

CITY OF SNOQUALMIE 2024 Rate Study DRAFT

Submitted by:

Submitted to:

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1.0 Introduction

Purpose

FCS, a Bowman Company ("FCS") was engaged by the City of Snoqualmie ("City") to conduct a water, sewer, and stormwater rate study update, including cost of service analyses for the water and sewer utilities. The purpose of the study was to provide a rate forecast and financial plan targeting stability and revenue sufficiency for the 2025 to 2030 rate setting period. The study covers a twenty-year period through 2044, with the primary focus on the near-term 2025 to 2030 rate setting period.

Approach

The methods used to complete the study are based on analytical principles that are generally accepted and widely followed throughout the industry – rates and charges should generate enough revenue to maintain self-supporting and financially viable utilities.

Throughout the study, FCS worked with the City to arrive at rate conclusions that meet forecasted utility financial obligations, achieve City goals and policies, comply with legal requirements, and adhere to industry best practices. Meetings were held with City staff to validate input parameters, review interim findings and receive policy direction.

Scope

The scope of the project included the following key elements for each utility:

- Update the forecast of operating revenues and expenses to reflect the most recently approved budgets. Incorporate the most recent capital plans identifying the capital projects required to maintain each system in good repair. Develop a capital funding analysis that balances available funding from rate revenue, reserve funds, contributions, and additional debt, if needed.
- Evaluate cash flow needs to meet existing and anticipated new annual debt service requirements and debt coverage requirements. Test the sufficiency of each system's current revenues in meeting all annual system obligations. Identify any projected shortfalls over the forecast period.
- Design a rate implementation strategy that meets each system's financial obligations over the multi-year planning horizon and provides a smooth and moderated impact to ratepayers.
- Perform a cost-of-service analysis (COSA) establishing a defensible basis for assigning "cost shares" and determining "equity" for system customers based on industry best practices and methodologies that are tailored to the City's unique systems and customer characteristics. Identify the cost to serve each customer class within the water and sewer systems. Depending on the outcomes of the analysis, the phase-in strategies developed during the 2020 Rate Study will be updated.
- Evaluate existing rate structures for alignment with the City's current and/or recommended fiscal policies, generate sufficient revenue to meet the revenue requirement forecast, and continue to resolve the remaining differences between current revenue collection versus the cost to provide service to each customer class.

The methodology, key factors, conclusions, and recommendations for each of the key task areas of the study are summarized in this executive level report. The full rate study can be found in the detailed rate models provided to the City.



2.0 Rate Study Methodology

Rate Setting Principles and Methodology

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 equitably collect those revenues.

The primary tasks of the rate study are listed below:

- Revenue Requirement Analysis. This analysis identifies the total revenue requirement to fully fund each system on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements and fiscal policy objectives.
- **Cost of Service Analysis (water and sewer utilities).** This analysis equitably distributes costs to customer classes based on their proportional demand and use of each system.
- **Rate Design Analysis.** This analysis includes the development of rates that generate sufficient revenue to meet each system's revenue requirement forecast and continues to address the City's pricing objectives (e.g. conservation and revenue stability).

Revenue requirement and rate design were completed for all utilities. A cost-of-service analysis was also performed for the water and sewer utilities. **Exhibit 1** illustrates the rate study process.



Exhibit 1. Overview of the Rate Study Process



City of Snoqualmie 2024 Utility Rate Study Update

Fiscal Policies

The foundation 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.

Reserves

Reserves are a key component of any utility financial strategy, as they provide flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. When evaluating fund reserve levels and objectives, it is important to recognize that the value of reserves lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuation of reserve levels may indicate that the system is working, while lack of variation over many years strongly suggests that the reserves are, in fact, unnecessary. For the purpose of financial planning for the City's utilities, resources are separated into the following reserve categories:

Operating Reserve. An operating reserve is designed to provide a liquidity cushion; it protects the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Like other types of reserves, operating reserves also serve another purpose: they can help smooth rate increases over time. Target funding levels for an operating reserve are generally expressed as a certain number of days of operating and maintenance (O&M) expenses, with the minimum day requirement varying with the expected revenue volatility of the utility.

Based on the City's financial policies, the target level for the operating reserve is set at 90 days of O&M expenses.

Capital Reserve. A capital 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 can also be used for other unanticipated capital needs including capital project cost overruns. Industry practices range from maintaining a balance equal to 1.00 to 2.00 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). The final target level should balance industry practice with the risk level of the City.

• In lieu of a formal policy from the City, an informal target for the capital contingency reserve has been created for modeling purposes. For each utility, the reserve target is equal to 1.00 percent of the original cost of the fixed asset values.

Debt Reserve. Bond covenants often establish reserve requirements as a means of protecting against the risk of nonpayment. A common reserve requirement is one year's debt service payment. 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.

• The City does not have a formal debt reserve policy outside of maintaining reserve funds as required by bond covenants. For modeling purposes, the study assumes reserves required by new debt issuances are funded through debt proceeds themselves. The City will determine the final reserve levels required as new debt is issued.



System Reinvestment

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A utility's infrastructure (e.g., storage reservoirs, treatment facilities, transmission/distribution/collection pipes, etc.) is a critical element of serving the City's customers. Establishing a financial plan for the eventual replacement of these assets ensures system reliability and integrity. This practice is known as system reinvestment funding. In the absence of a formal asset management plan, target system reinvestment funding levels are commonly linked to annual depreciation expense. 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. An alternative benchmark is annual depreciation expense net of debt principal payments on outstanding debt. 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).

• The City does not have a formal policy regarding system reinvestment funding. This study assumes there is no on-going annual system reinvestment contribution in addition to the City's current capital plan. Instead of a formal policy for dedicated system reinvestment funding, it is assumed that any cash above the minimum operating target balances is transferred to the capital fund as cash-funded capital.

Debt Management

Debt financing is a viable tool for capital funding. Compared with pay-as-you-go funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also creates intergenerational equity – also referred to as "pay-as-you-use" because future customers who use the assets are the ones paying for them. However, debt should not be relied on too heavily as it carries the risk of default. Debt also reduces budget flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. Debt service coverage is a metric used to evaluate the City's debt level.

Debt Service Coverage. Debt service coverage is typically a requirement associated with revenue bonds and some State loans and is a financial measure assessing the ability to repay debt.

- A typical minimum coverage requirement for utility revenue bonds is 1.25. If the City issues debt, the coverage requirements essentially require that the City collect enough revenue to meet operating expenses and not only pay annual debt service but collect an additional 25.00 percent above the bonded debt service. The extra revenue is a cushion that assures bondholders that the City has the financial resources to meet its debt service obligations. Achieving a debt service coverage level greater than the minimum required level is a positive signal to debt rating agencies and can result in more favorable terms when the City enters the market for new debt.
- According to the City's financial management policies, the City's existing goal is to seek to maintain or continually improve its bond rating to achieve the lowest possible interest rate available or maintain its AA bond rating. The City hopes to achieve this with a minimum total debt coverage target of 1.50.



Revenue Requirement Analysis

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each system. It also enables the City to set utility rate structures which fully recover the total cost of operating each 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 sound financial performance for the City's utilities, as well as establish a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis includes the following core elements to form a complete portrayal of the utility's financial obligations.

- **Fiscal Policy Analysis**. Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding and debt service coverage.
- **Capital Funding Plan**. Defines a strategy for funding the City's capital improvement/infrastructure replacement 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.

Cost of Service Analysis

The purpose of a cost-of-service analysis is to provide a rational basis for distributing the full costs of each 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).
- Sewer: flow (collection), strength (treatment) 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.

