysis evaluates the water utility's ability to cover its projected costs under its currently adopted rates. In the event of any projected deficiencies, this analysis will serve as the basis for a strategy of recommended rate adjustments.

Projected Financial Performance

The revenue requirement analysis was developed from the City's 2020 Budget, along with various assumptions as follows.

- The rate revenue forecast is initially based on estimates provided by the Water System Plan and input from City staff, reflecting adjustments for growth at an assumed rate of 0.50 percent per year (corresponding to approximately 14 MCEs per year). This growth assumption intends to be conservatively low for the purpose of projecting future revenues and assessing financial viability, which may differ from a conservatively high growth forecast used to estimate capacity needs for the capital improvement plan.
- Customer-related fees are based on the 2020 Budget values and do not escalate. Interest earnings are computed based on projected fund balances, assuming an interest rate of an average of 2.41 percent per year. Other operating revenues like Installation Sales and Installation Deposits are adjusted for growth.
- The forecast of operating expenses is based on the 2020 Budget, with future projections reflecting adjustments for escalation.
 - Most expenses are adjusted for Consumer Price Index (CPI) escalation at a rate of 2.51 percent on average during the forecast per year.
 - Recognizing that salary and benefit costs have increased at a rate above general escalation, they are escalated by 4.5 percent and 6 percent per year, respectively.
 - Variable operating costs reflect adjustments for growth as well as escalation, for example, Installation Deposit Refunds.
 - Taxes are calculated based on the projected revenues and prevailing tax rates. (State excise tax: 5.029 percent, business and occupation tax: 1.5 percent, City utility tax: 12.5 percent).

Table 10-5 summarizes the water utility's projected financial performance and rate revenue requirements based upon the above assumptions.

Table 10-5
Projected Financial Performance and Revenue Requirements (2019 – 2030) (\$000s)

Description	Year											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue												
Rate Revenue	\$1,747	\$1,871	\$1,881	\$1,890	\$1,900	\$1,909	\$1,919	\$1,928	\$1,938	\$1,948	\$1,957	\$1,967
Other Non-Rate Revenue	69	62	62	62	62	62	62	62	63	63	63	63
Operating & Debt Interest Earnings	12	13	4	10	20	22	30	32	39	40	48	49
Total Revenue	\$1,828	\$1,946	\$1,947	\$1,962	\$1,981	\$1,993	\$2,011	\$2,023	\$2,039	\$2,050	\$2,068	\$2,079
Expenses												
Cash Operating Expenses	\$1,353	\$1,465	\$1,603	\$1,759	\$1,883	\$1,879	\$2,010	\$2,152	\$2,154	\$2,232	\$2,391	\$2,396
Existing Debt Service	55	55	55	55	55	54	54	54	54	54	54	54
New Debt Service	-	-	270	625	625	855	855	1,032	1,032	1,297	1,297	1,468
Total Expenses	\$1,408	\$1,520	\$1,928	\$2,439	\$2,563	\$2,789	\$2,919	\$3,238	\$3,240	\$3,583	\$3,742	\$3,918
Net Operating Cash Flow¹	\$420	\$426	\$20	(\$477)	(\$581)	(\$795)	(\$909)	(\$1,215)	(\$1,201)	(\$1,533)	(\$1,674)	(\$1,839)
<i>Annual Rate Increase</i>	<i>0.00%</i>	<i>0.00%</i>	<i>15.50%</i>	<i>15.50%</i>	<i>15.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>	<i>5.50%</i>
Summary After Rate Increases												
Rate Revenues	\$1,747	\$1,874	\$2,172	\$2,522	\$2,927	\$3,103	\$3,290	\$3,489	\$3,699	\$3,922	\$4,158	\$4,409
Net Operating Cash Flow	\$420	\$426	\$297	\$123	\$394	\$339	\$394	\$267	\$472	\$342	\$417	\$480
<i>Debt Service Coverage²</i>	<i>N/A</i>	<i>N/A</i>	<i>2.37</i>	<i>1.33</i>	<i>1.81</i>	<i>1.5</i>	<i>1.62</i>	<i>1.35</i>	<i>1.57</i>	<i>1.33</i>	<i>1.42</i>	<i>1.39</i>
Ending Operating Fund Balance	\$222	\$241	\$263	\$289	\$310	\$309	\$330	\$354	\$354	\$367	\$393	\$394
<i>Min. Operating Fund Balance</i>	<i>\$222</i>	<i>\$241</i>	<i>\$263</i>	<i>\$289</i>	<i>\$310</i>	<i>\$309</i>	<i>\$330</i>	<i>\$354</i>	<i>\$354</i>	<i>\$367</i>	<i>\$393</i>	<i>\$394</i>

¹ Represents net cash flow before rate increases.

² Minimum target for debt service coverage is 1.25.

Table 10-5 shows that water rate increases are needed to keep up with rising operating costs, fund ongoing infrastructure maintenance projects included in the utility’s operating budget, and support a level of cash funding that will enable the water utility to complete its planned capital projects. The proposed rate strategy envisions a 15.5 percent annual rate increase until 2024, when the increases drop to 5.5 percent. **Table 10-5** shows the water utility’s debt service increasing as the City takes out additional revenue bonds and loans for its capital program.

The City Council has endorsed the rate strategy presented in **Table 10-5** and plans to adopt the 15.5 percent annual rate increases starting February 16, 2021. City Council is expected to approve the rate increases during its November 16, 2020 Council Meeting.

Rate Affordability

The Washington State Department of Health and the Public Works Board use an affordability index to prioritize low-cost loan awards. They typically look at how a system’s rates compare to the median household income (MHI) for the demographic area – a community’s rates are considered to be “affordable” if they result in bills that are below 2 percent of the MHI. U.S. Census Bureau data indicates that the MHI for the City was \$61,818 in 2018. This MHI was then adjusted for CPI escalation for the future forecast. **Table 10-6** summarizes the affordability evaluation of the City’s rates, suggesting that the City’s rates are, and will remain, within the affordability threshold during the 2019 to 2030 time period.

Table 10-6
Affordability Evaluation (2019 – 2030)

	Year											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Bi-Monthly Single-Family Bill @ 14 ccf	\$85	\$91	\$105	\$121	\$140	\$147	\$155	\$164	\$173	\$182	\$192	\$203
Median Household Income (\$000s)	\$63	\$65	\$67	\$68	\$70	\$71	\$73	\$75	\$77	\$79	\$81	\$83
Annual SF Bill as a % of MHI	0.80%	0.84%	0.94%	1.06%	1.20%	1.24%	1.27%	1.31%	1.35%	1.38%	1.42%	1.46%

Note: Figures do not include city or state taxes.

CONCLUSION

The results presented in this chapter suggest that the water utility will require revenue increases to fund projected O&M, capital, and new debt service requirements over the 10-year planning horizon. This chapter identifies the overall level of rate impact that may occur should the capital plan provided in **Chapter 9** move forward.

It is important to remember that this financial plan is based on various assumptions that may change over time as new information becomes available. Circumstances might change over time, causing actual rate adjustments to be higher or lower once actual costs are known. The City reviews the financial needs for its utilities as part of its annual budgeting process, periodically conducting more comprehensive rate studies. **Table 10-5** provides current projections of the near-term revenue adjustments, but the City will periodically revisit these projections and adjust

them as needed. Continued prudent fiscal management will enable the water utility to continue to operate on a financially sound basis.