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9. Financial Summary

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9. Financial Summary

This chapter presents a plan for financing the operating and capital needs of the District's water system, given existing expenses as well as incremental costs associated with the projects identified in the Water Comprehensive Plan. The completion of this master planning effort is a requirement of the Department of Health (DOH).

The District proactively manages the water utility's finances, internally reviewing the utility's financial status regularly and adjusting water rates as needed to cover costs. It periodically initiates a more comprehensive study of utility rates and financial policies, the most recent of which considered a variety of topics:

- Balancing the need to stabilize utility revenue streams (in light of recent declines in water sales) with longer-term objectives such as promoting water conservation
- Reviewing the District's progress in funding capital replacement needs
- Updating general facilities charges (GFCs) to recover an equitable share of system costs from growth, given the District's historical and planned investments in infrastructure

The financial plan developed as part of this Plan includes projected operating and capital costs of the system for the 20-year time horizon of 2018 to 2037. The revenues and expenses used in the financial plan were obtained from the District's 2019 Budget and escalated for future years; the capital costs contained within the financial plan utilize the Capital Plan (CP) in Chapter 8 of this Plan. The financial plan evaluates the sufficiency of revenues at current rates to fund projected operating and capital needs, developing a strategy of rate adjustments needed to cover any costs in excess of available revenues. Note that this financial plan focuses on aggregate revenue needs, and does not address cost allocations between customer classes or rate design (aside from across-the-board adjustments to the current rate structure).

9.1 Past Financial History

This chapter includes a summary of the District's historical financial performance as part of the overall assessment of the District's financial viability prior to completing any projects identified in the CP.

Table 9-1 summarizes the water utility's financial performance over the past ten years.

**Table 9-1
Summary of Operating Financial History (Note: Dollars in Thousands, \$000s)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Water Rate Revenue	\$ 7,312	\$ 8,938	\$ 8,211	\$ 9,035	\$ 10,474	\$ 10,910	\$ 12,058	\$ 13,803	\$ 13,531	\$ 15,276
Other Water Revenue	176	204	200	199	459	530	626	689	729	746
Total Water Operating Revenue	\$ 7,488	\$ 9,142	\$ 8,411	\$ 9,234	\$ 10,933	\$ 11,440	\$ 12,684	\$ 14,492	\$ 14,260	\$ 16,022
Operating Expenses	\$ 5,639	\$ 6,151	\$ 5,433	\$ 6,654	\$ 6,704	\$ 7,152	\$ 7,462	\$ 7,681	\$ 8,204	\$ 8,496
Depreciation and Amortization	3,341	3,419	3,396	3,394	3,926	2,571	2,468	2,458	2,495	2,702
Total Water Operating Expenses	\$ 8,980	\$ 9,570	\$ 8,829	\$ 10,048	\$ 10,630	\$ 9,722	\$ 9,930	\$ 10,139	\$ 10,699	\$ 11,198
Operating Income (Loss)	\$ (1,493)	\$ (427)	\$ (418)	\$ (814)	\$ 302	\$ 1,718	\$ 2,754	\$ 4,353	\$ 3,560	\$ 4,824
Non-Operating Revenues (Expenses)										
Interest	407	280	196	124	397	105	265	221	339	395
Rental and Other Income	99	74	65	317	305	356	197	348	204	207
Net Gain (Loss) on Disposition/Abandonment of Assets	(674)	(541)	5	(133)	(102)	(41)	(3)	(210)	1,123	7
Interest and Amortization	(235)	(156)	(133)	(204)	(291)	(268)	(203)	(135)	(38)	22
Interlocal Settlement	-	-	-	-	-	-	-	(980)	(0)	-
Income (Loss) Before Capital Contributions	\$ (1,896)	\$ (770)	\$ (287)	\$ (710)	\$ 611	\$ 1,871	\$ 3,011	\$ 3,598	\$ 5,188	\$ 5,455
Capital Contributions	4,321	2,371	1,825	4,256	5,408	6,168	5,826	4,111	7,493	7,563
Change in Net Position	\$ 2,425	\$ 1,601	\$ 1,538	\$ 3,546	\$ 6,019	\$ 8,039	\$ 8,836	\$ 7,708	\$ 12,681	\$ 13,019
Operating Ratio¹	1.33	1.49	1.55	1.39	1.63	1.60	1.70	1.89	1.74	1.89
Excluding Depreciation	0.83	0.96	0.95	0.92	1.03	1.18	1.28	1.43	1.33	1.43
Including Depreciation	4.76	4.21	4.07	3.97	7.30	7.28	8.02	7.67	7.84	9.25
Current Ratio²	942	778	929	825	1,249	1,344	1,563	1,816	1,885	2,121
Days Cash on Hand	\$ 1,800	\$ 2,132	\$ 1,619	\$ 2,239	\$ 2,488	\$ 2,191	\$ 2,299	\$ 2,378	\$ 3,303	\$ 3,520
Capital Reinvestment Transfers										
Summary of Outstanding Debt (Joint Water/Sewer)										
Outstanding Debt Principal	\$ 3,807	\$ 3,503	\$ 3,412	\$ 3,178	\$ 2,945	\$ 2,712	\$ 3,269	\$ 3,239	\$ 2,540	\$ 2,272
Loans	23,750	22,035	20,120	18,210	16,235	17,905	15,645	13,320	10,920	8,460
Revenue Bonds	\$ 27,557	\$ 25,538	\$ 23,532	\$ 21,388	\$ 19,180	\$ 20,617	\$ 18,914	\$ 16,559	\$ 13,460	\$ 10,732
Total	13%	11%	10%	9%	8%	8%	7%	6%	5%	4%
Outstanding Principal as % of Capital Assets										
Debt Service Coverage (Joint Water/Sewer)	2.00	1.46	1.62	1.53	3.61	3.79	4.85	6.06	5.79	6.82
Parity Debt	1.70	1.35	1.49	1.40	3.11	3.29	4.22	5.27	5.08	5.98
All Debt										

¹ Operating Ratio measures the ability of annual operating revenues to cover annual operating expenses.

² Current Ratio is a measure of short-term liquidity.

