



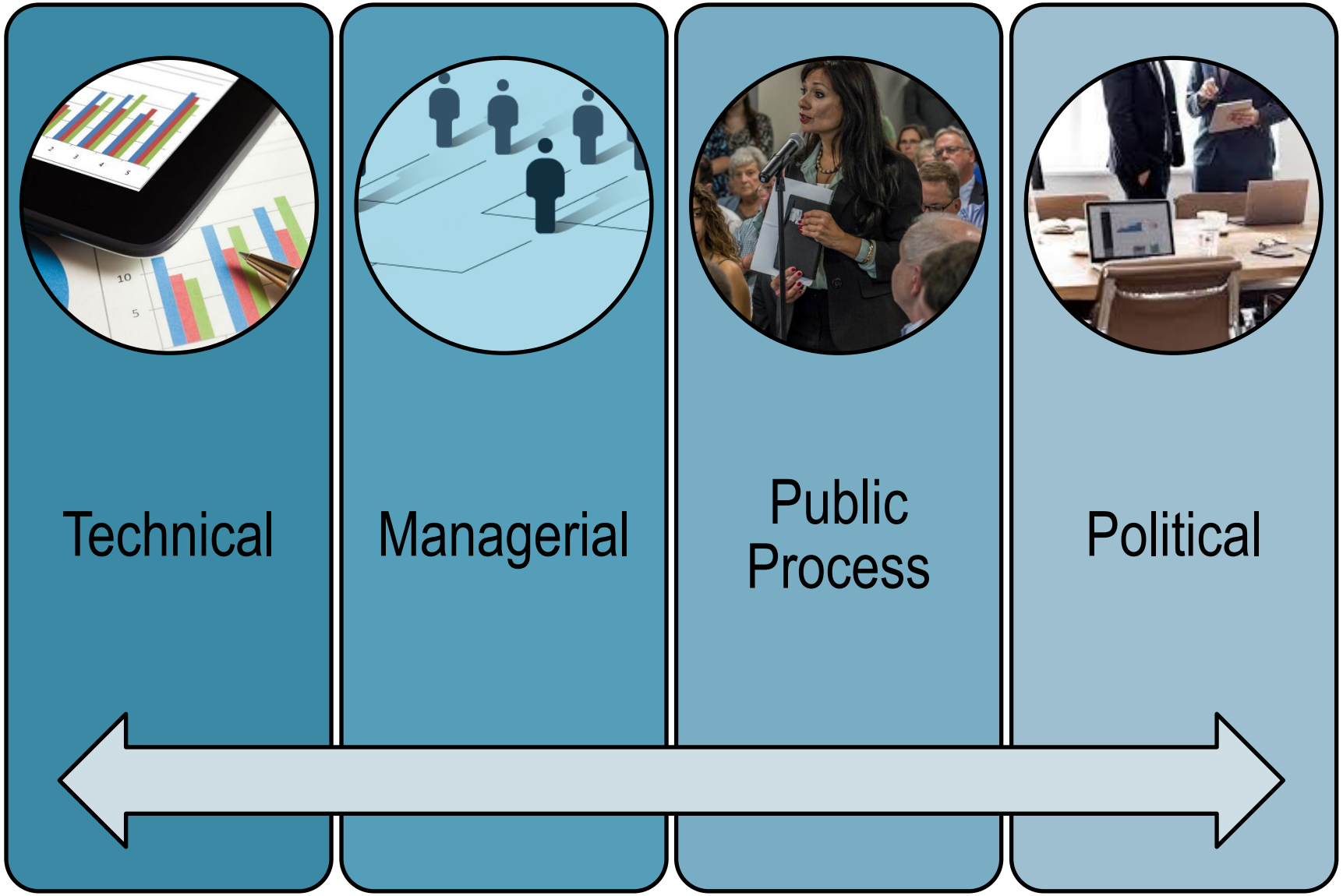
Capital Funding and Affordability: Managing Competing Goals

