



Utility Advisory Committee Special Meeting  
Thursday, May 1, 2025, 3:30 PM  
Via Zoom Only  
280 Madison Ave N  
Bainbridge Island, WA 98110

The Utility Advisory Committee will hold this meeting via Zoom.  
Remote meeting on Zoom

Please click the link below to join the webinar:

<https://bainbridgewa.zoom.us/j/84312843219>

or Telephone: 1 253 205 0468

Webinar ID: 843 1284 3219

### **Agenda**

- 1. Call to Order/Roll Call – 3:30 PM**
- 2. Approval of Agenda/Conflict of Interest Disclosure**
- 3. Regular Business**

Discuss Recommendation on 2024-25 Utility Rate Study

#### **4. Public Comment**

In person public comment is accepted at this time on any topic of public interest. Each commenter will have three minutes, or such amount as the meeting chair determines, to speak. Public comment is not taken on individual agenda items during the meeting. Public comment is simply received by the Utility Advisory Committee, with no response, and the Utility Advisory Committee cannot deliberate on items that are not on the agenda. The lack of comment is not an endorsement or a denial of the comment.

Please refer to guidelines and instructions for public comment, including orderly behavior and civility in remarks, attached below. Remote public comment is allowed with advance notice by 4:00 p.m. on the business day before the meeting to [cityadmin@bainbridgewa.gov](mailto:cityadmin@bainbridgewa.gov), provided that all remote commenters shall be required to display their true name and to keep their camera turned on to show their true uncovered face while delivering their comments.

[Link to Instructions for Public Comment](#)

#### **5. Good of the Order**

#### **6. Adjourn**

Utility Advisory Committee meetings are wheelchair accessible. If you require additional ADA accommodations, please contact the Public Works department at 206-842-2016 or [cityadmin@bainbridgewa.gov](mailto:cityadmin@bainbridgewa.gov) by noon on the day preceding the meeting.

MEMORANDUM

TO: City Council  
FROM: Utility Advisory Committee  
DATE: April 30, 2025  
SUBJECT: UAC Recommendation Regarding Revision to COBI Water, Sewer, and Stormwater Rates and System Participation Fees

I. **BACKGROUND**

A. Background of Current Rate Study

The City provides water and sewer service to approximately one-third of the residents of Bainbridge Island. It provides water to approximately 2,800 customers in Winslow and Fletcher Bay and 70 customers in Rockaway Beach. The City also provides sewer service to approximately 2,300 customers in Winslow and approximately 350 customers in southern Bainbridge Island.

The City charges System Participation Fees (**SPFs**) to new customers connecting to its water and/or sewer systems, and then charges rates for the customers' usage of water or sewer service.

The City also charge an annual Storm and Surface Water (**SSWM**) fee to all property owners on Bainbridge Island.

During the past nine months or so, the City's staff and a contracted technical consultant, FCS, have reviewed and studied the rates and fees charged by the City's water, sewer, and SSWM utilities. As is normal for this process, the consultant prepared an extensive

analysis and recommendation to adjust (in this case, increase) the rates for all three utilities and the City's water and sewer SPFs.

The consultant's initial recommendation was provided to the UAC, which spent significant portions of 5 meetings devoted to this topic. Many adjustments in the consultant's recommendations were developed during the UAC's review, analysis and discussions, and a final report was prepared dated April 25, 2025. This memorandum provides the UAC's comments on the report and its recommendation to approve the rates and SPFs as submitted by the staff and the consultant.

B. Context for the Current Rate Study

It is standard practice for utility systems to conduct studies of their rates, charges, and fees at periodic intervals. That is done to ensure they provide adequate revenue for the utilities, and the rates, charges, and fees that are in conformance with state law.

1. 2018 Rate Study. The City conducted its first formal water and sewer rate study in a very long time in 2018. That rate study concluded that relatively modest increases in revenue were needed for both utilities, and that rate adjustments in greater or lesser percentages were needed for specific classes of customers. The 2018 study also concluded that a significant increase in the SPFs for new customers was warranted.

The recommendations were approved by the City Council in 2019 and implemented thereafter.

2. 2022-23 Rate Study. The City conducted another water and sewer rate study in 2022-23. As a result, it was recommended that the water rates be increased substantially to offset earlier rate reductions and to fund a planned replacement of the Winslow Water Tanks (the main storage tanks for the Winslow

system). It was also recommended that the sewer rates be increased to help fund improvements to the Winslow Wastewater Treatment Plant and planned reconstruction of the Lower Lovell beach sewer main. And, it was also recommended that the SPFs for both utilities be slightly increased.