Cost Allocation. Allocates the costs from the functional cost allocation to different customer classes based on their unique demands for each service as defined by system planning documents, industry practice, 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.



Rate Design

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

No one rate structure will work well for every utility nor will one rate structure work equally well for all customer classes within a single utility. As a result, the rate design process develops fixed and variable rates that can be specific to each customer class of service. These fixed and variable rates are designed and tested to meet multiple objectives. Examples of these objectives may include:

- Revenue Sufficiency.
- Revenue Stability.
- Philosophical Continuity.
- Cost Alignment.
- Conservation & Efficiency.
- Fairness & Equity.
- Feasibility.
- Simplicity.
- Legal Defensibility.
- Affordability.



3.0 Water Utility

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Based on the utility's latest system plan, the City owns and operates its water system, which provides water to customers throughout its water service area boundary, which extends beyond the City's corporate limits. The City of Snoqualmie water system is supplied from two primary sources, Canyon Springs and the North Well Field. Canyon Springs is a natural flowing spring developed in 1953 that supplies the City via gravity flow and eliminates the need for pressure booster pumps with the exception of two booster pumps for the higher Hospital/Winery and Johnson Heights zones. The Canyon Spring supply is treated with chlorine with no requirement for filtration or fluoridation. The North Well Field consists of three deep wells. The wells pump water through a treatment facility to booster pumps that, in turn, pump to a covered reservoir. Treatment consists of iron and manganese removal, filtration and chlorination. Fluoride is not added. Water service is provided to a population of approximately 15,000 over a 14.5 square mile service area. The City's Public Works Department ensures that the water provided meets state and federal regulations and standards.

Revenue Requirement

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 City.

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 2024, 2025, and 2026 budgets formed the baseline for this forecast. The operating forecast was developed for the 2025 through 2030 rate setting period. The following list highlights some of the key assumptions used in the development of the water utility operating forecast.

Economic & Inflationary Factors

General Cost Inflation. 3.00 percent per year throughout the forecast period of 2025-2030 (represents long-term historical averages for the Consumer Price Index all urban consumer group (CPI-U)).

Construction Cost Inflation. 3.00 percent per year throughout the forecast period of 2025-2030 (represents long-term historical averages for the Engineering News Record Construction Cost Index (ENR-CCI)).

Labor Cost Inflation. 5.00 percent per year throughout the forecast period of 2025-2030 (based on staff input and approved labor agreements).

Benefit Cost Inflation. 5.00 percent per year throughout the forecast period of 2025-2030 (based on staff input).

State Excise Taxes. Public utility excise tax is 5.029 percent on all non-irrigation water rate revenue.

State B&O Tax. 1.75 percent on all non-rate revenue, including general facilities charge (GFC) revenue.

Additional O&M Expenses. While the 2024, 2025, and 2026 budgeted expenses were used as the basis to forecast future expenses, the following incremental expenses were added for the study period based on discussion with staff:

• Additional Full Time Equivalents (FTE) – The forecast includes an assumed hiring of an additional Distribution Tech in 2028 with an estimated total cost of \$120,000 in 2025 dollars.



<u>Reserves</u>

Operating Reserve. The reserve target is set equal to 90 days of operating and maintenance (O&M) expenses, or approximately 25 percent(\$1.0 million in 2025, \$1.2 million in 2030).

Capital Reserve. A target of one percent of the original cost of assets (\$0.5 million in 2025, \$0.8 million in 2030).

<u>Utility Revenue</u>

Rate Revenue. Based on actual detailed customer accounts and usage statistics from the City's billing system. Usage data from 2021, 2022, and 2023 was used to project revenues for the forecast period.

Non-Rate Revenue. Non-Rate revenue consists of late fees, hookup fees, investment interest, scrap sales, and other additional miscellaneous revenue sources.

Customer Growth. No customer growth was assumed in 2024 or 2025. A 0.5 percent growth rate was assumed for 2026 followed by an annual rate of 1.0 percent thereafter (based on input from City staff).

Interest Earnings. Interest rates are projected at 2.0 percent throughout the study period. Projections are based on discussions with City staff.

Debt Service

Existing Debt. The water utility currently has two outstanding revenue bonds, and one Limited Tax General Obligation (LTGO) bond. Annual existing debt service averages \$0.8 million throughout the rate setting period.

New Debt. Two new debt issues are anticipated to fund the \$35.2 million capital program. A \$4.0 million loan is anticipated in 2027. Following the initial issuance, an additional loan is forecasted in 2029 at \$11.9 million. The issuances planned in 2027 and 2029 are assumed to be revenue bonds with a term of 20 years, an interest rate of 5.0 percent and an issuance cost of 1.0 percent. A legal minimum coverage requirement of 1.25 is assumed for all existing and new revenue bond debt, with a 1.50 City policy target on total debt service. New debt payments are forecasted to begin at \$0.4 million annually in 2027, increasing to \$1.4 million annually after the issuance in 2029.

System Reinvestment

System reinvestment funding is to ensure system integrity through reinvestment in the system. A minimum funding target would be an amount equal to or greater than the annual depreciation expense. It is important to recognize that funding system reinvestment based on original cost depreciation will not fully meet future replacement needs. Ideally, the system reinvestment benchmark is tied to a detailed asset management plan. True replacement costs are generally higher than book values, increasing over time with the cost of labor and materials. Useful lives of assets should be based on condition assessments rather than accounting values. The schedule of replacement combined with accurate replacement costs enables jurisdictions to be more informed when setting a level of funding from rates.

The water utility is not currently funding dedicated system reinvestment. Instead, to avoid additional rate pressure, this study assumes that any cash above minimum operating target balances is transferred to the capital fund, averaging approximately \$0.6 million per year over the rate setting period. We recommend the City revisit system reinvestment funding during the next study and assess phasing-in system reinvestment towards deprecation levels.

Capital Funding Plan

The water utility is anticipating \$35.2 million, escalated to the year of construction, in capital costs from 2025 to 2030. Larger projects include South Wellfield Improvements, 1040 Zone Reservoir Additions, SR 202 Bridge Utility Main Replacements, 599 Zone Reservoir Additions, Snoqualmie Mill Water Main Loop, and various water line repair and replacement projects. Funding for the capital identified includes cash balances (including interest), project specific developer contributions, general facilities charge (GFC) revenue, and revenue bond proceeds.



Exhibit 2 provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

Water - Funding Summary	2025	2026	2027	2028	2029	2030	Total
Total Capital Costs	\$ 1,696,420	\$ 2,733,080	\$ 4,701,279	\$ 8,914,553	\$ 4,975,457	\$ 12, 148, 154	\$ 35,168,942
Funding Sources							
Cash Balances	\$ 1,672,474	\$ 2,082,904	\$ -	\$ 3,113,393	\$ -	\$ 440,569	\$ 7,309,339
Grant/Developer Funding	23,946	239,464	338,309	4,429,269	1,539,626	1,365,909	7,936,524
General Facilities Charge Revenue	-	410,712	850,297	884,563	920,211	957,296	4,023,079
Revenue Bond Proceeds	-	-	3,512,673	487,327	2,515,620	9,384,380	15,900,000
Total Capital Funding	\$ 1.696.420	\$ 2.733.080	\$ 4,701,279	\$ 8.914.553	\$ 4.975.457	\$ 12,148,154	\$ 35.168.942

Exhibit 2.	Water	Capital	Funding	Summarv	,
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Summary of Revenue Requirement

The operating forecast components of O&M expenses, existing debt service and future debt service 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 3** provides a summary of the water system revenue requirement findings.





