



Agenda
City Council Workshop
October 23, 2025 | 5:00 PM

Stanwood-Camano School District, Admin. Building Board Room
26920 Pioneer Highway, Stanwood, WA 98292

Members of the public may attend City Council Workshops in-person.

- 1. Call to Order**
- 2. Roll Call**
- 3. New Business**
 - a. Utility Rate Study
- 4. Adjourn**



City of Stanwood City Council Staff Report

Item Number: 3.a.
Date: October 23, 2025
Subject: Utility Rate Study
Contact Person: David Hammond, Finance Director
Attachments: 1. October 23 2025 FCS Group Utility Rate Study Presentation

ISSUE

Review and discuss Utility Rate Study results and recommendations.

BACKGROUND

The city engaged FCS Group to conduct analysis of water, sewer and drainage utility rates and Plant Investment Fees. FCS provided preliminary results in late 2024, but awaited final Capital Improvement Plans from the city to complete their analysis. At that time, the City Council adopted six-year rate increases for each utility as follows:

- Water - 3%,
- Drainage - 3%,
- Sewer 5.75%

These rate increases were applied uniformly for all customer classes.

The consultant completed their analysis of Plant Investment Fees (also referred to as System Development Charges) and presented those results and recommendations, including staff recommendations, at the August 14th City Council Workshop. This workshop will focus on operating rates for water, sewer, and drainage.

ANALYSIS

The consultant has now received updated capital improvement plans for each utility and

completed their study.

The attached presentation includes results of three rate-setting step, which all work together to determine appropriate rates for each utility, by customer class, and also how the rates are designed.

The first step provides details of the consultant's update of each utility's revenue required over the next five years, including the timing of planned debt issuances.

The second step analyzes how much each customer class costs the city to provide for both the water utility and sewer utility, and whether rates by class were appropriate to recover each class of customer's costs.

The third step is analysis of the Water Utility Rate design. This study was undertaken with the goal to assess whether our rate design is equitable, particularly for smaller households, and also whether we are effectively incentivizing conservation.

Finally, the consultant will pull these three elements together and present recommendations to implement.

Next Steps:

After council discussion, staff will prepare an ordinance to enact these changes, including the changes to connection charges that were discussed in August, including other policy changes to Chapter 12 Stanwood Municipal Code as part of the SMC Code re-write project begun in 2023.



Utility Rate Study



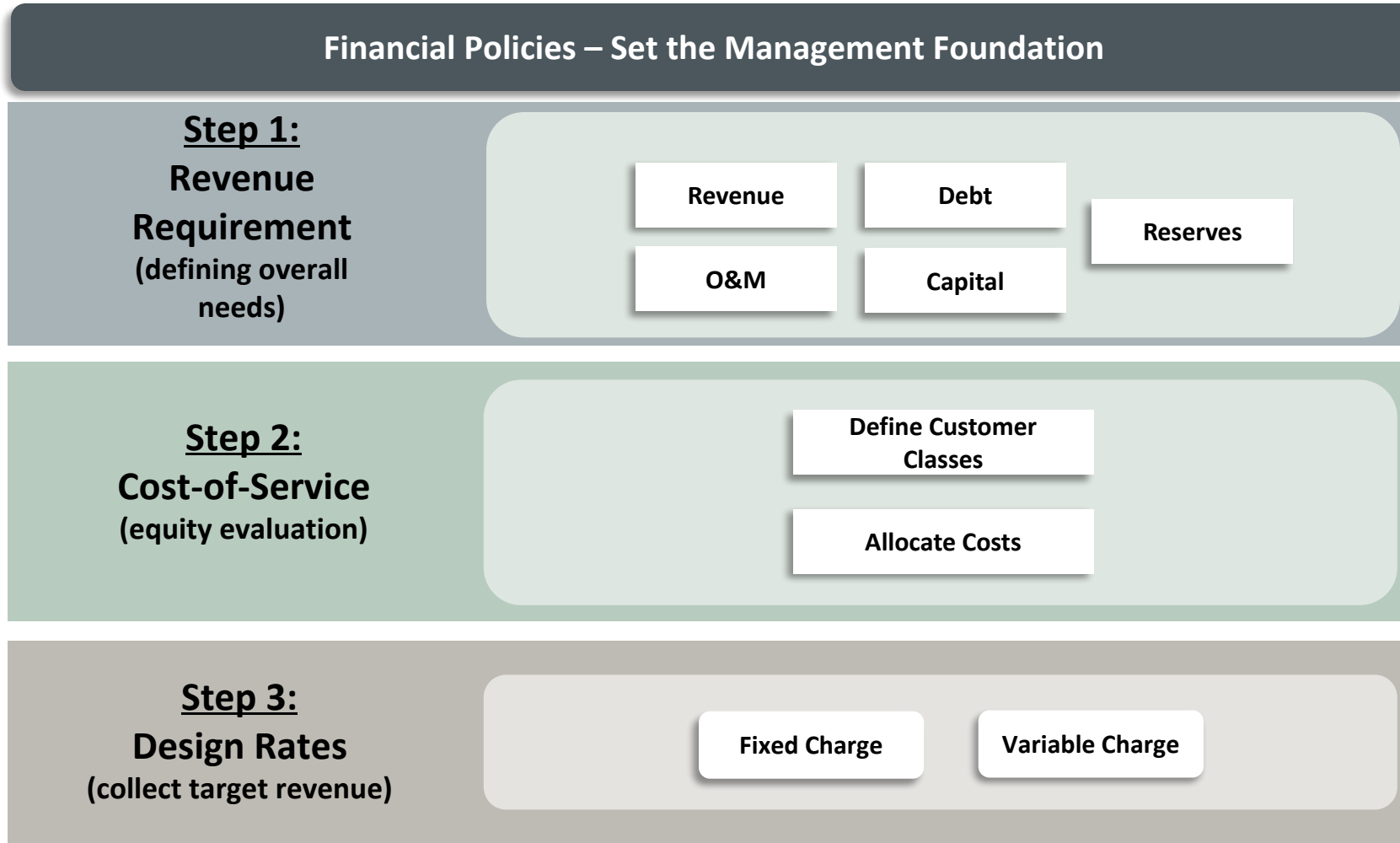


Agenda

- Rate study overview
- Background
- Key assumptions
- Summary of findings
 - » Revenue requirement
 - » Cost-of-service
 - » Rate design
- Next steps



Overview of Rate Setting Process





Background

- Study commenced at the end of 2022
- Presented preliminary revenue requirement in November 2024
 - » Rates adopted on an across-the-board basis for all utilities in 2025

Utility	Proposed Annual Rate Adjustment					
	2025	2026	2027	2028	2029	2030
Water	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Sewer	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%
Drainage	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

- Today's focus
 - » Incorporated latest capital improvement plan & updated revenue requirement
 - » Developed cost-of-service allocation (water & sewer)
 - » Prepared rate design



Revenue Requirement Overview

- Determine the amount of annual revenue necessary to fund all financial obligations on a standalone basis
 - » Operating and maintenance expenses
 - » Debt service (principal & interest)
 - » Capital costs
- Meet financial parameters and targets
 - » Debt service coverage ratios
 - » Maintain reserve balances
- Evaluate revenue sufficiency over multi-year period
- Develop rate plan to balance financial needs and minimize customer impacts



Key Assumptions

- Rate setting period of 2025 – 2030
 - » Forecast period 2025 – 2044
- Projected rate revenue based on 2021 & 2022 customer statistics
 - » Annual customer growth of 0.21% - 6.64% depending on year & utility
- 2025 & 2026 budgets used as baseline – various escalation factors used to forecast expenses
 - » Average annual cost inflation
 - Water: 3.39%
 - Sewer: 3.44%
 - Drainage: 3.24%
- New debt assumes revenues bonds (and one low-cost sewer loan)
 - » Bond: 30-yr terms | 4.50% interest rate | 1.00% issuance cost | debt reserve
 - » Loan: 5-yr term | 0.86% interest rate