After review, the UAC recommended that the consultant's report be approved, and further recommended that City revisit the water rates and SPFs in 2025 once the final costs of the Winslow Water Tank were known.

The consultant's recommendations were approved by the City Council in 2023 and implemented thereafter.

## **II. UTILITIES**

### **A. Water Utility**

The Winslow/Fletcher Bay and Rockaway Beach water systems serve approximately 2,800 single family residential, multi-family residential, commercial, and irrigation customers.

In 2024, the water utility had annual revenue of approximately \$2.1 million, operating expenses of \$2.0 million, and a total of \$181,000 in loan payments, for an annual net deficit in cash flow of roughly \$59,000. The water utility ended 2024 with about \$2.5 million in reserves.

The consultant recommends that water rates be increased by 26.0% per year from 2026 – 2028 for the following reasons:

- As explained in the staff report, the cost of replacing the Winslow Water Tank and related infrastructure exceeded the projection in the 2022-23 rate study. The water utility is projected to cover this additional cost through a combination of cash generated through rates, and by issuing \$2.5 million more in general obligation bonds than previously projected. Based on input provided by the City's bond advisor regarding current market conditions, the assumed interest rate has been increased from 4.5% in the 2022-23 study to 4.75% in the current study – to manage the impact of the increases in the amount borrowed and the interest rate. In addition, the repayment term has been extended from 20 to 25 years. The net impact of these changes is that the water utility's projected debt service by 2028 is about \$204,000 higher than projected in the 2022-23 study.
- Annual operating expenses are expected to be approximately \$200,000 higher than projected in the 2022-23 study, due primarily to significant increases in the cost of infrastructure repairs and insurance premiums. It is worth noting that based on recent experience, the current study assumes long-term inflation in the Consumer Price Index of 3.5% per year (compared to 2.0% per year in the 2022-23 study).
- The forecast of future growth has been reduced based on recent trends. The 2022-23 study assumed annual growth of roughly 2.0% (60 customers) in the water customer base based on an average of growth experienced from 2016 – 2021. Recent numbers has caused us to reduce estimates to only about 15 customers per year.
- The City is proposing to eliminate the current age requirements of its low-income utility rate discount program, which would enable customers to qualify for rate discounts based solely on their income. City staff estimate that this change could triple customer

participation in the program, increasing the number of participants from around 70 to around 210. The consultant has estimated that tripling the number of customers receiving discounts could reduce the water utility's revenue by about \$38,000 per year. The 2026 – 2028 rate increases of 26.0% per year include an increase of 1.0% per year to account for this expected revenue loss.

Under the City's existing water rates, an average residential customer (using 700 cubic feet of water per month) would pay a monthly bill of \$45.48, which is relatively low compared to peer utilities. If the proposed 2026 rates are approved, that would increase the water bill for an average residential customer to \$57.33 per month, which is approximately in the middle of the range of peer utilities.

In response to the UAC's preference to phase the necessary rate increases over multiple years, City staff deferred \$1.5 million in supply well investments that were originally planned to occur in 2028 to 2030. The consultant projects the need for 2029 – 2030 rate increases of 16.5% per year but has recommended that those increases be re-evaluated as part of the next rate study (expected to occur around 2027).

Recognizing that the large revenue increases being proposed will impact customers and their water consumption, the consultant has recommended that the City wait until the annual rate increases drop back down to inflationary levels before revisiting the allocation of costs to customer classes.

### B. Sewer Utility

The City's sewer utility consists of two systems. The Winslow system serves approximately 2,300 customers, with treatment of effluent provided at the City's Winslow Wastewater Treatment Plant

**Commented [TJ3]:** Our rate study history does not show that after the CIP is executed we will be able to drop rates, So I don't want to reinforce that expectation. I think the bigger point is that we have looked deeply at the makeup of rate classes by customer and system component and it does not need to be reevaluated this time.

(WWTP). The South Island system serves almost 300 customers, with treatment provided by Kitsap County Sewer District #7 (Ft. Ward). Rates are higher than the average of comparable facilities in the region, primarily the result of a limited customer base for the required treatment facilities.

In 2024, the sewer utility had annual revenue of approximately \$5.1 million, operating expenses of \$3.9 million, and debt payments of \$1.0 million (excluding a loan repaid exclusively through assessments charged in the South Island system), for an annual net surplus in cash flow of roughly \$217,000. The sewer utility ended 2024 with about \$4.5 million in reserves.

