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CITY OF ROY

WATER REVENUE REQUIREMENT AND SYSTEM DEVELOPMENT CHARGE ANALYSIS

The following work task plan has been developed to complete a Water Revenue Requirement and System Development Charge (SDC) update for the City of Roy (City). The analytical efforts will evaluate the sufficiency of existing revenues to meet the total annual obligations of the system including current and identified future financial and policy obligations, operation, and maintenance (O&M) needs, and the ability to execute necessary capital projects. The resulting plans will serve to establish a blueprint for achieving revenue stability, sufficiency, and cost-based utility rates. In addition, system development charges will be evaluated to ensure new customers are paying their allocated share of system infrastructure costs.

The City's study needs were discussed with Kimber Ivy, Mayor and Michael Malek, City Clerk-Treasurer. The tasks to be provided as part of this scope are described below:

TASK PLAN

Task 1 | Project Initiation Meeting

A project initiation meeting will be scheduled before the commencement of the project with FCS and the City project team. This meeting will establish the goals and objectives of the overall project and focus the efforts of the team. The items covered at the meeting include review of the scope of work, identification of project objectives, expectations, and deliverables, outlining the project schedule and key milestone review points and discussion of appropriate lines of communication. We have budgeted this meeting to be conducted via remote session.

Task 2 | Data Collection

Provide a data needs list encompassing historical and projected revenue, expenses, fiscal policies, capital plans, fund balances, fixed asset schedules and system planning data. The data will be reviewed, analyzed, and validated for inclusion in the study process.

Task 3 | Historical Budget vs. Actual Validation

Accurate revenue and expense forecasting are the building blocks of a successful rate study. Validation of the actual revenues received, and expenses incurred, against budgeted values is critical as it is the foundation for developing the multi-year revenue forecast. This process has proven beneficial in identifying over/under spending against budget values to arrive at the most realistic forecast basis underlying the forward-looking financial plan.

Task 4 | Financial Plan and Rate Forecast

This task establishes a sustainable, multi-year (20 year) financial plan that meets the projected total financial needs of the utility through the generation of sufficient, sustainable revenue. Annual cash flow needs are developed by identifying expenses incurred to operate and manage the system including:

- Capital investment funding (improvements, expansion, and replacement)
- Expenses incurred to operate, maintain, and manage the system
- Debt repayment
- Cash flow needs
- Fiscal policy achievement

Tasks are as follows:

- » Develop a forecast of operating revenues and expenses to reflect the City's most recent budget. Adjust for any known future changes in annual non-capital costs associated with the operation, maintenance, and administration of the system. Changes may include additional staffing needs or other changes to operating costs associated with maintaining the system.
- » Incorporate the most recent capital plans from the City's water system plan. Develop a capital funding analysis that balances available funding from internal resources such as rate revenue and reserve funds with external funding from system development charges, contributions, and additional debt, if needed.
- » Evaluate cash flow needs to meet existing and anticipated new annual debt service requirements and any debt coverage requirements.
- » Provide a fiscal policy review that compares existing policies to industry practices to determine whether there are enhancements that would strengthen the financial health of the system. We will recommend new policies or benchmark ratios, as warranted.
- » Monitor operating and capital funds. The analytical module will include annual inflows and outflows of funds and monitor target balances for compliance with established or recommended targets.
- » Evaluate the sufficiency of the system's current revenues in meeting all annual obligations. Identify any projected shortfalls over the forecast period. Rate revenue sufficiency will be tested from two perspectives: the ability to meet all cash obligations, and the attainment of any debt coverage requirements.
- » Design a rate implementation strategy that meets the system's financial obligations over the twenty-year planning horizon and provides smooth and moderated impacts to ratepayers.
- » Develop rate scenarios to evaluate the impact of changes to key variables such as funding sources, growth rates, capital project timing, or others identified by the City. The budget includes three (3) alternative scenarios.
- » At the end of the engagement, we will deliver an electronic copy of the financial planning toolset for internal use.

Task 5 | Rate Design

Rate design determines how the target revenue will be generated for the utility. No rate structure changes are anticipated at this time. Any needed adjustments will be applied equally to each rate class and rate component (fixed and/or variable).

A comparative survey will also be performed with up to five (5) neighboring jurisdictions.

Task 6 | System Development Charge Update

A system development charge is a one-time charge imposed as a condition of service on new development or on expanded connections to the system. The charge represents a prorated share of the capital investment made to provide system capacity. The SDC is calculated based on the intent and structure of the Revised Code of Washington (RCW) statute for Water-Wastewater Cities and Towns (RCW 35.92.025). In general, each connection shall bear a proportional share of the cost of the system capacity required.

This task will focus on updating the City's existing water charge. The SDC developed for the water system shall reflect an updated inventory of existing system assets, the most recent approved capital improvement program costs identified in the water system plan related to growth, and current expectations for future capacity. The City's asset register will be used to compile the initial system values, year of construction, and service lives. The information will be reviewed with staff to determine if all assets and asset values have been captured or if additional work is required to complete the system records. City staff or the City's consulting engineer will be required to support this effort.