The key findings of Table 9-1 include:

- Water sales revenue increased by 108.9% from 2008 – 2017. Most of this increase is attributable to the District adjusting its water rates to meet revenue requirements by a cumulative 66.8% during the same period, due in part to the District’s policy to fund infrastructure replacement as part of its asset-management efforts. Revenue also increased because the District added 2,573 water service connections, reflecting cumulative growth of 16.0% over the ten-year period (which averages to approximately 1.7% per year).
- Operating expenses (excluding depreciation) increased by 50.7% from 2008 – 2017. The most significant cost increases have occurred in labor, professional services, and water purchase costs. It is worth noting that the District’s water purchase costs have increased due to rate increases imposed by Cascade Water Alliance as well as the fact that Cascade imposed a minimum Demand Share on the District of 1.0 mgd in 2012.
- Operating income has remained positive since 2012, coinciding with the completion of a comprehensive water rate study. Following that effort, the District has reviewed and adjusted its water rates annually, with a preference toward small incremental annual increases reflective of the cost of service.
- The operating ratio provides a means of evaluating the District’s self-sufficiency as an enterprise, measuring the ability of annual operating revenues to cover annual operating costs. Including depreciation expense in this calculation provides insight as to whether the District is charging customers enough to fund the replacement of assets in addition to daily operating costs. Table 9-1 indicates that the District was able to cover operating costs for the entire ten-year period but was unable to fully fund depreciation expense from 2008 through 2011. Since 2012, this ratio has climbed to 1.43 due to increases in the amount of capital reinvestment that the District has funded through water rates.
- The current ratio is a measure of short-term liquidity or the District’s ability to pay its current bills – it is calculated by dividing unrestricted current assets (excluding inventories and prepaid items) by current liabilities. A ratio of 1.0 indicates that the utility has exactly enough to pay its bills; higher values are desirable as they suggest an ability to pay large or unanticipated bills. The District has attained current ratios varying from 3.97 to 9.25 over the past ten years, suggesting that the District has ample capacity to meet its short-term financial obligations.
- Days of cash on hand is a measure of financial security, quantifying how long the District would be able to fund daily operating and maintenance costs if it received no additional revenue. It is calculated by dividing unrestricted cash by the average daily cost of operations (excluding depreciation). While there is no firm minimum standard for this metric, bond rating agencies have recently expressed a preference for a minimum of 180 days of cash on hand for utilities seeking the highest bond ratings. Due in part to cash generated through its capital

reinvestment policy, the District has been able to maintain 778 – 2,121 days of cash on hand over the past ten years.

- The District has cut its outstanding debt principal balance by almost \$17 million over the past ten years. It has primarily funded capital improvement projects through cash resources, including general facilities charges (GFCs), local facilities charges (LFCs), developer extension agreements (DEAs), utility local improvement districts (ULIDs), and rates (balances in the Operating Fund and Capital Replacement Fund). The District currently has two outstanding revenue bonds and four outstanding loans, with a combined balance of \$10.7 million outstanding as of year-end 2017. The District has maintained debt service coverage ratios of 1.46 – 6.82 on revenue bonds, exceeding the 1.25 ratio required by its bond covenants.
- The Debt-to-Asset Ratio is a measure of indebtedness. This metric is often used to evaluate whether a utility is overleveraged, with values above 60% suggesting that a utility may have too much debt. Excessive indebtedness can be viewed negatively in the context of a fiscal health evaluation, as debt comes with incremental costs (e.g. interest) and requirements (e.g. coverage, reserves) that may reduce a utility’s financial flexibility. The District’s ratio has decreased steadily from 13% in 2008 to 4% in 2017, which is indicative of a primarily “pay-as-you-go” capital funding strategy.

In addition to the operating revenue shown above, the water utility also receives various revenues for capital improvement projects. Aside from existing fund balances, the primary internal source of capital funding revenue is GFCs – new customers pay GFCs when connecting to the system as their fair share of the system’s infrastructure costs. GFC revenues are generally designated for growth-related capital improvements, but are also used to reimburse other funds for the cost of existing facilities with capacity available to serve growth. The District’s historical water GFC revenue collections have been relatively variable in the recent past, varying from a high of \$3,081,532 in 2014 to a low of \$817,180 in 2015.

9.2 Review of the District’s Water Rates

To meet its financial requirements, the District has adopted water rates that include:

- A fixed charge that promotes revenue stability, recognizing the relatively fixed nature of the District’s cost structure. Multi-family residences pay a monthly charge per living unit, while single-family and non-residential customers pay a charge based on water meter size.
- A usage (commodity) charge that promotes water conservation, recognizing the role that peak demand has in the District’s operating costs (e.g. water purchases) and capital costs (e.g. capacity-expanding investments in infrastructure). Single-

family residences pay for their usage under an inclining block structure, with the rate per ccf increasing as a customer uses more water. Other customers are subject to a seasonal rate structure that imposes a higher rate per ccf for water used between the months of July and October relative to water used during the other (off-peak) months.

A copy of the Resolution adopting the 2019 water rates is included in Appendix G.

Table 9-2 summarizes the current water rate structure as of January 1st, 2019:

**Table 9-2
Current Water Rates (as of January 1, 2019)**

Monthly Water Rate Structure	Single-Family	Multi-Family	Commercial	Irrigation	
				Unaudited	Audited
Fixed Charge per Meter					
3/4" Meter	\$30.87		\$30.87	\$30.87	\$30.87
1" Meter	\$66.28		\$66.28	\$66.28	\$66.28
1-1/2" Meter	\$125.29		\$125.29	\$125.29	\$125.29
2" Meter	\$196.11		\$196.11	\$196.11	\$196.11
3" Meter	\$384.93		\$384.93	\$384.93	\$384.93
4" Meter	\$597.39		\$597.39	\$597.39	\$597.39
Fixed Charge per Dwelling Unit		\$17.92			
Volume Charge per ccf					
Single-Family					
Block 1 (≤ 6 ccf)	\$2.02				
Block 2 (6 - 12 ccf)	\$2.46				
Block 3 (12 - 25 ccf)	\$3.98				
Block 4 (> 25 ccf)	\$6.63				
All Other Customers					
November - June		\$1.63	\$1.63	\$10.87	\$6.44
July - October		\$2.40	\$2.40	\$11.28	\$6.63

The District also imposes general facilities charges (GFCs) and local facility charges (LFCs) on new customers connecting to the system and water main extensions, respectively. Table 9-3 summarizes the existing water GFC/LFC structure, which has been in place since July 17, 2018:

**Table 9-3
Current Water GFCs and LFCs (as of July 17, 2018)**

	Number of ERUs [1]	Charge
General Facilities Charge (GFC):		
3/4" Meter	1.0	\$5,342
1" Meter	2.5	\$13,355
1-1/2" Meter	5.0	\$26,710
2" Meter	8.0	\$42,736
3" Meter	16.0	\$85,472
4" Meter	25.0	\$133,550
6" Meter	50.0	\$267,100
8" Meter	80.0	\$427,360
10" Meter	115.0	\$614,330
Local Facilities Charge (LFC) per Lineal Foot of Water Main:		
Full Charge		\$368
Reduced Charge <i>(Based on 50% Share of Water Main)</i>		\$184

[1] Based on meter flow equivalency factors established by the American Water Works Association (AWWA).