Summary of water revenue requirement:

- Current revenue levels are sufficient to meet cash operating expenses and existing debt service throughout the study period, however they are unable to fully support the associated debt service on the new debt needed to fund the capital program.
 - » Incorporating the new debt service, the utility is projected to enter an operating deficit (revenues less operating expenses, existing debt service, and new debt service) in 2029. This deficient is equal to approximately \$0.9 million, increasing to \$1.0 million by 2030.



- » Without new debt proceeds, the utility is anticipated to run out of cash reserves by 2027.
- While existing revenues can support the policy and legal minimum coverage requirements during the study period, they are unable to do so when incorporating the new debt service requirements. It is projected the utility would fall below both the policy target of 1.50 and legal minimum requirement of 1.25 by 2029.
- To meet the total projected financial obligations of the water utility, rate increases are proposed at 4.00 percent annually throughout the study period. With the proposed rate increases the utility will be able to:
 - » Generate an operating surplus throughout the study period.
 - » Meet or exceed minimum reserve targets in all years of the study period except for 2028, when the capital reserve decreases slightly below target.
 - » Meet or exceed the legal and policy debt coverage minimum targets for revenue bonds and total debt service.

Cost of Service Analysis

A cost-of-service analysis determines the equitable recovery of costs from customers according to the unique demands each class places upon the system. There are three fundamental steps to allocating the annual revenue requirement to customer classes and developing the final rates – 1) allocate total utility costs by function, 2) develop customer specific allocation factors and 3) allocate costs to customer classes. The methodology used conforms to industry accepted practices as identified by the American Water Works Association (AWWA) Principles of Water Rates, Fees and Charges, M1 Manual.

The functions of service to which water service costs were allocated are listed below.

- **Customer.** These are the 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.** These costs are associated with installation, maintenance, and repairs of meters and services. These costs are typically allocated based on number of connections and meter size.
- **Base Costs.** These costs relate to average water demand services provided by the utility and are essentially correlated with year-round water consumption.
- **Peak Costs.** These costs relate to peak demand services 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.** These are the 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, transmission capacity, and hydrants for fire protection.

Exhibit 4 provides a summary of the functional cost allocation results.





Exhibit 4. Functional Cost Allocation Results

The water utility cost allocation indicates that 26.56 percent of costs are for base demands and 42.22 percent for peak demands. The remaining 31.22 percent are associated with fire protection (15.10 percent), customers (1.44 percent), and meters and services (14.68 percent).

Customer Class Distinctions

The City's current customer groupings consist of the following classes:

- Single Family
- Multi Family
- Commercial
- Retail Irrigation

Each of the current customer classes were reviewed separately in the cost-of-service analysis. One of the main objectives of the analysis is to evaluate if cost differences exist when serving different customer classes of the system.

Allocation Factors

Once the customer classes were defined, functional cost pools (shown in **Exhibit 4**) 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 costs to those benefiting from the service. For this study, the water fund costs were allocated based on the following:

Customer. Based on customer accounts.

Meters & Services Costs. Based on the number of meter service equivalents (MSE). Factors were developed using the proportionality of costs between the City's different meters.

Base Costs. Based on total annual water use.

Peak Costs. Based on the peak month water use.



Fire Protection. Based on fire flow gallons per minute and duration requirements identified in the City's Water System Plan.

Water Cost of Service

Exhibit 5 provides a comparison of current revenue distribution between customer classes and the results of the cost-of-service analysis. The results are expressed as cost recovery level. A class of service with cost recovery rate of 100.0 percent suggests that the class's rate revenue is consistent with the costs required to serve that class. A cost recovery rate below 100.0 percent indicates that the rate revenue collected from that class does not recover the full cost to provide service and, as a result, that particular customer class's costs are subsidized by rate revenue collected by the City's from other customers.

As a general practice, if a class's cost recovery rate is within 90.0 to 110.0 percent (shown by dashed lines), the class's rate revenue is considered within cost of service. Because costs fluctuate each year, the needed increase by class can also fluctuate and interclass rate changes are not suggested unless the class's cost recovery rate is consistently outside of the \pm 10.0 percent threshold.



Exhibit 5. Comparison of Water Current Revenue Distribution to Cost of Service Distribution

Based on the analysis, the Single Family and Commercial customer class rates are within the cost to provide service (104.0 percent and 97.1 percent cost recovery respectively) range. Multi Family rates are above the cost-of-service (167.5 percent cost recovery) range and Retail Irrigation rates (57.1 percent cost recovery respectively) are below the cost-of-service range.

Interpreting Cost of Service Results

A cost-of-service analysis is a snapshot in time and because costs fluctuate each year, the increase needed by class can also fluctuate. Typically, interclass rate changes are not necessarily suggested unless the class's revenue



difference is consistently outside of the ± 10.0 percent range of reasonableness, or multiple studies identify consistent trends indicating over / under collection within the range (e.g., consistently underpaying from study to study). In these instances, utilities can leverage several financial strategies to align rate revenues with cost of service results. These policy decisions may focus on the timing and level of rate adjustments for a particular class of service. For example, an agency may decide to gradually increase rates for a class of service over several years in order to make progress towards cost-of-service while also keeping the rate increases relatively affordable. If an agency anticipates major changes to programs and services in the future, it may consider a slower or delayed strategy to rate adjustments until new cost data is available.

FCS recommends the following guidelines when considering policy options to adjust existing rates based on cost-of-service results:

- **Prioritize Class-Specific Rate Adjustments.** Prioritize adjustments to those classes that are farthest outside the threshold. Consider monitoring future cost of service results for classes that are relatively close but outside of the threshold.
- **Develop Multi-Year Phase-In Plan.** Developing a multi-year rate strategy can transition classes towards cost-of-service while also addressing potential affordability concerns.
- **Consider Future Utility Costs.** Future cost of service results can shift in response to major changes in programs, facility operations, and availability of information. Gradually implementing rate adjustments can provide flexibility in responding to current and future costs.
- Hold Rates at Existing Levels. For those customer classes whose rates are higher than the cost of service, consider holding rates at existing levels until rates are generally aligned with cost. This strategy can avoid the need to lower rates in year one, only to increase rates in future years.
- **Monitor Long-Term Trends.** Further evaluation may be appropriate for classes that are outside the range of reasonableness to confirm if results are indicative of an on-going trend or are an anomaly. This can be a particularly effective strategy if a cost-of-service analysis has not been conducted recently or is being completed for the first time.
- Monitor Changes in Demand from Rate Adjustments. Significant decreases or increases to rates can impact the demand for utility services particularly for usage-based rates and subscription services. An agency should actively monitor the demand impact of major changes to rates and develop a contingency plan as needed.
- Seek Legal Counsel. Class-specific rate adjustments may be subject to existing contract agreements between the City and specific customer groups. FCS recommends that the City seek legal counsel to determine any legal restrictions or requirements that would affect rate adjustments based on the cost-of-service analysis.

Cost of Service Phase-In Strategy

Based on feedback from City Council, a multi-year strategy was developed to continue transitioning the classes of service toward cost-of-service over the six-year rate setting period. **Exhibit 6** shows the proposed increases by class of service. Pausing rate increases for multi family allows the class to make gradual progress towards cost-of-service.



Class of Service	2025	2026	2027	2028	2029	2030
Single Family	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Multi-Family	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Commercial	4.75%	4.60%	4.47%	4.33%	4.20%	4.07%
Retail Irrigation	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Systemwide Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Exhibit 6. Water Utility Cost of Service Phase-in Schedule

Rate Design

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. The results of the revenue requirement analysis and cost of service were used to forecast the rate levels needed to recover the projected revenue from customers.