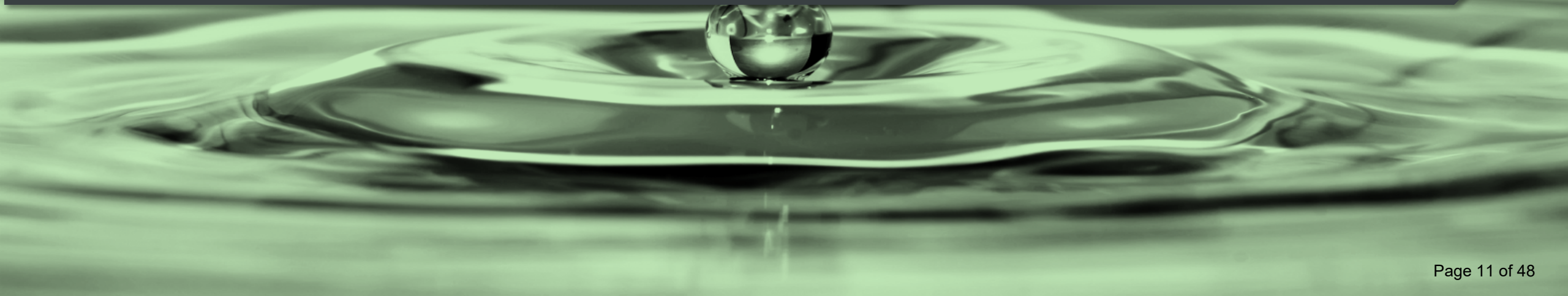


Financial Policies

Policy	Purpose	Target (2025-2030)
Operating Reserve	To provide sufficient cash flow to meet daily operating expenses (short-term, annual revenue cycles)	150 Days of O&M Expenses Water = (\$0.9M - \$1.1M) Sewer = (\$1.1M - \$1.4M) Storm = (\$0.4M)
Capital Contingency Reserve	To provide a source of funding for emergency repairs, unanticipated capital, and project cost overruns.	1.00% of Plant Assets Water = (\$0.5M - \$0.6M) Sewer = (\$0.5M - \$1.0M) Drainage = (\$0.2M - \$0.4M)
Debt Service Coverage	To ensure compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance.	Target 1.50 of Revenue Bond Debt Service



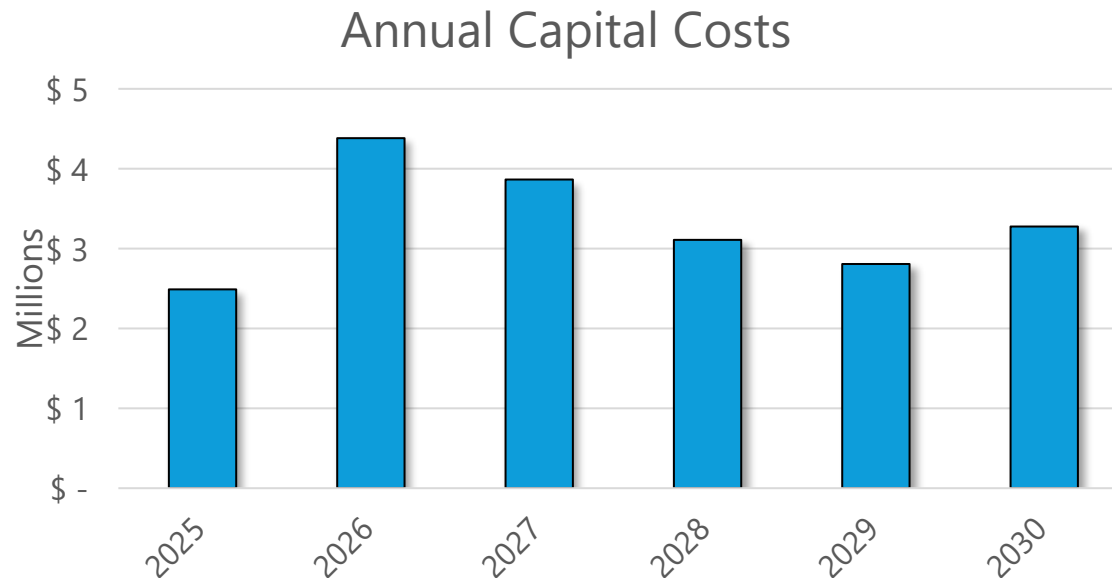
Water





Key Components

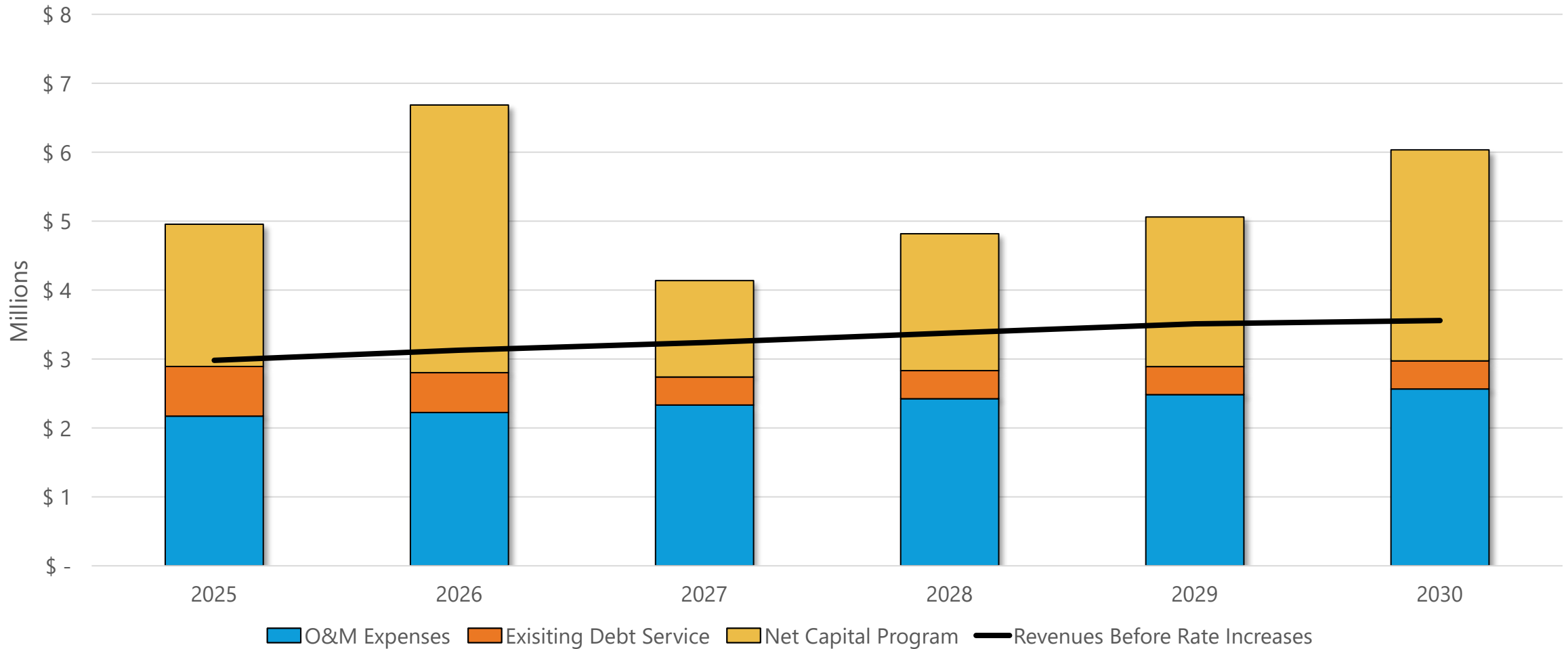
Description	2025 – 2030
Existing Revenue	\$3.0M - \$3.6M
O&M Expenses	\$2.2M - \$2.6M
Ex. Debt Service	\$0.7M - \$0.4M
Total CIP	\$19.9M



- Rate setting period CIP of \$19.9M funded through reserves, rates, plant investment fees (PIFs), & new debt proceeds
 - » \$10.4M of new debt proceeds forecasted (2026, 2028, & 2030)