As shown in Table 9-3, the water GFCs increase with water meter size on the premise that water meter size is an indicator of potential water usage (and potential flows sent into the water system). Note that Table 9-3 does not include the regional capital facilities charge (RCFC) that Cascade Water Alliance imposes on new connections, which is \$6,416 per Cascade Equivalent Residential Unit (CERU) as of January 1, 2019. At its September 26, 2018 Board Meeting, Cascade also approved increasing the RCFC per CERU to \$6,607 in 2020.

9.3 Development of the Financial Analysis

The financial plan includes a forecast of water utility revenues and expenses from 2018 – 2027, which serves as the basis for evaluating the sufficiency of water revenues at existing rates. The District’s 2019 Budget serves as the initial basis for the forecast, as most revenues and expenses are based on an escalation of the amounts budgeted for 2019.

9.3.1 Revenues and Expenses

9.3.1.1 Revenues

The first component of the financial plan reviews the sources of funds for the water utility. Sources of operating revenues include:

- **Rate Revenues:** The 2019 Budget estimates that the District will receive about \$15.5 million in water rate revenue from its customers during 2018, and \$14.9 million during 2019. To forecast future-year revenues at existing rates, the forecast assumes annual customer growth of 1.30% through 2021 based on the recent

growth experienced by the District. Beyond 2021, the assumed growth rate drops to 1.00% per year.

- **Other Revenues:** Revenues from customer-related fees such as late charges and penalties are assumed to grow with the customer base at 1.30% per year through 2021 and 1.00% per year thereafter. Investment earnings are calculated on projected fund balances, using an assumed investment earnings rate of 1.25% per year. Developer and overhead charges that recover costs associated with District staff time are escalated with labor costs at 5.00% per year. Other miscellaneous operating revenues are kept at the level projected in the 2019 Budget.

The District imposes GFCs and LFCs on new or expanded customer connections to recover an equitable share of the cost of the infrastructure from which they are benefiting. GFCs are typically assessed on an ERU basis, which the District defines based on water meter size; LFCs are assessed to new customers based on characteristics of the property receiving service.

GFCs and LFCs provide an important source of funding for capital improvement projects and debt attributable to growth-related projects – use of GFC revenue for debt service offsets the financial burden that rates would otherwise have to bear. These capital-related revenues are further discussed under the capital improvement section of this chapter.

9.3.1.2 Expenses

The second part of the financial plan is a review of the water utility's expenses, including:

- **Operation and Maintenance (O&M) Expenses:** The 2019 Budget serves as a starting point for the O&M forecast, which adjusts for annual cost escalation depending on the type of expense. The forecast of water purchase costs is based on Cascade Water Alliance's July 2018 forecast, with updates to the 2019 – 2020 projections to reflect the charges adopted by Cascade in September 2018. This forecast indicates increases to the District's payments (excluding RCFCs) averaging about 9.00% per year. Most operating costs are assumed to increase with general inflation at a rate of 3.00% per year, based on input from District staff. Salaries and benefits are assumed to increase by 5.00% per year based on staff input. Variable costs such as electricity and chemicals are escalated with inflation and growth, increasing by 4.30% per year through 2021 and 4.00% per year thereafter.
- **Taxes:** The water utility is subject to State excise taxes on its revenues. Rate revenue (excluding irrigation sales, which are deductible) is subject to tax at 5.029%; revenue from GFCs, LFCs, late charges, and other miscellaneous charges are subject to taxation at 1.50%. The District does not track taxes as a direct revenue requirement component; it applies the taxes as a direct mark-up to its rates and charges.

- **Debt Service:** The District currently has several outstanding revenue bonds, most recently issuing bonds in 2013 to refund a portion of its 2004 and 2005 Bonds and acquire funding for near-term capital needs. The water utility's share of annual debt service on existing revenue bonds is about 60%, or \$1.9 million – this cost is split between the water utility's funds based on an allocation prepared by District staff. The forecast of future debt service includes planned payments on existing debt as well as new debt service associated with any additional debt issuance needed to fund the CIP.
- **Capital Reinvestment:** The District transfers funds from the Operating Fund to the Capital Replacement Fund to fund infrastructure replacement needs – while these transfers were historically based on original-cost depreciation, the District has undertaken efforts to better quantify the transfers needed to attain its long-term capital funding goals. As a result of these efforts, the forecast assumes transfers of \$5.6 million in 2018, \$5.9 million in 2019, \$7.1 million in 2020 and increases these transfers to approximately \$8.9 million per year by 2027.
- **Reserve Funding:** District policy establishes a minimum balance of “working capital” for the Operating Fund to accommodate differences in revenue and expense cycles along with other unforeseen variations in revenues or expenses. It provides for additional rate funding to replenish the balance in this reserve if it falls short of the targeted level.
- **Capital Projects:** The 2018 – 2027 Capital Plan (CP) includes \$56.5 million in project costs allocable to the water utility. Funding for the CP will come from a mix of sources that include District reserves, ULIDs, DEAs, GFCs, LFCs, and capital reinvestment funding from water rates. Table 9-4 presents a summary of the projected capital expenditures.

The capital funding strategy shown in Table 9-4 indicates that the District expects to have sufficient cash resources in each of its funds to cover the capital improvement projects assigned to that fund. In the case of projects that it expects to fund through DEAs or ULIDs, District staff has confirmed that the completion of those projects is contingent on those funding sources.