May 8, 2026

Presented by:
Shawn Koorn, Associate Vice President

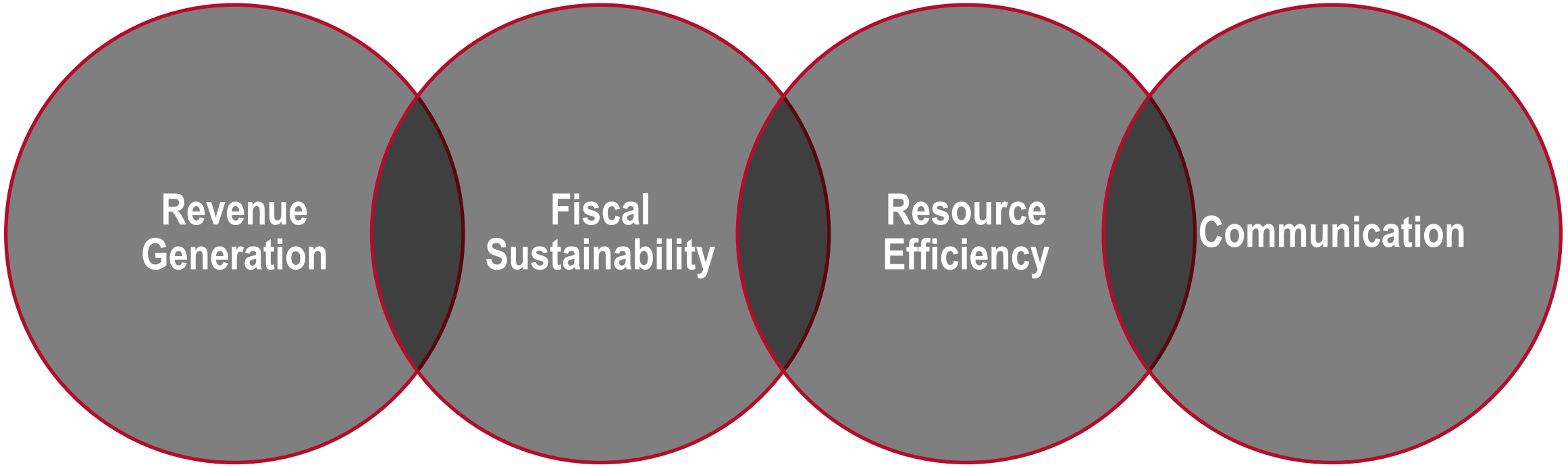
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The Challenges of Ratemaking



What is the Role of Rates?

Utility Perspective….



But Customer's care about….