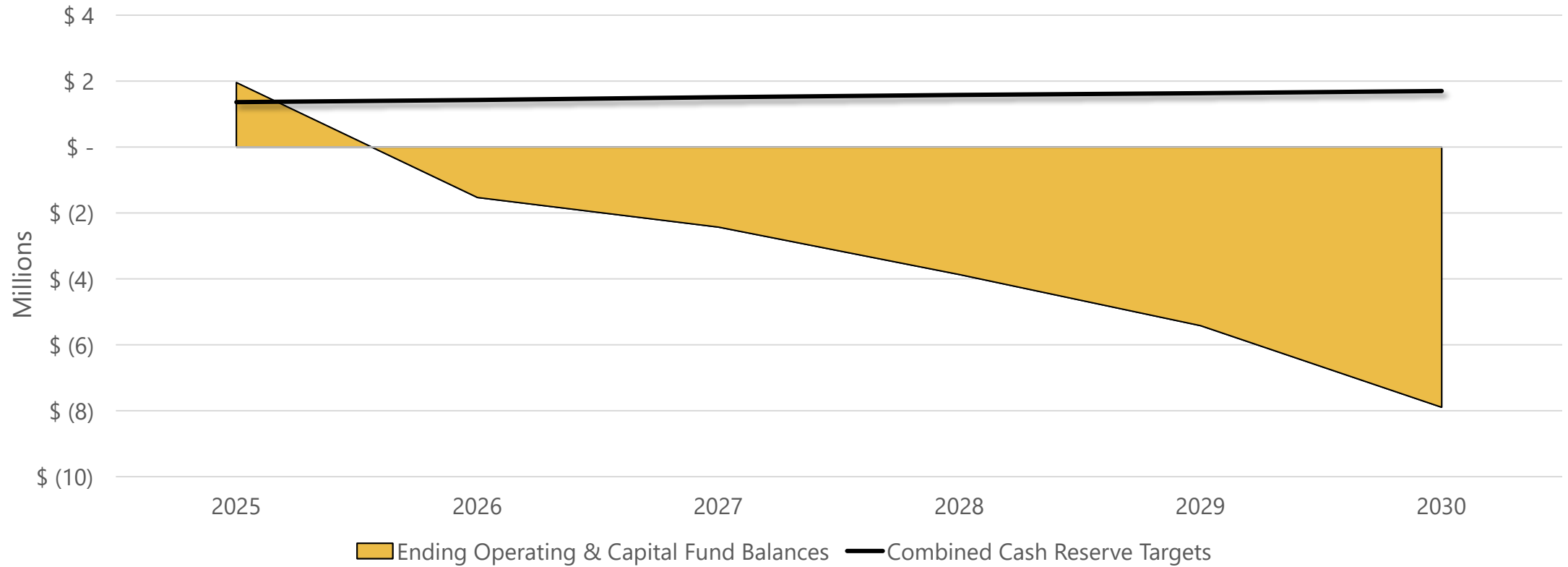


Revenue Requirement – Baseline





Revenue Requirement – Baseline Ending Fund Balances





Summary

- Revenue at current levels can fund ongoing operating obligations
 - » Current revenues cannot fund capital program
 - Cash reserves are depleted next year
- Proposed rate increases consistent with prior year forecast

Description	Existing		Proposed Annual Rate Adjustment									
			2026	2027	2028	2029	2030					
Annual Rate Adjustments			3.00%	3.00%	3.00%	3.00%	3.00%					
Average Residential Monthly Bill	\$	33.20	\$	34.20	\$	35.23	\$	36.29	\$	37.38	\$	38.50
\$ Change				1.00		1.03		1.06		1.09		1.12
New Debt Proceeds (\$M)	\$	-	\$	4.30	\$	-	\$	3.40	\$	-	\$	2.70

Notes:

1. Bill is based on a 5/8" x 3/4" meter & 6 ccf of monthly usage
2. Assumes across the board increases - actual increase dependent on rate design
3. Bill excludes taxes assessed on top of the bill

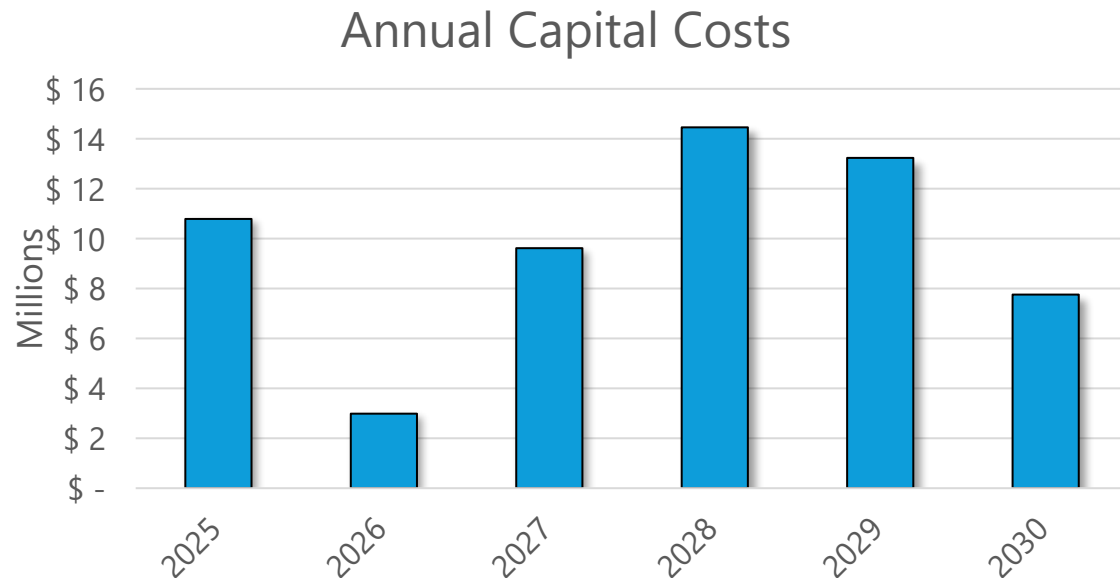


Sewer



Key Components

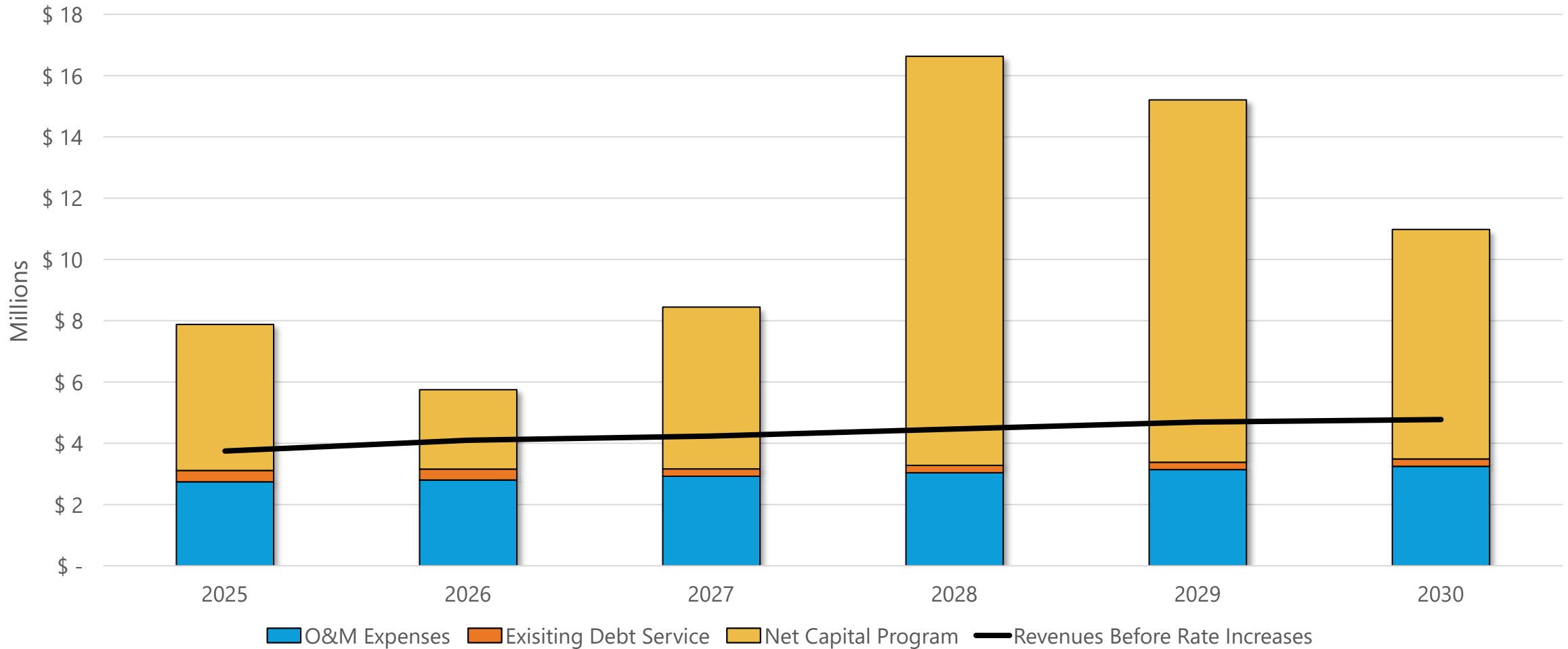
Description	2025 – 2030
Existing Revenue	\$3.7M - \$4.8M
O&M Expenses	\$2.7M - \$3.2M
Ex. Debt Service	\$0.4M - \$0.2M
Total CIP	\$58.8M



- Rate setting period CIP of \$58.8M funded through reserves, rates, grants, plant investment fees (PIFs), & new debt proceeds
 - » \$36.4M of new debt proceeds forecasted (2025, 2026, 2028, & 2030)
 - 2025 issuance of \$1M from low-cost loan