The consultant recommends that sewer rates be increased by 15.5% per year from 2026 – 2028 for the following reasons:

- The sewer utility Capital Improvement Plan is the driver of projected increased future costs and therefore rates, including improvements to the WWTP and a major reconstruction of the Lower Lovell beach sewer main. The sewer utility is projected to cover this additional cost through a combination of cash generated through rates and borrowing \$4.4 million more than previously projected. As noted above for the water utility, the assumed interest rate has been increased from 4.5% to 4.75% and the repayment term has been extended from 20 to 25 years. The net effect of these changes is that the sewer utility’s projected annual debt service will be about \$160,000 higher than projected in the prior study.
- The 2022-23 study projected that after the proposed 2024 sewer rate increase, the sewer utility would collect roughly \$5.3 million in rate revenue during 2024 including passthrough charges to Sewer District #7. The sewer utility’s actual 2024 sewer rate revenue was only \$4.8 million, falling short of the 2022-23 study

**Commented [TJ4]:** Are there other significant drivers? For example the Winslow Plant is located in a dense and established neighborhood which increases the cost of upgrades? Are we more expensive because of the age and location of our historic waterfront infrastructure (lower Lovell for example).

projection for 2024 by about \$500,000. Explanations for this shortfall include:

- Growth in the sewer customer base has been slower than expected. The 2022-23 study used an average of growth from 2016 – 2021 to inform the assumption that the sewer customer base would grow by roughly 2.5% (120 residential units) per year. Based on this growth, the 2022-23 study projected approximately \$1.2 million per year in sewer SPF revenue for 2023 and 2024. The City actually collected about \$570,000 in SPF revenue for both years combined, suggesting that only about 24% of the projected growth (roughly 30 residential units per year) occurred. As a result, the current study reflects reduced growth estimates of 20 – 35 residential units per year.
- Toward the end of the 2022-23 study, the City received a number of complaints from sewer customers who had been seeing spikes in their October sewer bills. The City’s sewer billing policy at the time had been to bill customers based on their winter-average water usage from June – September and based on actual water usage during the other months of the year. Because warm and dry summer conditions have often persisted into October in recent years, billing customers for actual water usage in October resulted in unintended spikes in customer bills. Addressing this billing issue reduced future rate revenue collections relative to the projections used in the 2022-23 study.
- As discussed above for the water utility, City staff estimate that eliminating the age requirements for its low-income discount program could triple customer participation in the program, increasing the number of participants from around 70 to around 210. The consultant has estimated that tripling the number of

customers receiving discounts could reduce the sewer utility's revenue by about \$96,000 per year. The 2026 – 2028 rate increases of 15.5% per year include an increase of 1.0% per year to account for this expected revenue loss.

Under the City's existing sewer rates, an average residential customer in Winslow (using 700 cubic feet of water per month) would pay a monthly bill of \$114.83, which is relatively high compared to peer utilities. An average customer in the South Island system would pay a City collection rate of \$34.59 and Sewer District #7's treatment rate of \$71.79, for a total monthly sewer bill of \$106.38.

If approved, the proposed 2026 rates would increase the sewer bill for an average residential customer to \$132.60 per month in the Winslow system and \$111.74 in the South Island system, which are respectively the second and fourth highest among peer utilities. Note that these increases will only apply to the City's portion of the rate – the City will continue to pass through third-party treatment charges to the South Island system from Sewer District #7 (or its successor entity, as applicable).

In response to the UAC's preference to phase the necessary rate increases in over multiple years, City staff deferred the outfall extension at the Winslow Wastewater Treatment Plant from 2028 to 2029 as well as delaying several projects involving pump station upgrades. The consultant projects the need for 2029 – 2030 rate increases of 12.5% per year but has recommended that those increases be re-evaluated as part of the next rate study (expected to occur around 2027).

### C. Storm and Surface Water Management (SSWM) Utility.

The City's SSWM utility covers the public stormwater infrastructure on all of Bainbridge Island. The City's Stormwater

**Commented [TJ5]:** Readers will observe that the combined rate for south end users is LESS than what COBI only users pay. This implies the SD7 plant is more efficient financially than Winslow. We should politely state that while this study accounts for the current condition and capital plans for the Winslow Plant, SD7 rates are not under COBI control. Further KPUD has stated they will increase by an unspecified amount.

**Commented [TJ6]:** Deferring CIP projects to smooth the rate is a recurring practice and we should resist the temptation to say rates will fall when the known projects are accomplished. The 5+ year CIP should be based more on historical trends than on known projects.