**Table 9-4
Summary of Water Capital Improvement Projects (Note: Dollars in Thousands, \$000s)**

Capital Projects (By Funding Type)	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
<u>Water Operating Fund</u>											
Supply	\$ 14	\$ 267	\$ -	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 364
Booster Pumps	29	-	-	-	-	-	-	-	-	-	29
Storage/Reservoirs	495	3,397	686	-	-	-	1,134	511	-	-	6,223
Water Mains	291	242	-	135	-	-	-	35	-	-	702
General/Other	219	816	688	376	364	817	140	228	388	267	4,304
Total	\$ 1,049	\$ 4,723	\$ 1,374	\$ 593	\$ 364	\$ 817	\$ 1,274	\$ 773	\$ 388	\$ 267	\$ 11,622
<u>Water Capital Replacement Fund</u>											
Supply	\$ -	\$ -	\$ -	\$ 385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 385
Water Mains	59	487	-	-	-	-	-	-	-	-	546
Total	\$ 59	\$ 487	\$ -	\$ 385	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 931
<u>General Facilities Charge (GFC) Fund</u>											
Supply	\$ 6	\$ 115	\$ -	\$ 83	\$ -	\$ 4,881	\$ -	\$ -	\$ -	\$ -	\$ 5,084
Booster Pumps	13	-	-	-	-	-	-	-	-	-	13
Storage/Reservoirs	97	1,023	294	-	-	-	612	219	-	475	2,720
Water Mains	299	1,431	124	919	-	47	218	142	62	1,472	4,713
General/Other	274	42	35	-	-	875	-	-	-	-	1,225
Total	\$ 689	\$ 2,609	\$ 453	\$ 1,002	\$ -	\$ 5,803	\$ 830	\$ 361	\$ 62	\$ 1,947	\$ 13,754
<u>Local Facilities Charge (LFC) Fund</u>											
Water Mains	\$ 31	\$ 576	\$ 604	\$ -	\$ -	\$ 227	\$ 1,065	\$ 508	\$ 300	\$ 508	\$ 3,819
Total	\$ 31	\$ 576	\$ 604	\$ -	\$ -	\$ 227	\$ 1,065	\$ 508	\$ 300	\$ 508	\$ 3,819
<u>Other Outside Sources (DEA, ULID)</u>											
Water Mains	\$10,421	\$ 317	\$ 4,317	\$ 2,943	\$ 1,454	\$ 883	\$ 1,303	\$ 1,333	\$ 883	\$ 2,536	\$ 26,387
Total	\$10,421	\$ 317	\$ 4,317	\$ 2,943	\$ 1,454	\$ 883	\$ 1,303	\$ 1,333	\$ 883	\$ 2,536	\$ 26,387
Total Projected Expenditures (2018 Dollars)	\$12,248	\$ 8,712	\$ 6,748	\$ 4,923	\$ 1,818	\$ 7,730	\$ 4,472	\$ 2,974	\$ 1,633	\$ 5,258	\$ 56,514
<u>Planned Capital Funding Strategy</u>											
Operating Fund	\$ 1,049	\$ 4,723	\$ 1,374	\$ 593	\$ 364	\$ 817	\$ 1,274	\$ 773	\$ 388	\$ 267	\$ 11,622
Capital Replacement Fund	59	487	-	385	-	-	-	-	-	-	931
General Facilities Charge Fund	689	2,609	453	1,002	-	5,803	830	361	62	1,947	13,754
Local Facilities Charge Fund	31	576	604	-	-	227	1,065	508	300	508	3,819
DEA/ULID	10,421	317	4,317	2,943	1,454	883	1,303	1,333	883	2,536	26,387
Total	\$12,248	\$ 8,712	\$ 6,748	\$ 4,923	\$ 1,818	\$ 7,730	\$ 4,472	\$ 2,974	\$ 1,633	\$ 5,258	\$ 56,514

9.3.2 Internal Sources of Funds

GFCs and LFCs provide funding for capital improvement projects and related debt service. These charges are based on the cost of facilities that provide service – GFCs are based on the cost of facilities that provide a system-wide benefit, while LFCs are based on the cost of facilities with a more localized benefit. By paying these charges, new customers reimburse existing customers for a proportionate share of the investment made in existing infrastructure and contribute toward costs that the District is planning to incur to serve growth. The District maintains separate GFC and LFC Funds to ensure that these revenues are used for their intended purposes. The GFC Fund has been established for a long time. The LFC Fund was only established as a separate fund in 2010; prior to that time, Water LFCs went to the Water Operating Fund. These Funds began 2018 with balances of \$7.6 million and \$2.4 million, respectively.

The District maintains several other funds for the water utility:

- **Operating Fund:** This is the water utility’s pool of unrestricted resources, and it derives funding from water rates and other operating revenues. District policy provides for a minimum “working capital” balance of 90 days (about 24.7%) of budgeted operating expenses to manage routine differences between revenue and expense cycles and unforeseen variations in revenues or expenses. Based on estimated 2018 operating expenses, the policy results in a target Operating Fund balance of approximately \$2.2 million. Per District records, this fund began 2018 with a balance of \$13.6 million.
- **Capital Replacement Fund:** Following the 2006 Capital Reinvestment Study, the District created this fund to set aside money for replacement projects as part of a long-term asset management strategy. District policy provides for annual rate-funded transfers into this fund – depending on capital needs, this fund is expected to accrue a significant balance over time that can be drawn down relatively quickly. Assuming the District can (a) issue debt, (b) use money from other funds, or (c) defer capital improvement projects, this analysis does not assume an explicit minimum balance for this fund. District records indicate a beginning 2019 balance of \$26.1 million in this fund.
- **Bond Fund & Reserve Fund:** This District’s bond covenants also discuss two reserves related to outstanding bonds. The District transfers money into the Bond Fund to make principal and interest payments on outstanding bonds; the covenants require that the District maintain a certain balance (generally based on annual revenue bond debt service) in the Reserve Fund to protect against repayment risk. Though these funds are restricted and are not available to fund capital costs, it is worth noting that the District can release the reserve associated with a given bond when that bond is fully repaid.

9.3.3 External Sources of Funds

Because GFC and LFC revenue streams can be highly variable depending on the level of development occurring in the District's service area, there are times when the GFC Fund and LFC Fund will not be able to fully fund the capital improvement project costs and debt service assigned to them. In such cases, the District must consider delaying projects, tapping into its other reserves, and/or pursuing funding from external sources.