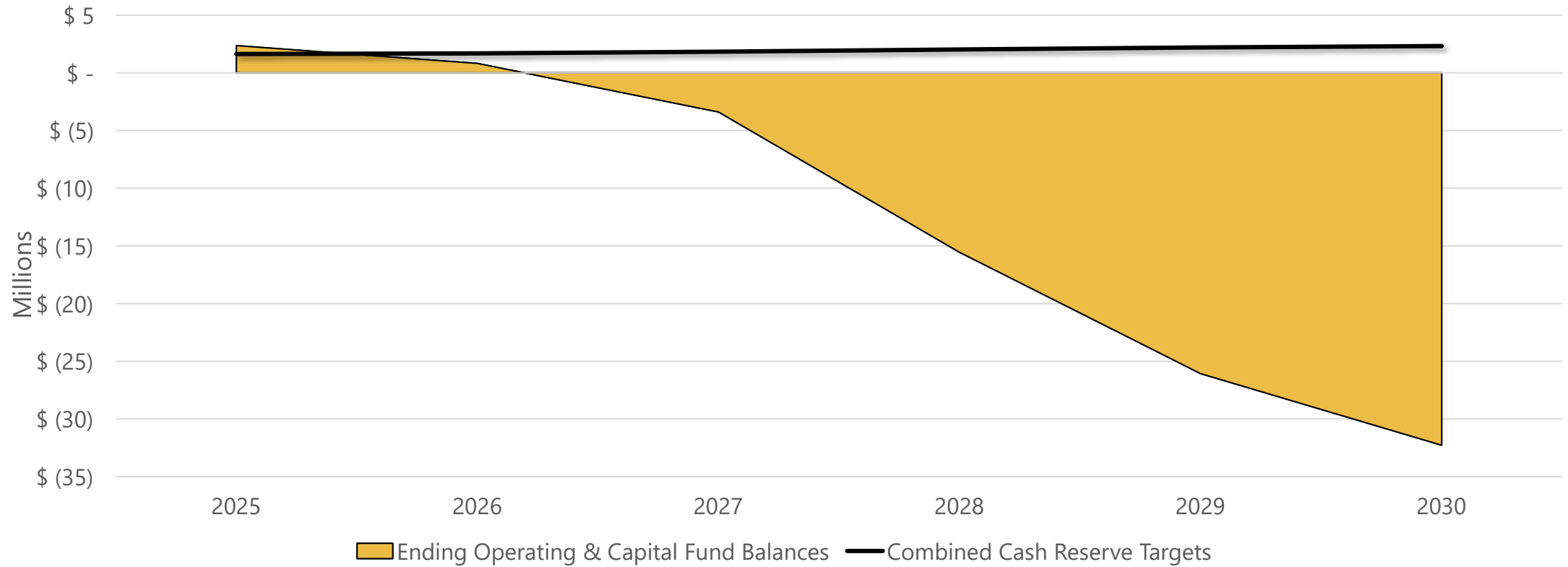


Revenue Requirement – Baseline





Revenue Requirement – Baseline Ending Fund Balances





Summary

- Revenue at current levels can fund ongoing operating obligations
 - » Current revenues cannot fund capital program
 - Cash reserves fall below targets next year
 - Cash reserves are depleted by 2027
- Proposed rate increases 0.25% higher than prior year forecast

Description	2025		Proposed Annual Rate Adjustment									
			2026	2027	2028	2029	2030					
Annual Rate Adjustments			6.00%	6.00%	6.00%	6.00%	6.00%					
Average Residential Monthly Bill	\$	62.08	\$	65.80	\$	69.75	\$	73.94	\$	78.38	\$	83.08
\$ Change				3.72		3.95		4.19		4.44		4.70
New Debt Proceeds (\$M)	\$	1.00	\$	4.50	\$	-	\$	24.10	\$	-	\$	6.80

Notes:

1. Bill is based on 6 ccf of monthly usage
2. Assumes across the board increases - actual increase dependent on rate design
3. Bill excludes taxes assessed on top of the bill

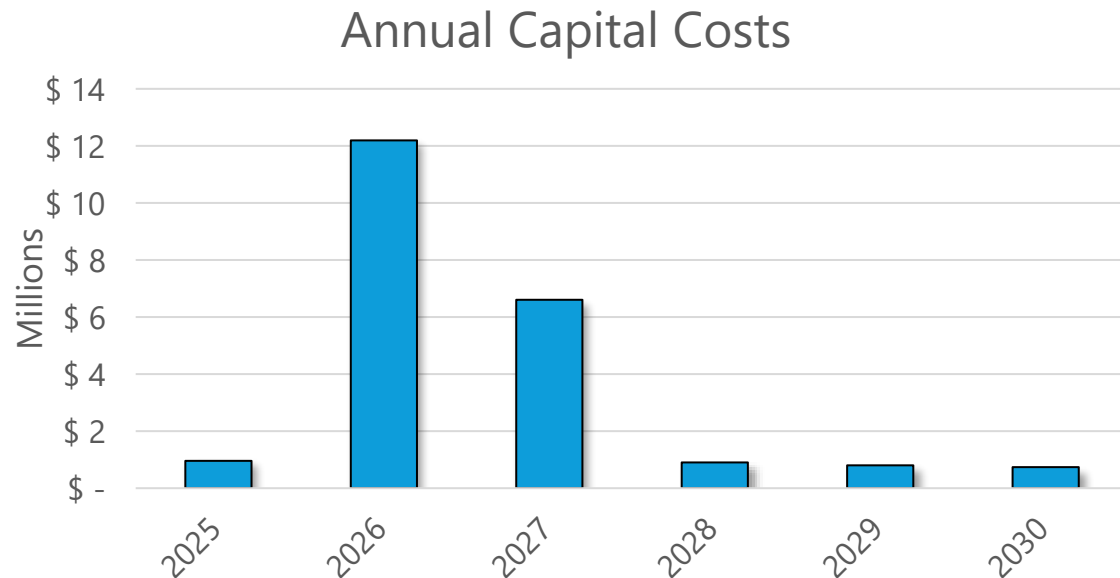
A person wearing a light-colored raincoat and rubber boots stands in a flooded area, possibly a road or field. The water is murky and reflects the surrounding trees. The background is filled with dense green foliage. The entire image has a green tint and a rain effect overlay.

Drainage



Key Components

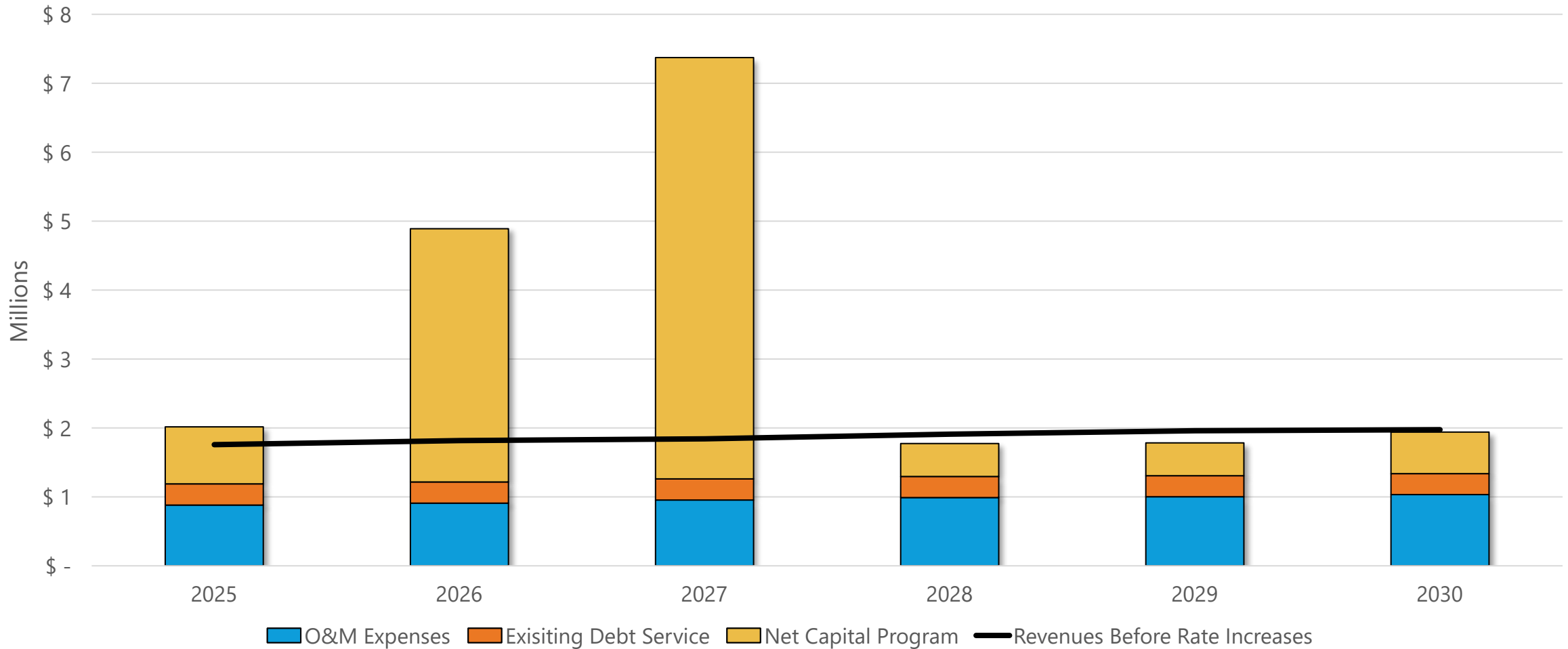
Description	2025 – 2030
Existing Revenue	\$1.8M - \$2.0M
O&M Expenses	\$0.9M - \$1.0M
Ex. Debt Service	\$0.3M
Total CIP	\$22.2M