System Plan (SWSP) describes the existing system as consisting of 2,388 catch basins, 144 miles of open channel conveyances (e.g. ditches), 95 miles of closed conveyance facilities (e.g. pipes), 423 culvert pipes, and 380 stormwater control and/or treatment facilities.

The SSWM utility has annual revenue of approximately \$3.4 million and expenses of approximately \$2.4 million. It was projected to end 2024 with about \$6.5 million in reserves, with \$15.5 million in future capital projects expected to occur between 2025 and 2029. The present stormwater rate is slightly below the average of peer utilities.

Based on recommendations from City staff, the SSWM financial plan includes the anticipated addition of one full-time equivalent (FTE) in SSWM engineering and 3 FTEs in SSWM maintenance at an estimated 2025 cost of \$450,000. Even with this additional expense, the SSWM utility's revenues appear to be sufficient to cover its expenses. The proposed expansion of the City's low-income discount program is estimated to reduce the SSWM utility's annual revenue by around \$17,000 per year, which is not expected to drive additional SSWM rate increases.

Recognizing the potential for unanticipated projects or regulatory requirements, the consultant recommended increasing the SSWM rate annually by the rate of inflation in the Consumer Price Index (assumed to be 3.5% per year in this analysis).

#### D. Comparable Utility Costs.

Water, sewer, and stormwater systems vary widely within local governments, whether within cities, counties, or special districts. This makes comparison of rates between utilities to be of limited value without in-depth analyses. Nevertheless, a simple comparable look at rates is at least a superficial test to determine reasonableness.

**Commented [TJ7]:** This does not add up. Matching the CPI is appropriate when there are no expected new costs on the horizon (emergent projects or regs). The rising CPI accounts for the increasing cost of labor and material for the existing system only. An out year increase = CPI does not allow for either more projects or tighter regulations. I recommend a small but not zero increase over CPI in the out years.

The City's rates for water and stormwater are slightly lower than comparable utilities, while the City's rates for sewer are among the highest in the region. When one looks at the combined monthly average costs for all three utilities (water, sewer, and stormwater) in a common single-family home, the City currently ranks in the middle of the pack of peer utilities but would end up near the top of the group after the proposed 2026 rate increases.

#### E. System Participation Fees (SPFs)

SPFs are a new customer's "buy-in" to the utility, and based on the methodology introduced in the 2018 study are calculated by dividing the total cost of the current and planned infrastructure by the capacity of each system (expressed in terms of the number of customer equivalents that they can serve).

The City charges a standard residential connection a water SPF of \$7,125 and a sewer SPF of \$12,884 (for connections in Winslow), which are slightly above average for peer utilities. This is primarily due to the relatively small population of Winslow and the limited economy of scale to support the cost of the periodically required infrastructure investments. It is worth noting that utilities vary in how (and how often) they calculate their SPFs, which also contributes to the wide range of charges that show up in SPF comparisons.

The updated SPF calculations reflect two methodology revisions:

- The water and sewer SPF calculations prepared as part of the 2018 and 2022-23 studies deducted outstanding debt principal from the allocable cost on the premise that the SPF should not recover costs that the new customer will pay for through their ongoing rates. However, the developer paying the SPF and the customer that lives on the property are often different people. By recovering an equitable share of the cost of these facilities from

development, the City can collect more SPF revenue to offset capital costs that would otherwise be funded by ratepayers.

- The water SPF consists of a charge for water service and a charge for fire-suppression service. Both charges have historically been imposed on new connections based on the size of their water meter. Because fire flow requirements depend solely on the type of land use (and do not vary with water meter size), the consultant has recommended changing the fire-suppression charge to a fixed charge per meter (regardless of meter size) that varies by customer class. This change recovers costs more equitably from residential and commercial connections, but it increases the SPF for smaller meter sizes and decreases it for larger meter sizes.

With these methodology changes and other updates, the updated calculations support a maximum water SPF of \$10,516 and a maximum sewer SPF of \$18,372 for a standard residential connection in Winslow. If the City were to adopt the maximum combined SPF, it would result in the highest charge among peer utilities.

### III. RECOMMENDATION

No one likes increases to utility rates. Nevertheless, the UAC finds the recommended rates and SPFs to be reasonable based on the projected operating and capital needs of the utilities. Therefore, the UAC recommends their adoption.

Dated: April \_\_\_\_\_, 2025

Commented [TJ8]: Reasonable is weak. I suggest two or three of the following: prudent, equitable, necessary or responsible.

Charles Averill, Co-Chair  
Svend Brant-Erichsen  
Sheina Hughes  
Ted Jones, Co-Chair

Andy Maron

Martin Pastucha

Wanda Schulz

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