Discussed in further detail below, there are various grant and loan programs that can be used to fund a portion of the District's CP. It is important to note that these sources do not provide full funding of construction projects and would require supplementary funding from the District's cash resources to fully fund the planned projects. Nevertheless, the District should monitor future opportunities to obtain these potential funding sources.

- **Public Works Trust Fund (RCW 43.155):** Cities, counties, special purpose districts, public utility districts, and quasi-municipal governments are eligible to receive loans from the PWTF. Eligible projects include repair, replacement, and construction of infrastructure for domestic water, sanitary wastewater, stormwater, solid waste, road, and bridge projects that improve public health and safety, respond to environmental issues, promote economic development, or upgrade system performance. No funding is currently available for Construction loans, but funding may become available in the 2019 – 2021 biennium if the State Legislature approves the capital budget. Further detail is available at <http://www.commerce.wa.gov/building-infrastructure/pwb-home-page>.
- **Drinking Water State Revolving Fund (DWSRF):** DWSRF funding has historically targeted protection of public health and compliance with drinking water regulations. Loan repayments can range from 20 to 30 years and in some cases, provide partial loan forgiveness. Applicants need an approved water system plan (or plan amendment) containing the DWSRF project prior to submitting an application. All public water systems that receive a DWSRF loan must undergo an environmental review, a cultural review, and an Investment-Grade Efficiency Audit (IGEA). The IGEA is an effort to apply energy efficiency to water systems and may be financed as part of the DWSRF loan. The 2018 loan cycle included approximately \$20 million in total funding (with a maximum of \$3 million per project) and ran from October 1st – November 30th, 2018.

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

- **Community Economic Revitalization Board (RCW 43.160):** A federal program administered by the State Department of Community Trade and Economic Development, this program provides grants and loans for infrastructure improvements including utility projects. It prioritizes projects that create or retain jobs for low and moderate-income residents – because it is need-based and

intended to be “last-resort” relative to other funding sources, the District may not qualify for assistance under this program.

- **Infrastructure Assistance Coordinating Council:** The Infrastructure Assistance Coordinating Council (Council) is comprised of state and local agencies whose function is to provide funding for infrastructure repair and development. Its purpose is to assist local governments in coordinating funding efforts for infrastructure improvements, and can be a valuable resource to provide awareness of any new funding opportunities.
- **Revenue Bonds:** Revenue bonds are another external source of funding for capital improvement projects and are the most common source of funds for construction of major utility improvements. A key benefit of revenue bonds is the exemption of federal income tax – however, they are generally seen as less desirable than low-cost loans and grants due to their relatively higher interest rates. Revenue bonds also come with coverage requirements, where the utility must generate a certain amount of “net revenue” (operating revenue net of operating expenses) to protect bondholders against repayment risk. District bond covenants define this amount as 125% of annual debt service, though the District targets coverage at 150% of annual debt service for planning purposes.

Other bond financing approaches include utility local improvement districts (ULIDs), special assessment districts (SADs) and other funding for projects that serve and benefit a limited service area within the District’s total service area. The costs of those improvements are shared only by those customers benefiting from them. The District has funded some capital improvements previously through ULIDs. The District’s 2017 trial balance report indicates that the water utility has a total balance of about \$1.1 million in assessments receivable as of the end of 2017.

- **Developer Contributions:** Some projects are identified in the Capital Plan with an expectation to be constructed by developer extension agreements (DEAs). Where possible and equitable, the District attempts to use DEAs to construct facilities in order to avoid charging its other customers for development-related projects of localized benefit.

While the above list of possible grant, loan and other funding opportunities for the District is not exhaustive, it does however, highlight the most probable outside funding sources available to the District for its capital improvements.

9.4 Water General Facilities Charge

General facilities charges (GFCs), a form of connection charge authorized in the Revised Code of Washington (RCW) 57.08.005 (11), are imposed as a condition of service on new customers connecting to the system. In addition to any other costs related to physically connecting a customer to the system, the GFC is typically based on a blend of historical and planned future capital investment in system infrastructure – its underlying

premise is that growth (future customers) will pay for an equitable share of the costs that the utility has incurred (or will incur) to provide capacity to serve new customers.

While the RCW does not explicitly define a methodology for calculating GFCs, the GFC is generally calculated by dividing an allocable “cost of the system” by the applicable customer base served by the system to arrive at a cost per unit of capacity. The ensuing sections discuss the various aspects of the GFC calculation in further detail.

9.4.1 Existing Cost Basis

The GFC cost basis includes costs associated with existing assets to recognize that those assets will provide benefit to new customers. In addition to this documented cost of existing assets, RCW 57.08.005 (11) allows the District to recover a provision for interest accrued on assets. Conceptually, this interest provision (which is limited to ten years of interest accrual on each asset) attempts to account for opportunity costs that the District’s customers incurred by supporting investments in infrastructure rather than having the money available for investment or other uses. This cost basis is adjusted to reflect:

- **Construction Work in Progress:** The District has substantial investments in capital improvement projects that are currently underway – these projects are not completed or booked as assets, but do represent an investment made by the District in the system. Consequently, the cost of construction work in progress is added to the GFC cost basis.
- **Contributed and ULID-Funded Assets:** Assets funded by developer extension agreements (DEAs) and utility local improvement districts (ULIDs) are excluded from the cost basis on the premise that the GFC should only recover costs actually incurred by the District. ULID-funded assets are left out of the GFC cost basis to avoid double charging customers for assets that they are paying for through ULID assessments.
- **Provision for Asset Retirements Due to 10-Year CP:** The cost basis includes a deduction for the estimated cost of the assets being replaced as part of projects in the CP. This adjustment intends to avoid double charging customers for an asset and its replacement, recognizing that the District must replace existing assets at a cost that materially exceeds the installation cost of the other asset.
- **Assets Not Included in GFC:** The GFC cost basis excludes costs associated with meters and service lines, as customers typically pay for these facilities of localized benefit directly. For consistency with Rule No. 51 of the Governmental Accounting Standards Board (GASB), it also excludes costs related to the District’s Water Comprehensive Plans as intangible assets that should be expensed rather than capitalized.
- **Net Outstanding Debt Principal:** When a new customer connects to the District’s system and becomes a ratepayer, they will pay for a proportionate share of the

annual debt service payments associated with the District's outstanding debt. To recognize this and avoid double charging customers for assets through GFCs and rates, the cost basis reflects a deduction for outstanding debt principal net of available cash balances.