- Rate setting period CIP of \$22.2M funded through reserves, rates, grants, plant investment fees (PIFs), & new debt proceeds
 - » \$5.0M of new debt proceeds forecasted (2027)

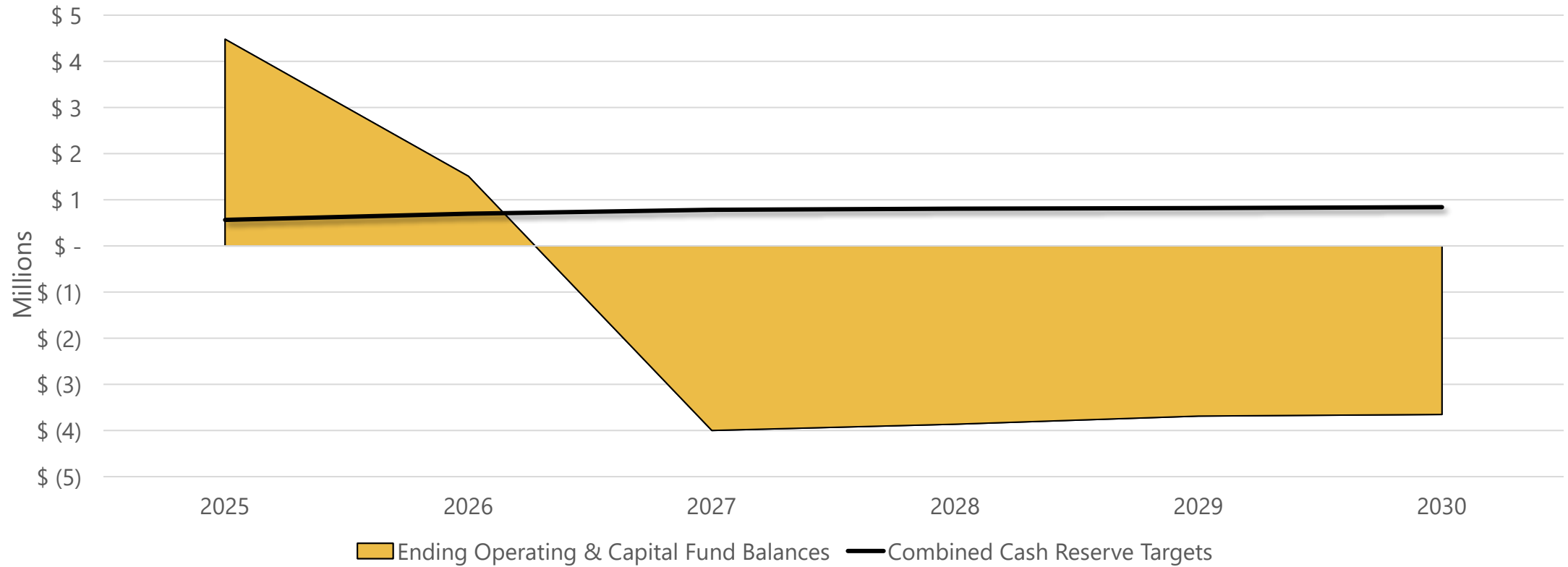


Revenue Requirement – Baseline





Revenue Requirement – Baseline Ending Fund Balances





Summary

- Revenue at current levels can fund ongoing operating obligations
 - » Current revenues cannot fund capital program
 - Cash reserves are depleted by 2027
- Proposed rate increases consistent with prior year forecast

Description	Existing		Proposed Annual Rate Adjustment									
			2026	2027	2028	2029	2030					
Annual Rate Adjustments			3.00%	3.00%	3.00%	3.00%	3.00%					
Average Residential Monthly Bill	\$	27.83	\$	28.66	\$	29.52	\$	30.41	\$	31.32	\$	32.26
\$ Change				0.83		0.86		0.89		0.91		0.94
New Debt Proceeds (\$M)	\$	-	\$	-	\$	5.00	\$	-	\$	-	\$	-

Notes:

1. Assumes across the board increases - actual increase dependent on rate design
2. Bill excludes taxes assessed on top of the bill

Cost-of-Service

(Water & Sewer Only)





What is Cost of Service?

- An equitable distribution of cost share that considers utility specific data
 - » Measures of usage and demand
 - » Planning, engineering and design criteria
 - » Facility requirements
- Cost of Service analysis determines
 - » Total cost by class (equity)
 - » Unit costs (\$/usage; \$/customer)
- Fundamental question: Do cost differences exist to serve different classes of service?



Classes of Service

- Water

- » Residential
- » Multi-Family
- » Commercial
- » General Industrial
- » Irrigation

- Sewer

- » Residential
- » Multi-Family
- » Commercial - Light
- » Commercial – Heavy
- » General Industrial



Cost-of-Service Process

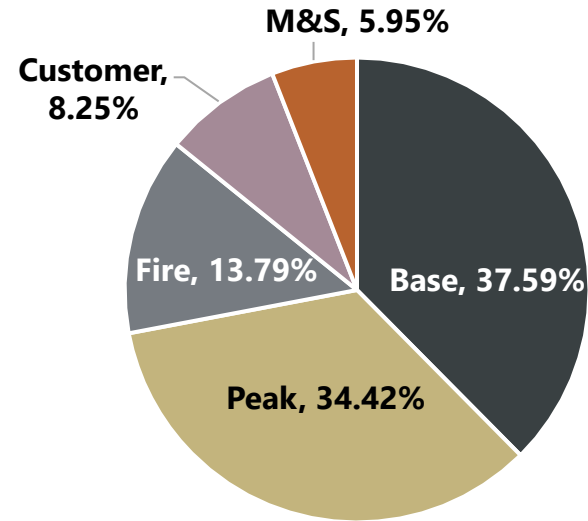
- Define equitable shares of cost responsibility by customer class
- Allocate total utility cost by function and classification

Water Utility Functions*	Sewer Utility Functions*
• Customer • Meters & Services • Base Demand (avg. use) • Peak Demand (peak use) • Fire Protection	• Customer • Flow • Strength

- Develop allocation factors using customer facility requirements and usage characteristics
- Allocate costs to customer classes



Cost-of-Service Process – Water



Base

Costs relate to average service provided on demand and are essentially correlated with year-round water consumption.

Peak

Costs relate to peak demand service; associated with the ability of the system to provide capacity to customers with higher-than-average volume.

Fire

Costs associated with providing adequate capacity and water flow corresponding to min. fire safety standards. Incremental costs for storage, T&D, and hydrants for fire protection.

Customer

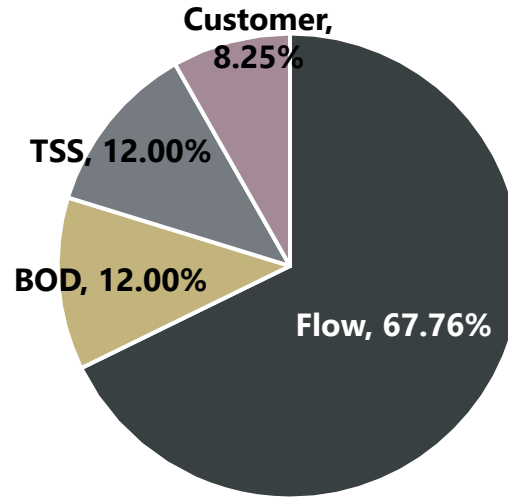
These are the costs associated with establishing, maintaining, and serving water customers and tend to include administrative, billing, and customer service costs.

M&S

Costs associated with installation, maintenance, and repairs of meters and services.



Cost-of-Service Process – Sewer



Flow

Costs related to sewer volume processed within the system in a year.

BOD

Costs related to strength of sewage processed related to biochemical oxygen demand (BOD).