Existing Water Rates

The existing water rates are composed of a fixed monthly charge that varies by meter size and a variable consumption charge per hundred cubic feet (ccf) of water usage. Both fixed charges and usage charges vary by customer class. Usage charges for single family are divided into three escalating pricing tiers that are applied year-round. All other customers are charged a uniform rate for all consumption used.

Exhibit 7 provides a summary of the existing monthly water utility rates. Although not shown in the exhibit, the City offers a low income discount rate for single family residents, as well as assess a multiplier to outside city customers equal to 1.5 times the inside-city rate.



Motor Sizo	Existing Rates										
wieter Size	Single Family	Commercial	Irrigation								
	Month	ly Fixed									
3/4"	\$ 39.17	\$ 48.55	\$ 51.63								
1"	49.18	60.94	64.81								
1.5"	81.50	101.00	107.40								
2"	135.99	168.51	179.21								
3"	204.19	253.00	269.06								
4"	272.22	337.31	358.73								
6"	408.07	505.63	537.73								
8"	544.13	674.22	717.04								
MF per Unit		\$31.19									
	Volume	(per ccf)									
Single Family											
Block 1 (0-300cf)		\$2.58									
Block 2 (301-800c		4.34									
Block 3 (801+cf)		5.42									
Multifamily		\$2.80									
Commercial		4.08									
Irrigation		4.33									

Exhibit 7. Existing Monthly Water Rates

Proposed Water Rates

To maintain consistency with the findings of the cost-of-service analysis, fixed and volume charges for each class of service were increased by the class specific phase-in percentage annual increase as identified in **Exhibit 6.** The proposed rates transition both multi family and retail irrigation towards their respective cost-of-service.

Exhibit 8 provides a summary of the proposed rates for the rate setting period.



Motor	E	xisting		Proposed - Single Family									
ivieter	Res	idential	2025		2026		2027		2028		2029		2030
				Ν	/Ionthly Fi>	œd							
3/4"	\$	39.17	\$ 40.74	\$	42.37	\$	44.06	\$	45.82	\$	47.65	\$	49.56
1"		49.18	51.15		53.20		55.33		57.54		59.84		62.23
1.5"		81.50	84.76		88.15		91.68		95.35		99.16		103.13
2"		135.99	141.43		147.09		152.97		159.09		165.45		172.07
3"		204.19	212.36		220.85		229.68		238.87		248.42		258.36
4"		272.22	283.11		294.43		306.21		318.46		331.20		344.45
6"		408.07	424.39		441.37		459.02		477.38		496.48		516.34
8"		544.13	 565.90		588.54		612.08		636.56		662.02		688.50
MF per Unit	\$	31.19	\$ 31.19	\$	31.19	\$	31.19	\$	31.19	\$	31.19	\$	31.19
				Vo	olume (per	ccf)						
Single Family			 										
Block 1 (0-300cf)	\$	2.58	\$ 2.68	\$	2.79	\$	2.90	\$	3.02	\$	3.14	\$	3.27
Block 2 (301-800cf)		4.34	4.51		4.69		4.88		5.08		5.28		5.49
Block 3 (801+cf)		5.42	 5.64		5.87		6.10		6.34		6.59		6.85
Multifamily	\$	2.80	\$ 2.80	\$	2.80	\$	2.80	\$	2.80	\$	2.80	\$	2.80

Exhibit 8. Proposed Monthly Water Rates

Matau	E>	kisting				Р	roposed -	Cor	nmercial		
wieter	Con	nmercial	2025		2026		2027		2028	2029	2030
				N	lonthly Fix	ed					
3/4"	\$	48.55	\$ 50.86	\$	53.20	\$	55.58	\$	57.99	\$ 60.43	\$ 62.89
1"		60.94	63.83		66.77		69.75		72.77	75.83	78.92
1.5"		101.00	105.80		110.67		115.61		120.62	125.69	130.81
2"		168.51	176.51		184.64		192.89		201.25	209.70	218.24
3"		253.00	265.01		277.21		289.59		302.13	314.82	327.64
4"		337.31	353.33		369.60		386.11		402.84	419.76	436.86
6"		505.63	529.64		554.03		578.77		603.84	629.21	654.84
8"		674.22	706.24		738.76		771.76		805.19	839.02	873.19
				Vo	lume (per	ccf)				
All Volume - \$ / ccf	\$	4.08	\$ 4.27	\$	4.47	\$	4.67	\$	4.87	\$ 5.07	\$ 5.28

Motor	E	xisting					Proposed	- In	rigation		
Weter	In	rigation	2025		2026		2027		2028	2029	2030
			М	ont	thly Fixed	Cha	irge				
3/4"	\$	51.63	\$ 55.12	\$	58.84	\$	62.81	\$	67.05	71.58	\$ 76.41
1"		64.81	69.18		73.85		78.83		84.15	89.83	95.89
1.5"		107.40	114.65		122.39		130.65		139.47	148.88	158.93
2"		179.21	191.31		204.22		218.00		232.72	248.43	265.20
3"		269.06	287.22		306.61		327.31		349.40	372.98	398.16
4"		358.73	382.94		408.79		436.38		465.84	497.28	530.85
6"		537.73	574.03		612.78		654.14		698.29	745.42	795.74
8"		717.04	765.44		817.11		872.26		931.14	993.99	1,061.08
			М	lont	thly Fixed	Cha	irge				
All Volume - \$ / ccf	\$	4.33	\$ 4.62	\$	4.93	\$	5.26	\$	5.62	\$ 6.00	\$ 6.41

Summary

The analysis described above concludes the rate study for the water utility. The revenue requirement analysis results indicate that revenues at current levels are not sufficient to fund ongoing water system obligations as operating expenses and capital planning obligations continue to grow and new debt service is recognized to support the planned \$35.2 million in capital project costs. If no rate adjustments are made, the water system operating deficit will grow to \$1.0 million by 2030. Additionally, cash reserves would fall below zero starting in



2027 without rate adjustments. A 4.00 percent annual systemwide increase is proposed from 2025 to 2030. Charges for different classes were adjusted to meet revenue targets identified in the cost-of-service phase-in.

We recommend that the City revisit the study findings during the 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.



4.0 Sewer Utility

Introduction

The City owns and operates a municipal sewage collection and treatment system that includes 14 pump stations with associated force mains, approximately 43 miles of gravity sewer pipes, and a water reclamation facility that is capable of producing reuse quality effluent and with future plans to produce Class A biosolids. The reuse facility has one outfall to the Snoqualmie River immediately upstream of Snoqualmie Falls. Highly treated reclaimed water (effluent) is also pumped to a pond at the golf course at The Club at Snoqualmie Ridge for reuse as irrigation water for the golf course and other irrigated areas in Snoqualmie.

Revenue Requirement

Similar to the water utility, a revenue requirement was completed for the sewer utility and forms the basis for the long-range financial plan and multi-year financial management strategy.

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 sewer system. The 2024, 2025, and 2026 budgets formed the baseline for this forecast. The operating forecast was developed for the 2025 through 2030 rate setting period. The following list highlights some of the key assumptions used in the development of the sewer utility operating forecast.

Economic & Inflationary Factors

General Cost Inflation. 3.00 percent per year throughout the forecast period of 2025-2030 (represents long-term historical averages for the Consumer Price Index all urban consumer group (CPI-U)).

Construction Cost Inflation 3.00 percent per year throughout the forecast period of 2025-2030 (represents long-term historical averages for the Engineering News Record Construction Cost Index (ENR-CCI)).

Labor Cost Inflation. 5.00 percent per year throughout the forecast period of 2025-2030 (based on staff input and approved labor agreements).

Benefit Cost Inflation. 5.00 percent per year throughout the forecast period of 2025-2030 (based on staff input).