Task 7 | Review Meetings

This task includes three (3) staff project team review meetings to review study results at key milestones. To minimize costs, we have planned for all project review meetings to be conducted via remote session.

We are happy to provide additional meetings as requested. The additional meetings will be billed on time and materials.

Task 8 | Workshops/Presentations

The success of a rate study relies on an open and involved process for informing and educating staff, Council, and the public on the rate study process and to clearly define the cost basis for the fees imposed on customers by linking the financial requirements to costs.

We propose two (2) presentations to the City Council conducted in a workshop or work session format to maximize interaction and collaboration. These workshops will discuss key assumptions, methodology, and proposed rates developed for input and discussion. To minimize costs, we have planned for the workshops/presentations to be conducted via remote session.

Task 9 | Documentation

A memorandum documenting the analytical findings and proposed rate forecast strategy.

SCHEDULE

Completion of the analysis is based on a variety of issues. These issues include timeliness of receipt of requested data/information; quality of data; ability to schedule meetings in a timely manner; and the ability of the City to provide direction for the study to move forward at key study milestones. A specific project schedule that meets the City's needs will be developed during the initial project meeting.

BUDGET

The total proposed level of effort to complete the Revenue Requirement and SDC Update is summarized below. Our normal billing practice is to bill based on time and materials expended, not to exceed the total budget. We would be happy to discuss the appropriate level of effort for this project if we have scaled our approach out of line with the City's needs and/or expectations.

TASK	Principal	Project Manager	Analyst	Admin	Total Estimated Hours	Total Budget
Task 1: Project Initiation Meeting	1	1	2	1	5	$ 920
Task 2: Data Collection			2	1	3	405
Task 3: Historical Budget/Actual Validation		1	2		3	530
Task 4: Revenue Requirement	2	10	40		52	8,990
Task 5: Rate Design		2	4		6	1,060
Task 6: System Development Charge Update	2	8	25		35	6,225
Task 7: Review Meetings (3)	5	5	5		15	3,350
Task 8: Workshops/Presentations (2)	2	8	10		20	3,900
Task 9: Documentation		6	12	1	19	3,275
TOTAL LABOR BUDGET	**12**	**41**	**102**	**3**	**158**	**$ 28,655**

ADDITIONAL SERVICES AVAILABLE

Based on initial discussions with Mayor Kimber Ivy and Clerk-Treasurer Michael Malek, we understand the initial priority for the City to be identifying the overall revenue needs of the water system and evaluating if existing rate revenue is sufficient. Once this initial evaluation is completed, additional detailed analyses to further establish equitable rates between customer classes (cost of service) and refine how revenue is collected from customers (rate design fixed and variable charges) can be completed. Finally, a separate task can also be undertaken to determine cost-based development fees, specific to the types of services offered at the City.

Cost of Service Analysis

The City does not currently appear to have different rate schedules for different customer classes such as residential, multi-family and commercial. A cost of service would separate these customer groups and evaluate the cost to serve each customer class based on the number of customers and water demands.

The cost-of-service analysis (COSA) establishes a defensible basis for assigning "cost shares" and establishing "equity" for system customers based on generally accepted industry methodologies that are tailored to the City's unique system and customer characteristics.

The COSA develops a series of functional allocations that distribute cost pools to classes of customers linked to a proportionate share of costs required to serve their demand. Specific consideration will be given to total utility costs in relationship to the functions identified below.

Water Functions
• Customer • Base capacity (avg. demand) • Peak capacity (peak demand) • Meters and Services • Fire

The cost-of-service will identify the required revenue to collect from each customer class to cover their individual costs. The results will identify any warranted shifts in cost burden that could improve equity between customers from the existing rate structure. Unit costs by functional component will be calculated to support the rate design process.

A cost of service is only needed if the City is interested in implementing different rate structures for different customer groups/classes.

Rate Design

The City currently has a fixed charge based on meter size and a uniform consumption rate for water service. A rate design analysis would provide options for the City to consider depending on the City's goals and objectives.

Rate design determines how the target level of revenue will be generated (fixed v. variable charges) from each customer class. Both the level (amount of revenue that must be generated) and structure (how the revenue will be collected, or bill assessed) are considered in this task. In addition to serving as a mechanism for cost recovery, the City's rate structures are the primary communication method for promoting key objectives such as revenue stability, conservation, and affordability.

The City can consider rate design changes independent of a cost of service analysis, if desired.

Development Fees

By determining the full cost of service, the City can establish or update user fees for services ranging from libraries and health inspection to youth sports programs and community swimming pools. Our analyses include identifying direct and indirect costs; reviewing public versus private benefits; and developing policies on how much of the total cost might be subsidized by other revenues. In our experience, user fee studies can also be an essential management tool to help jurisdictions improve cost recovery.