TSS

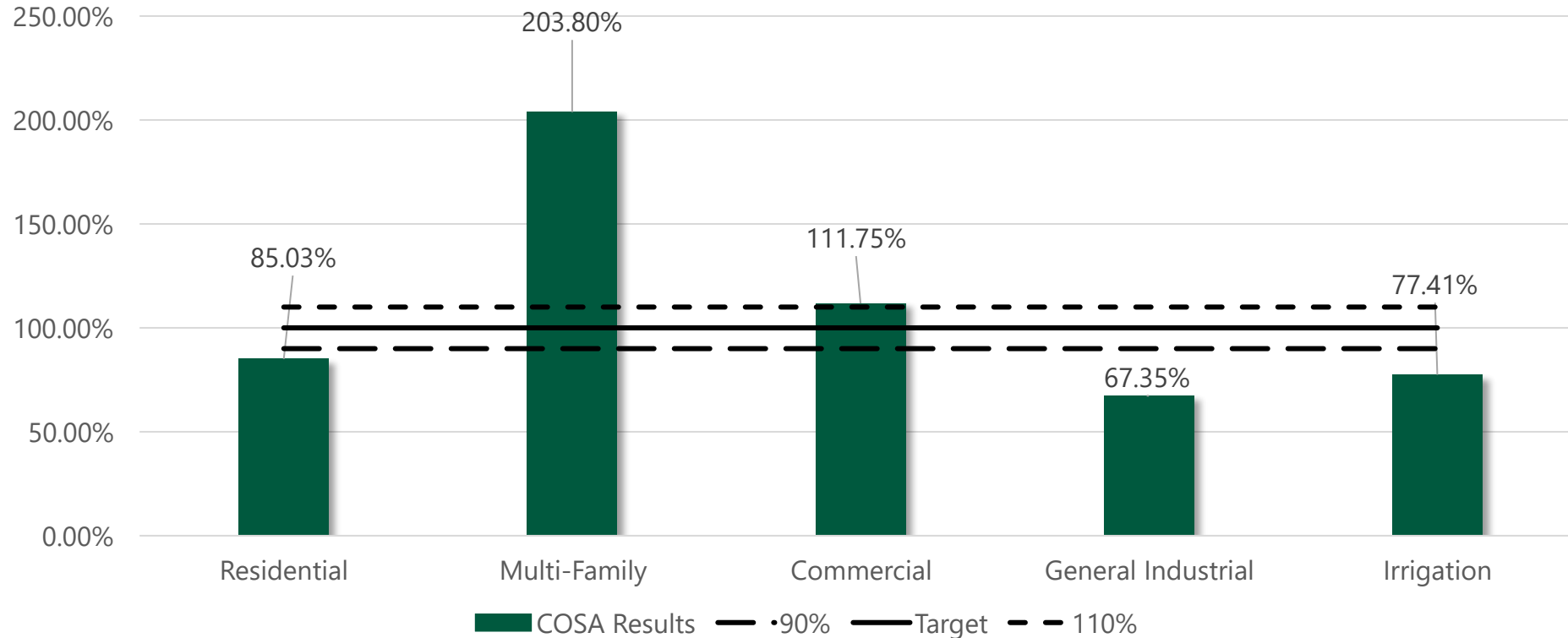
Costs related to strength of sewage processed related to total suspended solids (TSS).

Customer

These are the costs associated with establishing, maintaining, and serving sewer customers and tend to include administrative, billing, and customer service costs.



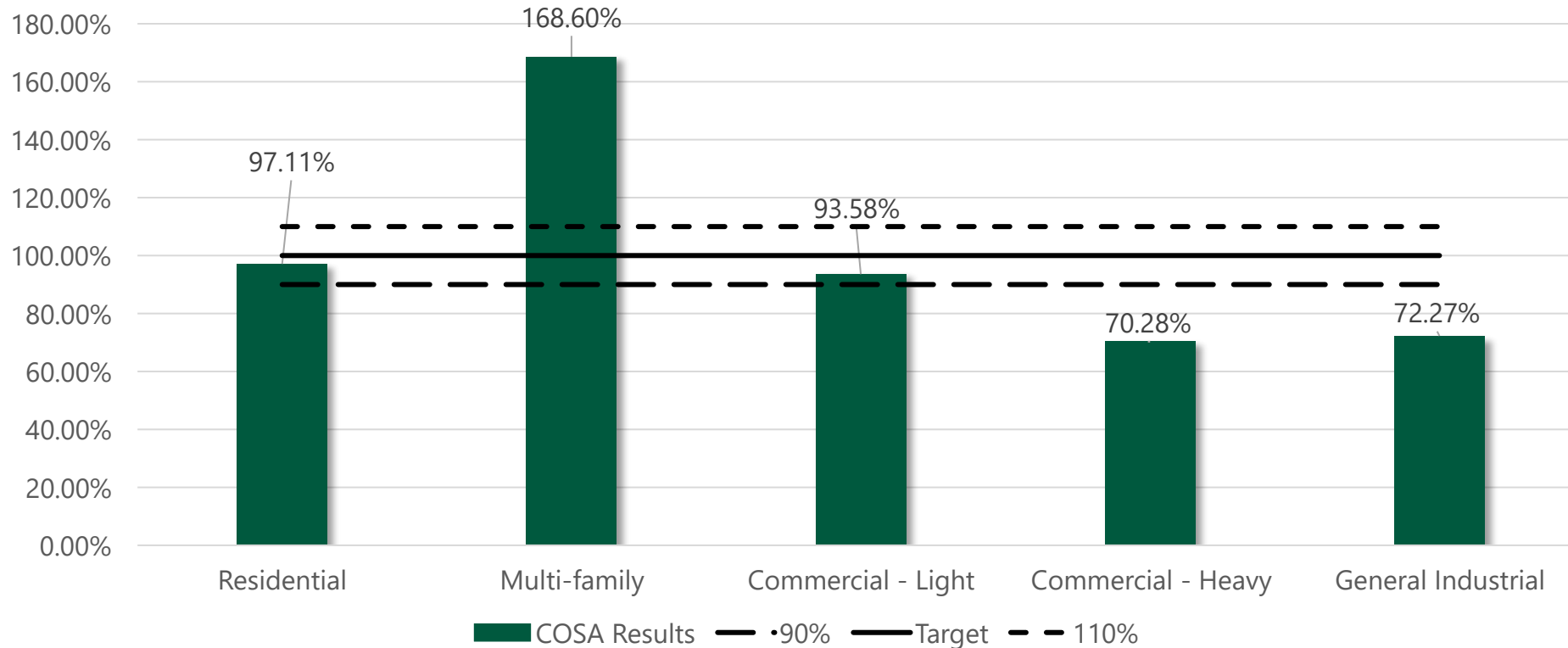
COSA Results – Water



- Targeting $\pm 10\%$ within COSA target range of reasonableness
 - » Residential, General Industrial, & Irrigation paying less than their cost to serve
 - » Multi-family & Commercial paying more than their cost to serve



COSA Results – Sewer



- Targeting $\pm 10\%$ within COSA target range of reasonableness
 - » Residential & Commercial – Light within range of reasonableness
 - » Commercial – Heavy & General Industrial paying less than their cost to serve
 - » Multi-family paying more than their cost to serve



Cost of Service Phase-In

- Make progress towards cost-of-service over time
 - » Avoid one-time larger adjustments for all customers
- Proposed phase-in

WATER	Annual Revenue Adjustments				
	2026	2027	2028	2029	2030
Residential	4.58%	4.05%	4.04%	4.54%	4.38%
Multi-Family	-2.11%	0.00%	0.00%	0.00%	0.00%
Commercial	2.75%	2.75%	2.75%	2.75%	2.75%
General Industrial	6.00%	5.00%	5.00%	5.00%	5.00%
Irrigation	4.58%	4.50%	4.50%	4.50%	4.50%
System Total	3.00%	3.00%	3.00%	3.00%	3.00%

SEWER	Annual Rate Adjustment				
	2026	2027	2028	2029	2030
Residential	5.75%	5.75%	5.75%	5.75%	5.75%
Multi-family	4.22%	4.50%	4.75%	5.20%	4.89%
Commercial - Light	5.75%	5.75%	5.75%	5.75%	5.75%
Commercial - Heavy	9.50%	9.50%	9.50%	9.50%	9.50%
General Industrial	9.50%	9.50%	9.50%	9.50%	9.50%
System Total	6.00%	6.00%	6.00%	6.00%	6.00%



Rate Design



Overview of Rate Design

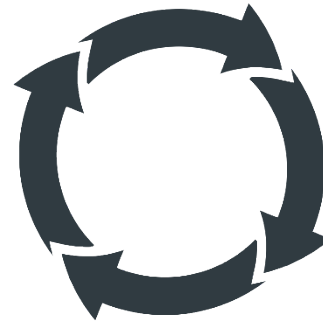
Development of fixed and variable charges assessed to customers



Aligns fixed and variable costs with fixed and variable revenue sources



Generates sufficient revenue to meet utility requirements



Meet goals and objectives of the utility (e.g., incentivize conservation)