State Excise Taxes. Public utility excise tax is 3.852 percent on all collection-related sewer rate revenue. The collection portion of rate revenues is assumed to be 39.00 percent based on discussion with City staff.

State B&O Tax. 1.75 percent on all treatment-related rate revenue, non-rate revenue and general facilities charge (GFC) revenue. The treatment related portion of rate revenue is assumed to be 71.00 percent based on discussion with City staff.

Additional O&M Expenses. While the 2024-2026 budgeted expenses were used as the basis to forecast future expenses, the following incremental expenses were added for the study period based on discussion with staff:

• General Sewer Plan: The forecast assumes the completion of a general sewer plan update in 2030, forecasted at \$0.2 million in 2025 dollars.

Reserves

Operating Reserve. The reserve target is set equal to 90 days of operating and maintenance (O&M) expenses, or approximately 25 percent (\$1.1 million in 2025, \$1.3 million in 2030).

Capital Reserve. A target of one percent of the original cost of assets (\$1.0 million in 2025, \$1.1 million in 2030).



Utility Revenue

Rate Revenue. Based on actual detailed customer accounts and usage statistics from the City's billing system. Usage data from 2023 was used to project revenues for 2024 and thereafter.

Non-rate Revenue. Non-rate revenue consists of engineering services charges, investment interest, miscellaneous revenues, and other fees and charges.

Customer Growth. No customer growth was assumed in 2024 or 2025. A 0.5 percent growth rate was assumed for 2026 followed by an annual rate of 1.0 percent thereafter (based on input from City staff).

Interest Earnings. Interest rates are projected at 2.0 percent throughout the forecast period. Projections are based on discussions with City staff.

Debt Service

Existing Debt. The sewer utility currently has two outstanding revenue bonds, one Public Works Trust Fund (PWTF) loan, and one LTGO bond. Annual debt payments on the outstanding debt range from \$1.0 million to \$1.2 million during the rate setting period.

New Debt. Three new debt issues are anticipated to fund the \$23.1 million capital program. A \$2.6 million revenue bond is anticipated in 2025 in addition to a low-cost Department of Ecology loan of \$6.9 million. Following the initial two issuances, an additional loan is forecasted in 2027 at \$6.7 million utilizing revenue bond financing. Consistent with the water utility assumptions, the assumed revenue bond terms consist of a 20-year duration, an interest rate of 5.0 percent and an issuance cost of 1.0 percent. New debt payments are forecasted to begin 2025 at \$0.5 million, increasing to \$1.1 million per year in 2027 and thereafter throughout the rate setting period..

System Reinvestment

The sewer utility is not currently funding dedicated system reinvestment. Instead, to avoid additional rate pressure, this study assumes that any cash above minimum operating target balances is transferred to the capital fund, averaging approximately \$0.8 million per year over the rate setting period. We recommend the City revisit system reinvestment funding during the next study and assess phasing-in system reinvestment towards depreciation levels.

Capital Funding Plan

The sewer utility is anticipating \$23.1 million in capital costs from 2025 to 2030 escalated to the date of construction. Some of the most significant capital projects include Activated Sludge Basins Improvements, Reclaimed Water Storage Reservoir, SR 202 Bridge Class A Water Main Replacement, and numerous projects in combination with street utility improvements. Funding for the capital identified includes cash balances, rate funded capital, general facilities charge (GFC) revenue and new debt proceeds. **Exhibit 9** provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.



Sewer - Funding Summary	2025	2026	2027	2028	2029	2030	Total		
Total Capital Costs	\$ 9,701,628	\$ 2,335,677	\$ 2,008,268	\$ 6,586,534	\$ 1,715,726	\$ 728,372	\$ 23,076,205		
Funding Sources									
Cash Balances	\$ -	\$ 1,658,307	\$ -	\$ 543,120	\$ 998,761	\$ -	\$ 3,200,189		
General Facilities Charge Revenue	241,628	677,370	662,492	689,190	716,964	728,372	3,716,016		
Revenue Bond Proceeds	2,600,000	-	1,345,777	5,354,223	-	-	9,300,000		
Other Loan Proceeds	6,860,000	-	-	-	-	-	6,860,000		
Total Capital Funding	\$ 9,701,628	\$ 2,335,677	\$ 2,008,268	\$ 6,586,534	\$ 1,715,726	\$ 728,372	\$ 23,076,205		

Exhibit 9. Sewer Capital Funding Summary

Summary of Revenue Requirement

The operating forecast components of O&M expenses, existing debt service, and future debt service come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the sewer system to the expenses in order to evaluate the sufficiency of rates. **Exhibit 10** provides a summary of the sewer system revenue requirement findings.



Exhibit 10. Sewer Utility Revenue Requirement Summary

Summary of sewer revenue requirement:

- Current revenue levels are sufficient to meet cash operating expenses and existing debt service throughout the study period, however they are unable to fully support the associated debt service on the new debt needed to fund the capital program.
 - » Incorporating the new debt service, the utility is projected to enter an operating deficit (revenues less operating expenses, existing debt service, and new debt service) in 2027. This deficient is equal to approximately \$0.4 million, increasing to \$0.9 million by 2030.
 - » Without new debt proceeds, the utility is anticipated to run out of cash reserves by 2025.



- » While existing revenues can support the policy and legal minimum coverage requirements during the study period, they are unable to do so when incorporating the new debt service requirements. It is projected the utility would fall below the policy target of 1.50 in 2025 and the legal minimum requirement of 1.25 by 2030.
- To meet the total projected financial obligations of the sewer utility, rate increases are proposed at 10.00 percent in 2025 and 3.00 percent annually for the remainder of the study period. With the proposed rate increases the utility will be able to:
 - » Generate an operating surplus throughout the study period.
 - » Meet or exceed minimum reserve targets in all years of the study period except for 2026 and 2029, when the capital reserve decreases below target.
 - » Meet or exceed the legal and policy debt coverage minimum targets for revenue bonds and total debt service with the exception of 2025 when total debt coverage falls below the policy of 1.50.

Cost of Service Analysis

Similar to the water utility, the cost-of-service analysis process for the sewer utility involves three steps - 1) allocate total utility costs by function, 2) develop customer class specific allocation factors and 3) allocate costs to customer classes. The methodology used conforms to industry accepted practices as identified by the Water Environment Federation (WEF) Financing and Charges for Sewer Systems Manual 27.

The functions of service to which sewer service costs have been allocated are listed below.

- **Customer.** These costs are associated with providing service to customers regardless of sewer contribution, such as billing and office support.
- Sewer Flow. These costs relate to actual and estimated sewer volume processed within the system in a year.
- Biochemical Oxygen Demand (BOD). Costs associated with the treatment of BOD.
- Total Suspended Solids (TSS). Costs associated with the treatment of TSS.
- **Reclaimed Water.** Incremental costs associated with the production and distribution of reclaimed water above treatment level requirements.

Exhibit 11 provides a summary of the functional cost allocation results.

Exhibit 11. Sewer Utility Functional Cost Allocation Summary





The sewer utility cost allocation indicates that 50.0 percent of costs are related to flow, 24.4 percent related to BOD, 19.6 percent related to TSS, 4.8 percent related to reclaimed water and the remaining 1.1 percent of costs are related to customer.