9.4.2 Future Cost Basis

RCW 57.08.005 (11) allows the District to recover costs associated with future capital improvement projects that it plans to undertake within a ten-year planning period, provided that they are part of an adopted comprehensive plan. The capital costs included in the future cost basis are based on the capital plan summarized in Table 9-4. The future cost basis also reflects several adjustments:

- **Grants/Contributions:** Projects funded by grants, developer extension agreements (DEAs), or utility local improvement districts (ULIDs) are excluded from the future cost basis on the grounds that the GFC intends to recover costs incurred by the District. The District has identified projects that will likely be funded through ULIDs and/or DEAs.
- **LFC-Funded Projects:** Assets funded by local facilities charges (LFCs) are excluded from the GFC cost basis to recognize that new customers will pay for them through their payment of the District's LFC. While this adjustment primarily intends to avoid double charging customers for assets, it is also worth noting that the GFC intends to recover costs associated with facilities of general system benefit – to the extent that a project's costs are assigned to the LFC cost basis, it is likely that the project is of localized benefit rather than general system benefit.

9.4.3 Customer Base

The customer base is expressed in terms of equivalent residential units (ERUs), which the District defines based on water meter size. It is separable into two groups:

- **Existing Customers:** Per Table 2-15, the existing customer base consisted of 23,726 ERUs as of the end of 2017.
- **Growth:** The forecast of growth is based on the growth forecast shown in Table 2-15, with growth projections beyond 2037 based on the average annual growth rate estimated for the 2032 – 2037 period.

9.4.4 GFC Calculation

The District's GFC calculation is based on an "average cost" methodology, which computes a charge per ERU by dividing allocable costs by the applicable number of ERUs. The water GFC is split into seven functional categories: supply, storage, treatment, mains, pumping, hydrants, and general system assets. The GFC calculation considers growth over the expected useful life of the District's assets, which varies for each

category. Estimates prepared by District staff project an average useful life of 20 years for wells, 120 years for reservoirs, 40 years for treatment facilities, 96 years for mains, and 40 years for booster stations; general system assets are assigned an average life of 10 years. For example, the “mains” component of the GFC calculation considers existing customers and growth over 96 years (or growth to buildout, whichever is less).

Table 9-5 summarizes the updated water GFC calculation.

The District’s water GFC was most recently calculated in 2014 to be \$4,729 per ERU; the existing GFC (\$5,342 per ERU) reflects a series of inflationary adjustments. Table 9-5 shows that the updated calculation results in a GFC that is approximately 2% lower than the existing charge. It is important to note that the District’s GFC indexing policy attempts to use inflationary adjustments to approximate the addition of assets, the accrual of interest, and changes to the CP in between updates. Periodic recalibrations of the GFC are appropriate and may result in either increases or decreases depending on how the key components of the GFC calculation change over time.

In recent years, the District has adjusted its GFCs in July – as part of the upcoming review, it intends to reconsider aspects of the GFC methodology. Pending further direction from the District, the financial plan assumes that the current GFCs remain in place.

**Table 9-5
Updated Water GFC Calculation (Note: Dollars in Thousands, \$000s)**

Water GFC Calculation	Supply	Storage	Treatment	Mains	Pumping	Hydrants	General	Total
Existing Cost Basis								
Plant-In-Service as of 12/31/17	\$10,851	\$18,185	\$6,347	\$79,370	\$3,659	\$7,201	\$16,436	\$142,048
Less: Contributed Assets	0	(60)	0	(45,630)	(19)	(5,258)	(22)	(50,989)
Less: Provision for Asset Retirements Due to 10-Year CP	(365)	0	0	(116)	0	0	(1,416)	(1,897)
Plus: Interest Accrued on Utility-Funded Assets	5,314	9,828	2,662	17,756	1,654	1,126	5,459	43,799
Plus: Construction In Progress	0	0	0	1,358	181	0	5	1,543
Net Existing Cost Basis	\$15,799	\$27,953	\$9,009	\$52,738	\$5,475	\$3,069	\$20,462	\$134,505
Future Cost Basis								
2018-2027 CP (Uninflated)	\$5,833	\$9,656	\$0	\$35,747	\$42	\$0	\$5,199	\$56,478
Less: DEVALID-Funded Projects	0	(420)	0	(25,967)	0	0	0	(26,387)
Less: LFC-Funded Projects	0	0	0	(3,819)	0	0	0	(3,819)
Net Future Cost Basis	\$5,833	\$9,236	\$0	\$5,961	\$42	\$0	\$5,199	\$26,272
Total Cost Basis (A)	\$21,632	\$37,190	\$9,009	\$58,699	\$5,517	\$3,069	\$25,661	\$160,777
Customer Base								
Existing ERUs	24,306	24,306	24,306	24,306	24,306	24,306	24,306	24,306
Projected Growth Over Useful Life of Assets [1]	3,412	8,700	5,012	8,509	5,012	7,362	2,919	27,225
Total Customer Base In ERUs (B)	27,717	33,006	29,318	32,815	29,318	31,668	27,225	
Water GFC per ERU (A / B x \$1,000)	\$780	\$1,127	\$307	\$1,789	\$188	\$97	\$943	\$5,231

Water GFC By Meter Size	Existing	Proposed
3/4" Meter	\$5,342	\$5,231
1" Meter	\$13,355	\$13,077
1-1/2" Meter	\$26,710	\$26,155
2" Meter	\$42,736	\$41,848
3" Meter	\$85,472	\$83,695
4" Meter	\$133,550	\$130,774
6" Meter	\$267,100	\$261,548
8" Meter	\$427,360	\$418,476
10" Meter	\$614,330	\$601,559

[1] Useful Life of Assets

Supply	89 Years	Storage	120 Years	Treatment	40 Years	Mains	96 Years	Pumping	40 Years	Hydrants	75 Years	General	10 Years
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9.5 Summary of the Financial Analysis

Table 9-6 provides a summary of the financial plan and resulting financial status of the water utility. This is an abbreviated summary of a more detailed analysis that was developed for the District and provides a summary of the major elements of the District's analysis, along with the findings and conclusions. The detailed analysis can be found in Appendix T of this Plan.