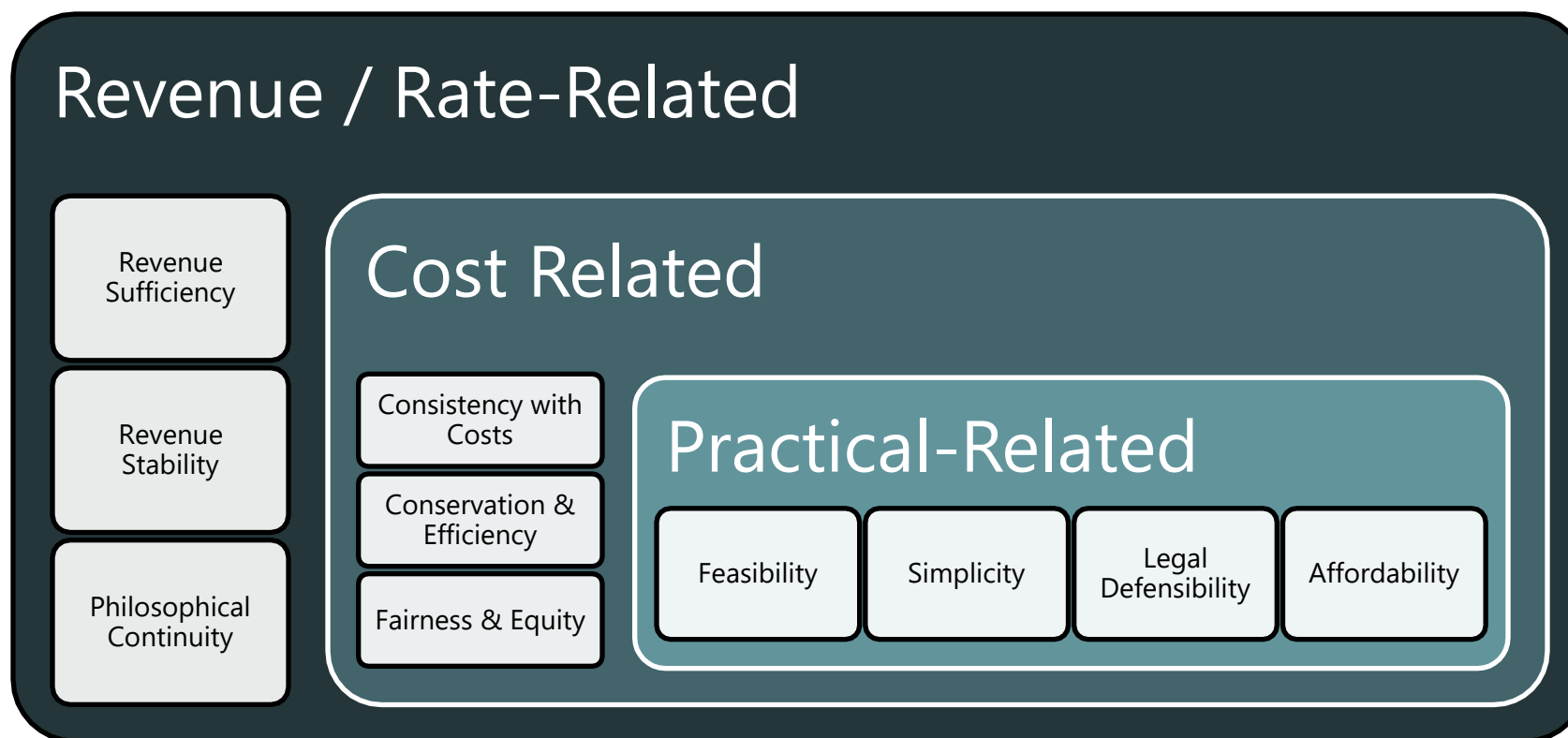


Evaluate monthly rate impact for different types of customers



Rate Design Goals

- No structure can completely achieve all the objectives – it's a balancing act





Water – Rate Design Considerations

- Implement cost-of-service phase-in
- Reduce monthly allowance (tier 1) usage from 600cf to 500cf
 - » Allowance scales with meter size
- Change residential incremental rates to three tier system to incentivize conservation
 - » 1st tier (allowance) drop from 600cf to 500cf per bi-monthly period
 - » 2nd tier 501cf – 900cf
 - » 3rd tier >900cf
- Reduce 2026 base fee to \$32.23 / month (from \$33.20)



Water – Proposed Fixed Charges

Description	Existing	Proposed Monthly Fixed Charges (\$ / month)				
		2026	2027	2028	2029	2030
5/8" x 3/4"	\$ 33.20	\$ 32.23	\$ 33.20	\$ 34.19	\$ 35.22	\$ 36.28
1"	55.41	53.80	55.41	57.08	58.79	60.55
1 1/2"	110.50	107.28	110.50	113.81	117.23	120.74
2"	176.86	171.71	176.86	182.17	187.63	193.26
3"	331.80	322.14	331.80	341.76	352.01	362.57
4"	553.11	537.00	553.11	569.70	586.79	604.40
6"	553.11	1,074.33	1,106.56	1,139.76	1,173.95	1,209.17
8"	1,862.61	1,808.36	1,862.61	1,918.49	1,976.05	2,035.33
Multi-Family (per unit)	33.20	32.23	32.23	32.23	32.23	32.23

Note: Low income, inactive, and outside city rates available



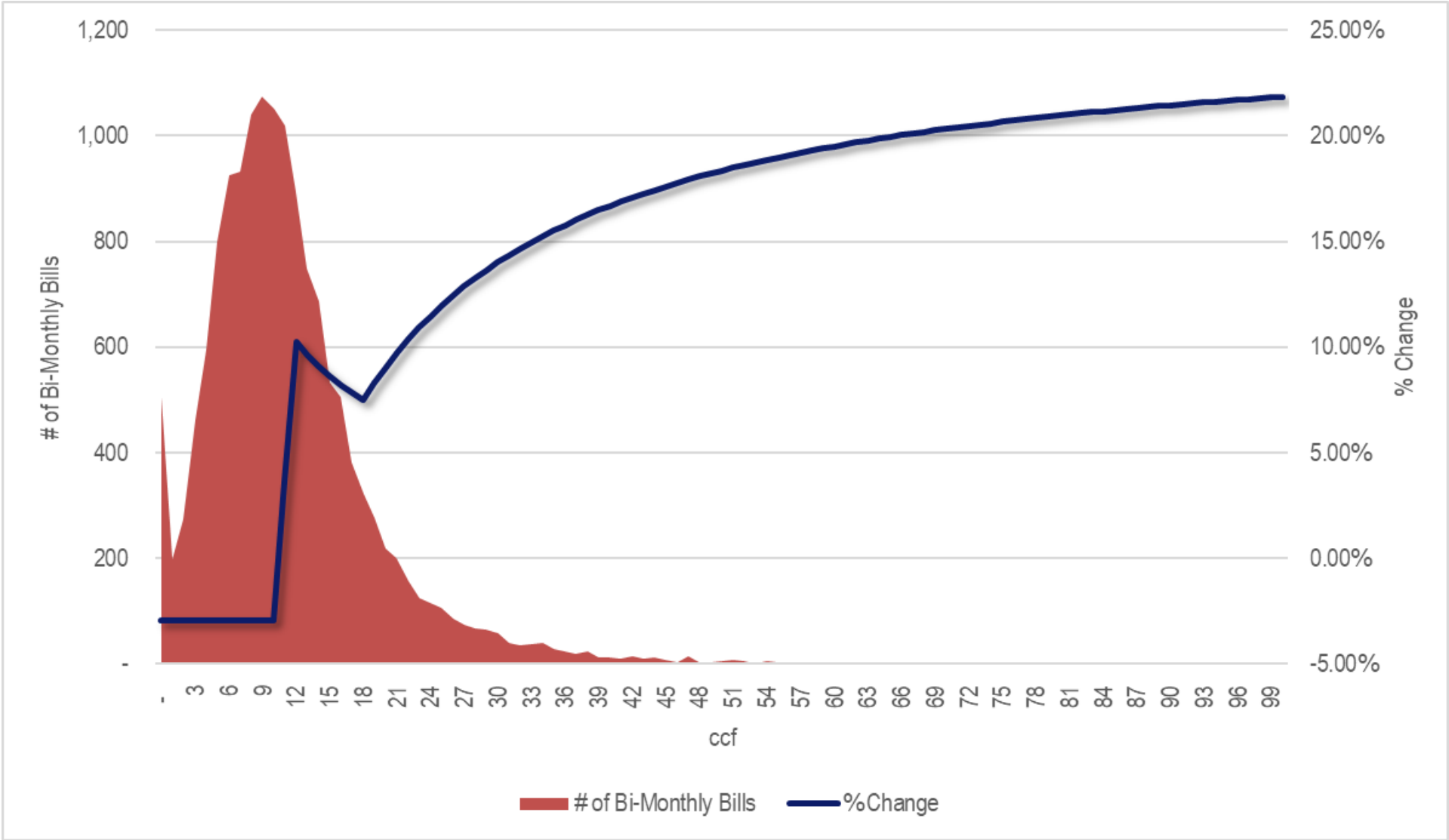
Water – Proposed Incremental Charges

Description	Mo. Tier Ranges (ccf)		Proposed Incremental Charges \$ / ccf						
	Existing	Proposed	Existing	2026	2027	2028	2029	2030	
Residential									
Tier 1 (Allowance)	0 - 6	0 - 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Tier 2	>6	5 - 9	4.35	4.37	4.71	5.07	5.55	6.03	
Tier 3		>9	-	5.46	5.88	6.34	6.94	7.54	
Multi-Family									
Tier 1 (Allowance)	0 - 6	0 - 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Tier 2	>6	>5	4.35	4.35	4.35	4.35	4.35	4.35	
Commercial									
Tier 1 (Allowance)	0 - 6	0 - 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Tier 2	>6	>5	4.35	4.44	4.55	4.67	4.79	4.91	
General Industrial									
Tier 1 (Allowance)	0 - 6	0 - 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Tier 2	>6	>5	4.35	4.00	4.26	4.52	4.80	5.10	
Irrigation									
Tier 1 (Allowance)	0 - 6	0 - 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Tier 2	>6	>5	4.35	4.67	4.93	5.20	5.49	5.79	