Customer Class Distinctions

A class of service is a group of utility customers with similar usage characteristics who are served at similar costs. Classes of service can be defined based on several factors such as flow, strength, service requirements, geography, or other factors. A cost-of-service analysis determines the proportional recovery of costs from each class of service based on these unique demands. The customer classes evaluated as part of the sewer rate study are based on the City's existing rates and include:

- Residential
- Multi Family
- Commercial Low
- Commercial High
- Reclaimed Water

Allocation Factors

The next step in the cost-of-service analysis involves distribution of the allocated system costs to the customer classes served by the system. The functional system-wide costs are allocated to these customer classes based on the following:

- Customer. Based on the number of accounts.
- **Flow.** Based on the estimated annual wastewater flow measured in hundred cubic feet (ccf) at the plant from all classes, including inflow and infiltration (I&I).
- **BOD Strength.** Based on total flow at the plant weighted by the BOD strength measured in milligrams per liter. Based on discussions with City staff, it was assumed that all customer classes contribute the same strength wastewater to the system apart from commercial high customers. The strength of commercial high customers was assumed to be three times greater than domestic wastewater.
- **TSS Strength.** Based on total flow at the plant weighted by the TSS strength measured in milligrams per liter. Based on discussions with City staff, it was assumed that all customer classes contribute the same strength wastewater to the system apart from commercial high customers. The strength of commercial high customers was assumed to be three times greater than domestic wastewater.
- **Reclaimed Water.** Costs are directly assigned to the reclaimed water customers.

Sewer Cost of Service

The final step of the cost-of-service analysis is to compare the allocation of the test year revenue requirement with the rate revenue generated by each customer class at existing rates. This evaluation identifies general differences between the allocated cost to provide utility services to customer classes and the rate revenue collected. It also identifies proportional differences in the cost that the City incurs to provide services to different customer classes. The cost-of-service analysis provides an initial and reasonable basis for potential rate adjustments to align rates with the cost of providing service. This cost-rate relationship is a primary tool used by public utilities when developing changes to rates.



Exhibit 12 below provides a comparison of the current rate revenue distribution between the customer classes and the distribution of revenues resulting from the cost-of-service analysis within the sewer utility.



Exhibit 12. Comparison of Sewer Current Revenue Distribution to Cost of Service Distribution

As discussed in the water utility section, the results are expressed as cost recovery level. A class of service with cost recovery rate of 100.0 percent suggests that the class's rate revenue is consistent with the costs required to serve that class. A cost recovery rate below 100.0 percent indicates that the rate revenue collected from that class does not recover the full cost to provide service and, as a result, that particular customer class's costs are subsidized by rate revenue collected by the City's from other customers.

As a general practice, if a class's cost recovery rate is within 90.0 to 110.0 percent (shown by dashed lines), the class's rate revenue is considered within cost of service. Because costs fluctuate each year, the needed increase by class can also fluctuate and interclass rate changes are not suggested unless the class's cost recovery rate is consistently outside of the \pm 10.0 percent threshold.

Based on the analysis, the Commercial Low and Reclaimed customer classes are within the range of reasonableness (105.3 percent and 94.3 percent cost recovery respectively). Residential and Multi Family rates are above cost-of-service (115.6 percent and 129.9 percent cost recovery respectively) range and Commercial High are below the cost-of-service range (56.5 percent cost recovery)

Cost of Service Phase-In Strategy

Similar to the water utility, based on feedback from City Council, a multi-year strategy was developed to continue transitioning the classes of service toward cost-of-service over the six-year rate setting period. The proposed rate increases by class are outlined in **Exhibit 13** below. The phase-in approach provides an alternative to a one-time increase, therefore spreading the impact over a multi-year time horizon. This phase-in strategy is anticipated to



bring the residential and multi-family customer classes within the cost-of-service range of reasonableness by the end of the rate setting period. The strategy also makes progress for the commercial high class of service.

Class of Service	2025	2026	2027	2028	2029	2030
Residential	9.50%	2.25%	2.25%	2.25%	2.25%	2.25%
Multi-Family	2.00%	1.00%	0.00%	0.00%	0.00%	0.00%
Commercial Low	11.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Commercial High	16.24%	7.08%	7.43%	7.20%	6.99%	6.81%
Reclaimed Water	12.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Systemwide Increase	10.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Exhibit 13. Sewer Utility Cost of Service Phase-In Schedule

Rate Design

As discussed in the water utility section, the principal objective of the rate design stage is to implement rate structures that collect the appropriate level of revenue as outlined by the revenue requirement and cost of service.

Existing Sewer Rates

The existing sewer rates consist of a monthly fixed rate for the residential and multi-family classes. The commercial and reclaimed water classes pay a monthly fixed rate plus a volume rate per hundred cubic feet (ccf) of flow over the monthly usage allowance of six ccf per unit. Reclaimed water users pay a monthly fixed rate dependent on the number of zones they occupy as well as volume rate per ccf of flow on all usage. **Exhibit 14** provides a summary of the existing City sewer rates.



Class	E	xisting
Monthly f	ixed	
Residential	\$	84.62
Multi Family		63.19
Commercial		
Low Commercial		104.91
High Commercial		134.70
Reclaimed Water		
Bandera		35.00
BP		1,066.00
COS		3,129.00
JT		140.00
ROA		2,089.00
Golf		-
Venture		140.00
Total Reclaimed		6,599.00
\$ / Zone		8.74
Volume per ccf > 60	cf pe	er month
Commercial		
Low Commercial	\$	7.59
High Commercial		10.66
Reclaimed Water		
Golf		0.98
All Others		3.31

Exhibit 14. Existing Monthly Sewer Rates

Proposed Sewer Rates

Based on the results of the cost-of-service analysis, as identified in **Exhibit 12**, the residential, multi family, and commercial high classes were outside the cost-of-service range of reasonableness. The proposed rate adjustments are applied across the board based on the class specific rate adjustment from the phase-in described in **Exhibit 13**. **Exhibit 15** provides a summary of the proposed City sewer rates for the rate setting period.



Class	Class Proposed														
Class		xisting	2025			2026		2027		2028		2029		2030	
						Monthly fix	ed								
Residential	\$	84.62	\$	92.66	\$	94.74	\$	96.87	\$	99.05	\$	101.28	\$	103.56	
Multi Family		63.19		64.45		65.09		65.09		65.09		65.09		65.09	
Commercial															
Low Commercial		104.91		116.45		119.94		123.54		127.25		131.07		135.00	
High Commercial		134.70		156.57		167.65		180.10		193.07		206.57		220.63	
Reclaimed Water															
Bandera		35.00		39.20		40.77		42.40		44.10		45.86		47.69	
BP		1,066.00		1,193.92		1,241.68		1,291.35		1,343.00		1,396.72		1,452.59	
COS		3,129.00		3,504.48		3,644.66		3,790.45		3,942.07		4,099.75		4,263.74	
JT		140.00		156.80		163.07		169.59		176.37		183.42		190.76	
ROA		2,089.00		2,339.68		2,433.27		2,530.60		2,631.82		2,737.09		2,846.57	
Golf		-		-		-		-		-		-		-	
Venture		140.00		156.80		163.07		169.59		176.37		183.42		190.76	
Total Reclaimed		6,599.00		7,390.88		7,686.52		7,993.98		8,313.73		8,646.26		8,992.11	
\$ / Zone		8.74		9.79		10.18		10.59		11.01		11.45		11.91	
		Vol	um	e per ccf >	6	ccf per mor	th	(Commerc	ial	only)					
Commercial															
Low Commercial	\$	7.59	\$	8.42	\$	8.67	\$	8.93	\$	9.20	\$	9.48	\$	9.76	
High Commercial		10.66		12.39		13.27		14.26		15.29		16.36		17.47	
Reclaimed Water															
Golf		0.98		1.10		1.14		1.19		1.24		1.29		1.34	
All Others		3.31		3.71		3.86		4.01		4.17		4.34		4.51	

Exhibit 15. Proposed Monthly City Sewer Rates

Summary

The analysis described above concludes the rate study for the sewer utility. The revenue requirement analysis results indicate that revenues at current levels are not sufficient to fund the identified capital improvement program of \$23.1 million. As a result, a systemwide 10.0 percent rate increase is proposed in 2025, followed by 3.0 annual increases from 2026 to 2030. Similar to the water utility, charges by customer class are adjusted to collect the revenue targets identified within the cost of service phase in.