Table 9-6 indicates that at the 2019 rates shown in Table 9-2, the water utility's revenues are expected to cover O&M and debt service but appear to fall short of covering the full future capital funding obligations assigned to the Operating Fund. The Operating Fund appears to have enough cash to fund several years of capital needs, but Table 9-6 shows it running out of money by 2023. To cover the utility's capital needs and maintain the District's financial position, the rate revenue strategy shown in Table 9-6 contemplates annual water rate increases of 3.75%.

It is important to note that this financial plan relies on a variety of assumptions including expectations of near-term system growth. In the event that the assumed growth is not realized, the resulting shortfalls in revenue from rates, GFCs, and LFCs may create a need for additional rate increases. Adopting this comprehensive planning document does not bind the District to implement the proposed rate adjustments. This financial plan is advisory to the Department of Health and intends to show that the findings and recommendations within this Plan are affordable within the District's service area. The District reviews its utility revenue needs regularly, and will determine the need for future rate adjustments prior to implementation.

9.6 Rate Impacts

Table 9-7 shows the near-term water rate forecast, applying the rate increases shown in Table 9-6 across-the-board to the District's existing water rate structure. The U.S. Environmental Protection Agency, Washington State Department of Health, and the Public Works Board use an affordability index to prioritize low-cost loan awards depending on whether water rates exceed 2.0% of the median household income for the service area. U.S. Census Bureau data indicates that median household income levels averaged \$157,271 in the City of Sammamish, \$100,844 in the City of Issaquah, and \$83,571 in King County from 2013 – 2017. Depending on location within the District's service area, the affordability threshold for the monthly water bill varies from \$139.29 to \$262.12. The monthly single-family water rate shown in Table 9-7 is expected to remain within this threshold during the ten-year planning period, suggesting that the District will be able to implement the planned capital improvement projects while maintaining affordable water rates.

**Table 9-6
Summary of the Ten-Year Financial Plan (Note: Dollars in Thousands, \$000s)**

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue										
Water Rate Revenue at Existing Rates	\$ 15,548	\$ 14,887	\$ 15,080	\$ 15,276	\$ 15,429	\$ 15,583	\$ 15,739	\$ 15,896	\$ 16,055	\$ 16,216
Other Revenue	1,270	1,187	1,164	1,174	1,191	1,213	1,232	1,246	1,269	1,301
Total	\$ 16,818	\$ 16,074	\$ 16,244	\$ 16,450	\$ 16,620	\$ 16,797	\$ 16,971	\$ 17,142	\$ 17,325	\$ 17,517
Expenses										
Water Purchases	\$ 1,546	\$ 1,677	\$ 1,730	\$ 2,008	\$ 2,218	\$ 2,430	\$ 2,651	\$ 2,853	\$ 3,080	\$ 3,319
Other Operating Expenses	6,629	7,472	7,807	8,109	8,425	8,777	9,176	9,562	10,026	10,425
Total	\$ 8,175	\$ 9,149	\$ 9,537	\$ 10,117	\$ 10,643	\$ 11,208	\$ 11,827	\$ 12,415	\$ 13,106	\$ 13,744
Net Available for Debt Service & Capital	\$ 8,644	\$ 6,925	\$ 6,707	\$ 6,333	\$ 5,978	\$ 5,589	\$ 5,144	\$ 4,727	\$ 4,218	\$ 3,774
Appropriations to Debt Service Fund	\$ 1,179	\$ 579	\$ 236	\$ 475	\$ 474	\$ 471	\$ 471	\$ 369	\$ 226	\$ 2
Net Available for Capital	\$ 7,465	\$ 6,346	\$ 6,471	\$ 5,859	\$ 5,504	\$ 5,118	\$ 4,673	\$ 4,358	\$ 3,992	\$ 3,772
Capital Reinvestment Transfer	\$ 5,601	\$ 5,926	\$ 7,069	\$ 7,302	\$ 7,543	\$ 7,792	\$ 8,049	\$ 8,315	\$ 8,589	\$ 8,872
Rate-Funded Capital Projects	1,105	4,783	1,437	659	434	890	1,350	853	472	355
Transfer to LFC Fund for Capital Projects	-	-	-	-	-	-	-	-	-	80
Total Rate-Funded Capital Costs	\$ 6,706	\$ 10,708	\$ 8,506	\$ 7,961	\$ 7,977	\$ 8,682	\$ 9,399	\$ 9,168	\$ 9,061	\$ 9,307
Operating Fund Summary at Existing Water Rates:										
Beginning Fund Balance	\$ 13,636	\$ 14,395	\$ 10,032	\$ 7,998	\$ 5,895	\$ 3,422	\$ (142)	\$ (4,869)	\$ (9,678)	\$ 3,422
Net Cash Flow After O&M, Debt Service, & Capital	759	(4,362)	(2,035)	(2,103)	(2,473)	(3,564)	(4,726)	(4,810)	(5,068)	(5,535)
Ending Fund Balance	\$ 14,395	\$ 10,032	\$ 7,998	\$ 5,895	\$ 3,422	\$ (142)	\$ (4,869)	\$ (9,678)	\$ (14,747)	\$ (2,113)
<i>Minimum Fund Balance Required</i>	\$ 2,187	\$ 2,423	\$ 2,525	\$ 2,670	\$ 2,801	\$ 2,942	\$ 3,096	\$ 3,243	\$ 3,416	\$ 3,575
Surplus (Deficit)	\$ 12,207	\$ 7,609	\$ 5,472	\$ 3,224	\$ 621	\$ (3,084)	\$ (7,965)	\$ (12,922)	\$ (18,163)	\$ (5,688)
Coverage Ratio Realized	4.81	3.70	26.37	25.48	23.34	22.81	21.29	20.35	25.18	23.68
Annual Water Rate Adjustment	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Operating Fund Summary After Rate Adjustments:										
Water Rate Revenue	\$ 15,548	\$ 15,445	\$ 16,233	\$ 17,060	\$ 17,877	\$ 18,733	\$ 19,629	\$ 20,569	\$ 21,554	\$ 22,586
Beginning Fund Balance	\$ 13,636	\$ 14,395	\$ 10,591	\$ 9,708	\$ 9,389	\$ 9,364	\$ 8,949	\$ 8,113	\$ 7,976	\$ 8,406
Net Cash Flow After O&M, Debt Service, & Capital	759	(3,804)	(883)	(319)	(25)	(415)	(836)	(137)	430	835
Ending Operating Fund Balance	\$ 14,395	\$ 10,591	\$ 9,708	\$ 9,389	\$ 9,364	\$ 8,949	\$ 8,113	\$ 7,976	\$ 8,406	\$ 9,241
Minimum Operating Fund Balance Required	\$ 2,187	\$ 2,423	\$ 2,525	\$ 2,670	\$ 2,801	\$ 2,942	\$ 3,096	\$ 3,243	\$ 3,416	\$ 3,575
Coverage Ratio Realized	4.81	3.98	30.06	31.19	31.09	32.94	33.70	35.34	48.52	50.59