Notes: Tier amounts scale by meter size & number of units | Low income and outside city rates available



Residential Impacts (2026)



Bi-Monthly Usage (ccf)		\$ Increase per Bill (Bi-Monthly)	
4		\$	(1.94)
5			(1.94)
6			(1.94)
7			(1.94)
8			(1.94)
9			(1.94)
10			(1.94)
11			2.43
12			6.80
13			6.82
14			6.84
15			6.86
16			6.88
17			6.90
18			6.92
19			8.03
20			9.14

- winter avg
- annual avg
- summer peak avg



Sewer & Drainage – Rate Design Considerations

- Sewer
 - » Implement cost-of-service phase-in
 - » Rates are adjusted across the board by customer class
- Drainage
 - » Rates are adjusted across the board



Sewer – Proposed Rates

Description	Existing	Proposed Monthly Fixed Charges (\$ / month)				
		2026	2027	2028	2029	2030
Residential	\$ 62.08	\$ 65.65	\$ 69.43	\$ 73.42	\$ 77.64	\$ 82.10
Multi-Family (per unit)	62.08	64.70	67.61	70.82	74.50	78.14
Commercial - Light	62.08	65.65	69.42	73.41	77.63	82.09
Commercial - Heavy	70.56	77.26	84.60	92.64	101.44	111.08
General Industrial	79.06	86.57	94.79	103.80	113.66	124.46

Description	Existing	Proposed Incremental Rates (\$ / ccf)				
		2026	2027	2028	2029	2030
Residential	\$ 8.67	\$ 9.17	\$ 9.70	\$ 10.26	\$ 10.85	\$ 11.47
Multi-Family	8.67	9.04	9.45	9.90	10.41	10.92
Commercial - Light	8.67	9.17	9.70	10.26	10.85	11.47
Commercial - Heavy	10.09	11.05	12.10	13.25	14.51	15.89
General Industrial	11.50	12.59	13.79	15.10	16.53	18.10

Notes: Incremental rate applies to usage above 6ccf monthly allowance | Low income and inactive rates available



Drainage – Proposed Rates

Description	Existing		Proposed Monthly Charges									
			2026	2027	2028	2029	2030					
Residential	\$	27.83	\$	28.66	\$	29.52	\$	30.41	\$	31.32	\$	32.26
Multi-Family (per-ERU)		27.83		28.66		29.52		30.41		31.32		32.26
Non-Residential (per-ERU)		27.83		28.66		29.52		30.41		31.32		32.26

Notes: ERU = equivalent residential unit (3,500 sf) | Low income rates available



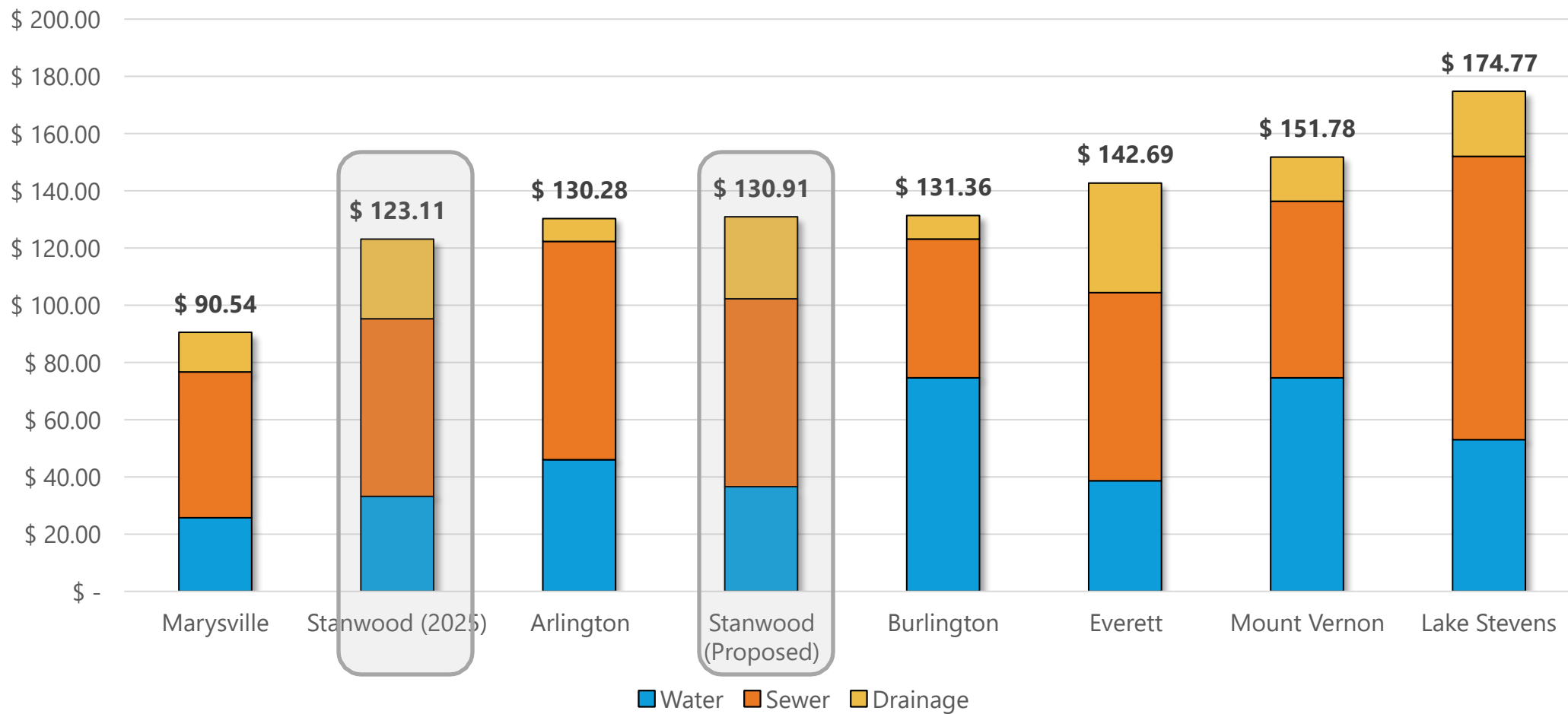
Residential Bill Impacts

Description	Existing	Monthly Bill w/ Proposed Adjustments				
		2026	2027	2028	2029	2030
Water (6ccf)	\$ 33.20	\$ 36.60	\$ 37.91	\$ 39.26	\$ 40.77	\$ 42.31
Sewer (6ccf)	62.08	65.65	69.43	73.42	77.64	82.10
Drainage	27.83	28.66	29.52	30.41	31.32	32.26
Total	\$ 123.11	\$ 130.91	\$ 136.86	\$ 143.09	\$ 149.73	\$ 156.67
\$ Change		7.80	5.95	6.23	6.64	6.94
% Change		6.34%	4.55%	4.55%	4.64%	4.64%
Total - Winter Average (5.25 ccf)	\$ 123.11	\$ 127.63	\$ 133.33	\$ 139.29	\$ 145.57	\$ 152.15
\$ Change		4.52	5.70	5.96	6.28	6.58
% Change		3.67%	4.46%	4.47%	4.51%	4.52%
Total - Summer Peak Average (8.75ccf)	\$ 135.07	\$ 142.93	\$ 149.81	\$ 157.03	\$ 164.99	\$ 173.25
\$ Change		7.85	6.89	7.22	7.96	8.26
% Change		5.82%	4.82%	4.82%	5.07%	5.01%

Notes: Excludes taxes assessed on top of bill | Residential sewer customers are billed on winter average year round



Rate Survey – Residential Customer Class



Notes:

1. Rates reflect monthly totals for a 5/8 x 3/4" meter | 6.00ccf of usage
2. Burlington & Mount Vernon water is served by Skagit PUD
3. Lake Stevens water is served by Snohomish PUD
4. Lakes Stevens sewer is served by Lake Stevens Sewer District
5. Some utilities assess taxes on top of the bill – taxes are not shown in these totals



Next Steps

- Revenue requirement

Utility	Proposed Annual Rate Adjustment				
	2026	2027	2028	2029	2030
Water	3.00%	3.00%	3.00%	3.00%	3.00%
Sewer	6.00%	6.00%	6.00%	6.00%	6.00%
Drainage	3.00%	3.00%	3.00%	3.00%	3.00%

- Cost-of-service

- » Implement proposed phase-in?

- Rate design

- » Water – lower allowance and introduce third tier for residential

- » Sewer – across the board adjustments

- » Drainage – across the board adjustments

Thank you! Questions?

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