We recommend that the City revisit the study findings during the 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.



5.0 Stormwater Utility

Introduction

The City's Public Works Department Storm Division is committed to providing a well-functioning storm drainage system throughout Snoqualmie. This is accomplished through routine maintenance and improvements. Routine maintenance includes street sweeping, mowing, storm drain cleaning, stormwater pond cleaning, urban forestry management, and snowplowing. Improvements include storm drain construction, pavement overlays and street reconstruction related to storm drains.

Revenue Requirement

The stormwater utility revenue requirement was established similar to the other utilities; it is developed by completion of 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 stormwater utility on a standalone basis.

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 stormwater system. The 2024, 2025, and 2026 budgets formed the baseline for this forecast. The operating forecast was developed for the 2025 through 2030 rate setting period. The following list highlights some of the key assumptions used in the development of the stormwater utility operating forecast.

Economic & Inflationary Factors

General Cost Inflation. 3.00 percent per year throughout the forecast period of 2025-2030 (represents long-term historical averages for the Consumer Price Index all urban consumer group (CPI-U)).

Construction Cost Inflation. 3.00 percent per year throughout the forecast period of 2025-2030 (represents long-term historical averages for the Engineering News Record Construction Cost Index (ENR-CCI)).

Labor Cost Inflation. 5.00 percent per year throughout the forecast period of 2025-2030 (based on staff input and approved labor agreements).

Benefit Cost Inflation. 5.00 percent per year throughout the forecast period of 2025-2030 (based on staff input).

State B&O Tax. 1.75 percent on all revenue including general facilities charge (GFC) revenue.

<u>Reserves</u>

Operating Reserve. The reserve target is set equal to 90 days of operating and maintenance (O&M) expenses, or approximately 25 percent of annual O&M expenses (\$0.7 million per year).

Capital Contingency Reserve. A target of one percent of the original cost of assets (\$0.3 million in 2025, \$0.4 million in 2030).

Operating Revenue

Rate Revenue. Based on actual detailed customer accounts and equivalent service units (ESUs) from the City's billing system. Customer data from 2023 was used to project revenues for 2024 and thereafter.

Non-rate Revenue. Non-rate revenue consists of finance charges, late fees, and investment interest.

Customer Growth. No customer growth was assumed in 2024 or 2025. A 0.5 percent growth rate was assumed for 2026 followed by an annual rate of 1.0 percent thereafter (based on input from City staff).



Interest Earnings. Interest rates are projected at 2.0 percent throughout the forecast period. Projections are based on discussions with City staff.

Debt Service

Existing Debt. The stormwater utility currently has two outstanding revenue bonds and one LTGO bond. Annual debt service averages \$0.3 million throughout the rate setting period.

New Debt. Three new debt issues are anticipated to fund the \$15.4 million capital program. A \$1.7 million revenue bond is anticipated in 2025. Following the initial issuance subsequent debt issuances are forecasted in 2027 at \$4.2 million and 2029 at \$2.9 million.

System Reinvestment

The stormwater utility is not currently funding dedicated system reinvestment. Instead, to avoid additional rate pressure, this study assumes that any cash above minimum operating target balances is transferred to the capital fund, averaging approximately \$0.4 million per year over the rate setting period. We recommend the City revisit system reinvestment funding during the next study and assess phasing-in system reinvestment towards depreciation levels..

Capital Funding Plan

The stormwater utility is anticipating \$15.4 million in capital costs from 2025 to 2030 escalated to the date of construction. Some of the more significant capital projects include Sandy Cove Park Riverbank Restoration & Outfall Project, Kimball Creek Riparian Restoration Project, and an SR 202 Drainage Improvement Project. Funding for the capital identified includes cash balances, rate funded capital, revenue bond proceeds, and general facilities charge revenue. **Exhibit 16** provides a summary of the funding sources for the capital funding expenditures. The full capital plan can be found in the detailed rate model provided to the City.

Storm - Funding Summary	2025	2026	2027	2028	2029	2030	Total
Total Capital Costs	\$ 4,921,034	\$ 1,246,094	\$ 2,192,046	\$ 2,917,665	\$ 2,974,850	\$ 1,121,468	\$ 15,373,157
Funding Sources							
Cash Balances	\$ 3,221,034	\$ 1,095,378	\$ -	\$ 273,081	\$ -	\$ 507,341	\$ 5,096,834
General Facilities Charge Revenue	-	150,716	312,028	324,603	337,684	351,293	1,476,323
Revenue Bond Proceeds	1,700,000	-	1,880,018	2,319,982	2,637,166	262,834	8,800,000
Total Capital Funding	\$ 4,921,034	\$ 1,246,094	\$ 2,192,046	\$ 2,917,665	\$ 2,974,850	\$ 1,121,468	\$ 15,373,157

Exhibit 16. Storm Capital Funding Summary

Summary of Revenue Requirement

The operating forecast components of O&M expenses, existing debt service, and future debt service come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the stormwater system to the expenses to evaluate the sufficiency of rates. **Exhibit 17** provides a summary of the stormwater revenue requirement findings.







Summary of stormwater revenue requirement:

- Current revenue levels are sufficient to meet cash operating expenses and existing debt service throughout the study period, however they are unable to fully support the associated debt service on the new debt needed to fund the capital program.
 - » Incorporating the new debt service, the utility is projected to enter an operating deficit (revenues less operating expenses, existing debt service, and new debt service) in 2025. This deficient is equal to approximately \$0.1 million, increasing to \$0.7 million by 2030.
 - » Without new debt proceeds, the utility is anticipated to run out of cash reserves by 2025.
 - » While existing revenues can support the policy and legal minimum coverage requirements during the study period, they are unable to do so when incorporating the new debt service requirements. It is projected the utility would fall below the policy target of 1.50 starting in 2025 and the legal minimum requirement of 1.25 by 2027.
- To meet the total projected financial obligations of the stormwater utility, rate increases are proposed at 5.00 percent annually throughout the study period. With the proposed rate increases the utility will be able to:
 - » Generate an operating surplus throughout the study period except for 2025 when expected O&M expenses and debt service slightly outpace revenues.
 - » Meet or exceed minimum reserve targets in all years of the study period except for 2026 and 2028, when the capital reserve decreases slightly below target.
 - » Meet or exceed the legal and policy debt coverage minimum targets for revenue bonds and total debt service.



Rate Design

As discussed in the water utility section, the principal objective of the rate design stage is to implement rate structures that collect the appropriate level of revenue as outlined by the revenue requirement and cost of service.

Existing Stormwater Rates

As discussed in previous sections, the principal objective of the rate design stage is to implement rate structures that collect the appropriate level of revenue as outlined by the revenue requirement.

The existing stormwater rate is a monthly flat fee that is charged to each customer per equivalent service unit (ESU). Each single family customer is considered one (1) ESU. All non-single family customers are charged based on the total amount of impervious surface area on site. The average single family residential lot has 2,600 square feet of impervious surface area. The total impervious surface area for a non-single family lot is divided by 2,600 to calculate the number of ESUs for that account. **Exhibit 18** highlights the current monthly rate charged per ESU (2,600 square feet of impervious surface area).

Exhibit 18. Existing Stormwater Rates

Description	Ex	isting
Monthly Charge -	\$	28 57
(per ESU)	Ψ	20.57

Proposed Stormwater Rates

No rate structure changes were proposed for the stormwater utility, with the increases applied proportionately to the per ESU rate. **Exhibit 19** details the existing and proposed rates for the 2025 to 2030 rate setting period.