**Table 9-7
Water Rate Forecast**

Water Rate Forecast		2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Across-The-Board Rate Adjustment			3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Monthly Fixed Charge											
Per Meter (Excluding Multi-Family Meters)											
3/4" Meter		\$29.75	\$30.87	\$32.03	\$33.23	\$34.48	\$35.77	\$37.11	\$38.50	\$39.94	\$41.44
1" Meter		\$63.88	\$66.28	\$68.77	\$71.35	\$74.03	\$76.81	\$79.69	\$82.68	\$85.78	\$89.00
1-1/2" Meter		\$120.76	\$125.29	\$129.99	\$134.86	\$139.92	\$145.17	\$150.61	\$156.26	\$162.12	\$168.20
2" Meter		\$189.02	\$196.11	\$203.46	\$211.09	\$219.01	\$227.22	\$235.74	\$244.58	\$253.75	\$263.27
3" Meter		\$371.02	\$384.93	\$399.36	\$414.34	\$429.88	\$446.00	\$462.73	\$480.08	\$498.08	\$516.76
4" Meter		\$575.79	\$597.39	\$619.79	\$643.03	\$667.14	\$692.16	\$718.12	\$745.05	\$772.99	\$801.98
Per Multi-Family Dwelling Unit		\$17.36	\$17.92	\$18.59	\$19.29	\$20.01	\$20.76	\$21.54	\$22.35	\$23.19	\$24.06
Volume Charge per ccf											
Single-Family: Block 1 (≤ 6 ccf)		\$1.95	\$2.02	\$2.10	\$2.18	\$2.26	\$2.34	\$2.43	\$2.52	\$2.61	\$2.71
Single-Family: Block 2 (6 - 12 ccf)		\$2.37	\$2.46	\$2.55	\$2.65	\$2.75	\$2.85	\$2.96	\$3.07	\$3.19	\$3.31
Single-Family: Block 3 (12 - 25 ccf)		\$3.84	\$3.98	\$4.13	\$4.28	\$4.44	\$4.61	\$4.78	\$4.96	\$5.15	\$5.34
Single-Family: Block 4 (> 25 ccf)		\$6.39	\$6.63	\$6.88	\$7.14	\$7.41	\$7.69	\$7.98	\$8.28	\$8.59	\$8.91
Multi-Family & Commercial: November - June		\$1.57	\$1.63	\$1.69	\$1.75	\$1.82	\$1.89	\$1.96	\$2.03	\$2.11	\$2.19
Multi-Family & Commercial: July - October		\$2.31	\$2.40	\$2.49	\$2.58	\$2.68	\$2.78	\$2.88	\$2.99	\$3.10	\$3.22
Unaudited Irrigation: November - June		\$10.48	\$10.87	\$11.28	\$11.70	\$12.14	\$12.60	\$13.07	\$13.56	\$14.07	\$14.60
Unaudited Irrigation: July - October		\$10.87	\$11.28	\$11.70	\$12.14	\$12.60	\$13.07	\$13.56	\$14.07	\$14.60	\$15.15
Audited Irrigation: November - June		\$6.21	\$6.44	\$6.68	\$6.93	\$7.19	\$7.46	\$7.74	\$8.03	\$8.33	\$8.64
Audited Irrigation: July - October		\$6.39	\$6.63	\$6.88	\$7.14	\$7.41	\$7.69	\$7.98	\$8.28	\$8.59	\$8.91
Affordability Evaluation											
Monthly Single-Family Water Bill @ 5.5 ccf		\$40.48	\$41.98	\$43.55	\$45.21	\$46.92	\$48.67	\$50.46	\$52.37	\$54.32	\$56.33
Bill as a Percent of Median Household Income (MHI):											
City of Sammamish (MHI: \$157,271)		0.31%	0.32%	0.33%	0.34%	0.36%	0.37%	0.39%	0.40%	0.41%	0.43%
City of Issaquah (MHI: \$100,844)		0.48%	0.50%	0.52%	0.54%	0.56%	0.58%	0.60%	0.62%	0.65%	0.67%
King County (MHI: \$83,571)		0.58%	0.60%	0.63%	0.65%	0.67%	0.70%	0.72%	0.75%	0.78%	0.81%

9.7 Summary

The results presented in this chapter suggest that the water utility will require revenue increases to fund projected O&M, capital, and debt service requirements over the ten-year planning horizon. This chapter identifies the overall level of rate impact that may occur should the capital plan provided in Chapter 8 move forward. It also confirms that the District's water GFC is adequate to recover an equitable share of system costs from growth, justifying a minor recalibration adjustment to reflect differences between the District's inflationary adjustments to the GFC and actual changes in the key components of the charge (e.g. asset additions, interest accrual, capital plan changes).

Again, it is important to remember that this financial plan is based on various assumptions that may change over time as new information becomes available. The District reviews the financial needs for its utilities as part of its annual budgeting process, occasionally conducting more comprehensive rate studies. Table 9-6 provides current projections of the near-term revenue adjustments, but on an annual basis the District will confirm or determine the actual revenue adjustments necessary to move forward with the adopted capital plan for each year.

The District has demonstrated its commitment to responsibly managing its utilities by past rate adjustments and by funding adequate levels of operations, capital, reserves, and capital funding from rates. Continued prudent fiscal management will enable the water utility to continue to operate on a financially sound basis.