Exhibit 19. Proposed Stormwater Rates

Description I	Evicting		Proposed											
	EX	isung		2025		2026		2027		2028	2029			2030
Monthly Charge - (per ESU)	\$	28.57	\$	30.00	\$	31.50	\$	33.08	\$	34.73	\$	36.47	\$	38.29

Summary

The analysis described above concludes the rate study for the stormwater utility. The revenue requirement analysis results indicate that revenues at current levels are not sufficient to fund the identified capital improvement program of \$15.4 million. As a result, a 5.0 percent annual system wide increase is proposed from 2025 to 2030.

We recommend that the City revisit the study findings during the 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.



6.0 Meetings and Workshops

Introduction

The City of Snoqualmie owns and operates a public water, wastewater, and stormwater system. This system is governed by elected officials who serve on the City Council as well as take part in various Committees. As a part of the rate study, presentations were made to the Council and Committees to educate, discuss and request approval on overall rate increases, cost of service findings and rate structure adjustments for all three utilities. The intention of this chapter is to provide a timeline tracking the presentations given, feedback received and ultimately the approvals granted.

Meetings and Workshop Timeline

Throughout the rate study process, FCS participated in twelve meetings/workshops with the City Council and Parks and Public Works Committee and provided support in additional presentations development presented by staff. The material presented and resulting feedback from the Council and Committee is detailed below.

June 24th, 2024: City Council – Rate Setting Fundamentals

Items Presented:

- Background on prior rate study completed.
- Overview of the rate study process.
 - » Revenue requirement.
 - » Cost of service.
 - » Rate design.
- General facilities charges overview.

July 2nd, 2024: Parks & Public Works Committee – Revenue Requirement Review

Items Presented:

- Presentation focused on the outline of the revenue requirement and discussed the following:
 - » Key elements (e.g., revenue and expense forecast).
 - » Key assumptions.
 - » Results presented preliminary scenarios for consideration focusing on alternative capital funding options.

Feedback Provided:

• Discussed the use of debt funding and City staff reviewed the concept of "intergenerational equity" for utility customers.

July 8th, 2024: City Council - Revenue Requirement Review

Items Presented:

- Presented revenue requirement summary to the full Council. Presentation focused on:
 - » Key elements (e.g., revenue and expense forecast).



» Key assumptions.

» Results – presented preliminary scenarios for consideration focusing on alternative capital funding options.

Feedback Provided:

 Received feedback regarding preferences for reduced borrowing and requested additional scenarios for water and stormwater utilities.

October 22nd, 2024: Parks & Public Works Committee - Cost of Service

Items Presented:

- Rate study results
 - Revenue requirement presented the requested scenario from prior Council meeting.
 - Cost of service
 - » Presented preliminary findings for the water and sewer utilities.
 - » Presented a phase-in to move classes towards cost-of-service, consist with prior rate study Council guidance.

Feedback Provided:

- The Committee provided guidance regarding a preference to continue the phase in.
- The Committee requested additional scenarios focusing on alternative multi-family phase-in strategies.

November 5th, 2024: Parks and Public Works Committee – Cost of Service Update

Items Presented:

- The presentation focused primarily on the requested cost-of-service phase-in alternatives.
- Sample impacts by customer class of service were provided.

Feedback Provided:

• The Committee provided direction on the cost of service phase-in and rate design to be taken to the full Council.

November 12th, 2024: City Council – Cost of Service

Items Presented:

- Revenue requirement summary provided an update on the latest requested revenue requirement scenario, focusing on reducing debt for the water and stormwater utilities.
- A cost-of-service summary was provided, discussing the recommendations made at the Committee.

Feedback Provided:

• Council provided feedback on cost-of-service and phase-in preference.

November 19th, 2024: Parks and Public Works Committee- Introduction to Rate Design

Items Presented:

- The presentation predominantly focused on introduction to rate design.
 - » Reviewed existing rate structures.



» Discussed alternatives for consideration for each utility.

Feedback Provided:

Committee provided feedback regarding cost of service phase-in and direction on rate design. The primary
focus was to continue making progress on cost-of-service, leaving existing rate structures in place for all
classes of service within all three utilities.

December 3rd, 2024: Parks and Public Works Committee – Rate Design

Items Presented:

- Presentation provided minor update on revenue requirement based on changes to the budgeted staffing levels.
- Rate design provided rate tables consistent with Committee's and Councils' prior guidance.

Feedback Provided:

• Committee provided direction in support of an across the board rate design (no structural changes).

December 9th, 2024: City Council – Rate Design

Items Presented:

- The presentation focused on summarizing all steps of the rate study process, based on the feedback provided by the Committee and Council.
 - » Maximize debt for sewer and reduced debt hybrid cash scenario for water and stormwater.
 - » Phase-in cost-of-service strategy for water and sewer.
- Rate design provided the summary of the guidance received from recent Committee meetings, focusing on an across-the-board rate adjustments based on cost-of-service phase-in class specific adjustments.
 - » Impacts by class of service were provided.

Feedback Provided:

• City Council provided support regarding the presented materials.

January 13th, 2025: City Council – Rate Study Summary

Items Presented:

- Presentation provided a review of the prior meetings and guidance given by the Council.
- Additional scenarios were generated to address concerns expressed during a January 7th, 2025 staff presentation and discussion with the Committee.
 - » Additional scenarios focused on keeping the average increase for all three utilities below 10.0 percent in 2025.
 - The discussion focused on the adjustments necessary to develop the scenario, including delays in rate implementation and impacts on revenues, changes in timing of capital improvement program, coverage policy achievement, amount others.
 - Cost-of-service and rate design components of the study were redone based on the additional scenario.
- Committee requested a summary of past rate adjustments by customer class of service.

Feedback Provided:



City of Snoqualmie 2024 Utility Rate Study Update

• Council provided direction to revisit the capital improvement program and maximize debt to keep the rate pressure as low as possible.

February 19th, 2025: City Council – Rate Study Summary

Items Presented:

- An additional scenario was developed based on the feedback from Council during the prior meeting.
- The results of the scenario, and comparison to prior scenarios requested, was provided.
 - » Cost-of-service phase-in and rate design was redone for the updated scenario for the water and sewer utilities.
 - » Combined rate impacts were updated for each class of service.

Feedback Provided:

• Council provided support for the latest scenario, referenced as "aggressive rate reduction" revenue requirement scenario.

February 24th, 2025: City Council – Proposed Rates

Items Presented:

- A high level summary was provided reviewing the selected "aggressive rate reduction" scenario.
 - » Reviewed revenue requirement results.
 - » Reviewed updated cost-of-service phase-in.
 - » Reviewed rate design and bill impacts for each class of service based on an assumed average customer for each utility.

Feedback Provided:

• Council provided support for proposed rates under the "aggressive rate reduction" scenario.

Following the February 24th, 2025 City Council meeting, City staff met with the Council and Committee in additional standalone meetings, which included the following:

March 18th, 2025: Parks and Public Works Committee (staff only) – Rate Ordinance

Items Presented:

• Review of rate schedule ordinance.

March 24th, 2025: City Council (staff only) – Rate Ordinance

Items Presented:

• First reading of rate schedule ordinance.

April 14th, 2025: City Council (staff only) – Rate Ordinance

Items Presented:

• Second reading of rate schedule ordinance.

Feedback Provided:



City of Snoqualmie 2024 Utility Rate Study Update

• Council indicated a report summarizing rate study methodology and findings would be needed before finalizing rates.