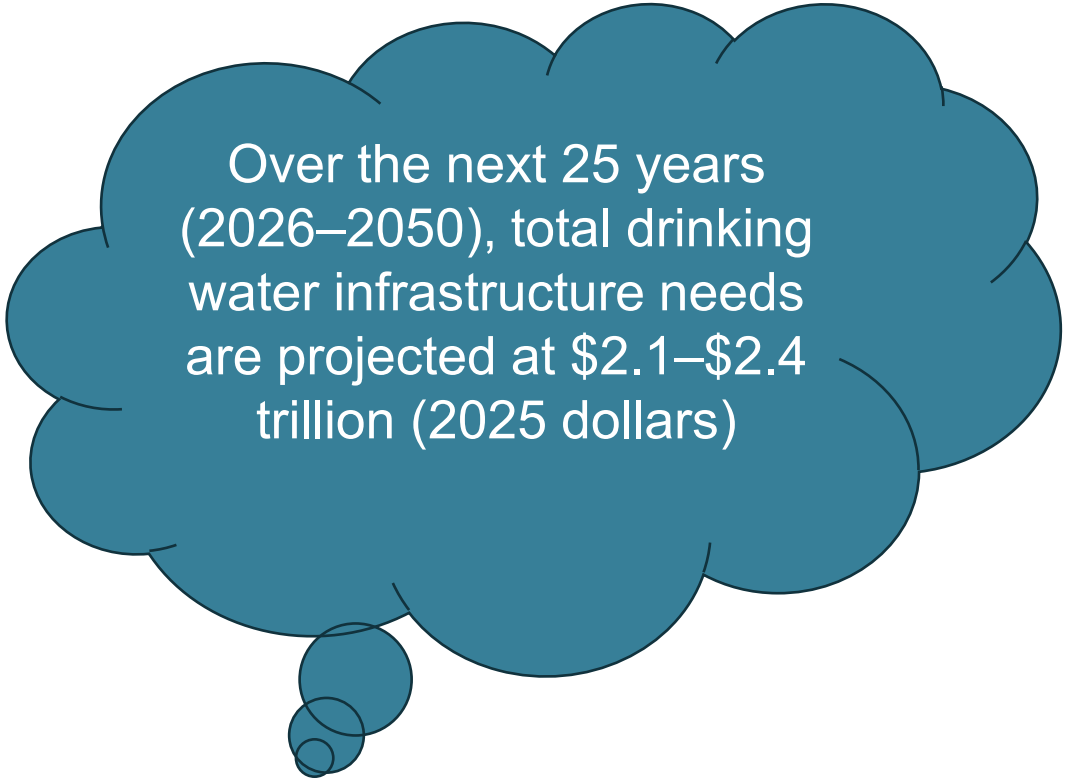
2026 AWWA State of the Water Industry

Table 2. Top 10 Issues Facing the Water Sector as Ranked by All Respondents, 2021–2026

2026	CHANGE	2025	2024	2023	2022	2021
Infrastructure renewal and replacement (aging infrastructure)	↑	Financing for capital improvements	Watershed/source water protection	Infrastructure renewal and replacement	Infrastructure renewal and replacement	Infrastructure renewal and replacement
Financing for capital improvements	↓	Infrastructure renewal and replacement	Financing for capital improvements	Long-term drinking water supply availability	Financing for capital improvements	Financing for capital improvements
Long-term drinking water supply availability	↔	Long-term drinking water supply availability	Infrastructure renewal and replacement	Financing for capital improvements	Long-term drinking water supply availability	Long-term drinking water supply availability
Financial sustainability	↑	Public understanding of the value of water sector systems and services	Long-term drinking water supply availability	Public understanding of the value of water resources	Aging workforce/anticipated retirements	Emergency preparedness
Public understanding of the value of water sector systems and services	↓	Watershed/source water protection	Financial sustainability	Watershed/source water protection	Public understanding of the value of water systems and services	Public understanding of the value of water systems and services
Watershed/source water protection	↓	Financial sustainability	Public understanding of the value of water systems and services	Aging workforce/anticipated retirements	Emergency preparedness	Watershed/source water protection
Groundwater management and overuse	↑	Workforce issues	Workforce issues	Public understanding of the value of water systems and services	Watershed/source water protection	Public understanding of the value of water resources
Cybersecurity issues	↔	Cybersecurity issues	Groundwater management and overuse	Emergency preparedness	Public understanding of the value of water resources	Aging workforce/anticipated retirements
Workforce issues	↓	Groundwater management and overuse	Drought or periodic water shortages	Groundwater management and overuse	Groundwater management and overuse	Compliance with current regulations
Drought or periodic water shortages	↔	Drought or periodic water shortages	Cybersecurity issues	Compliance with current regulations	Cybersecurity issues	Groundwater management and overuse

The Challenge

- Need to fund system renewal and replacements
  - Prior infrastructure deferrals
  - Limited "*pay as you go*" funding available
- Increasing costs
- Limited funding
  - Reduced Federal/State funding
  - More competition for grants/low interest loans
- Impacts to rate affordability



Establishing Cost-Based Rates

Revenue Requirement

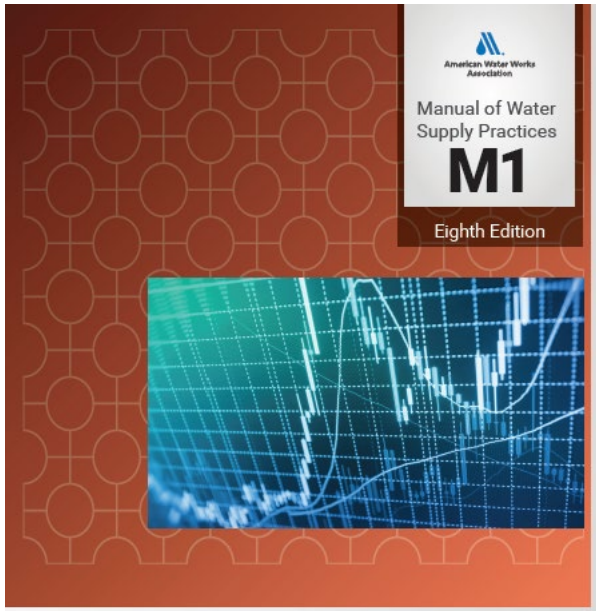
Compares the revenue of the utility to the expenses to evaluate the level of overall rate revenues

Cost of Service

Proportionally distributes the revenue requirement between the customer classes of service

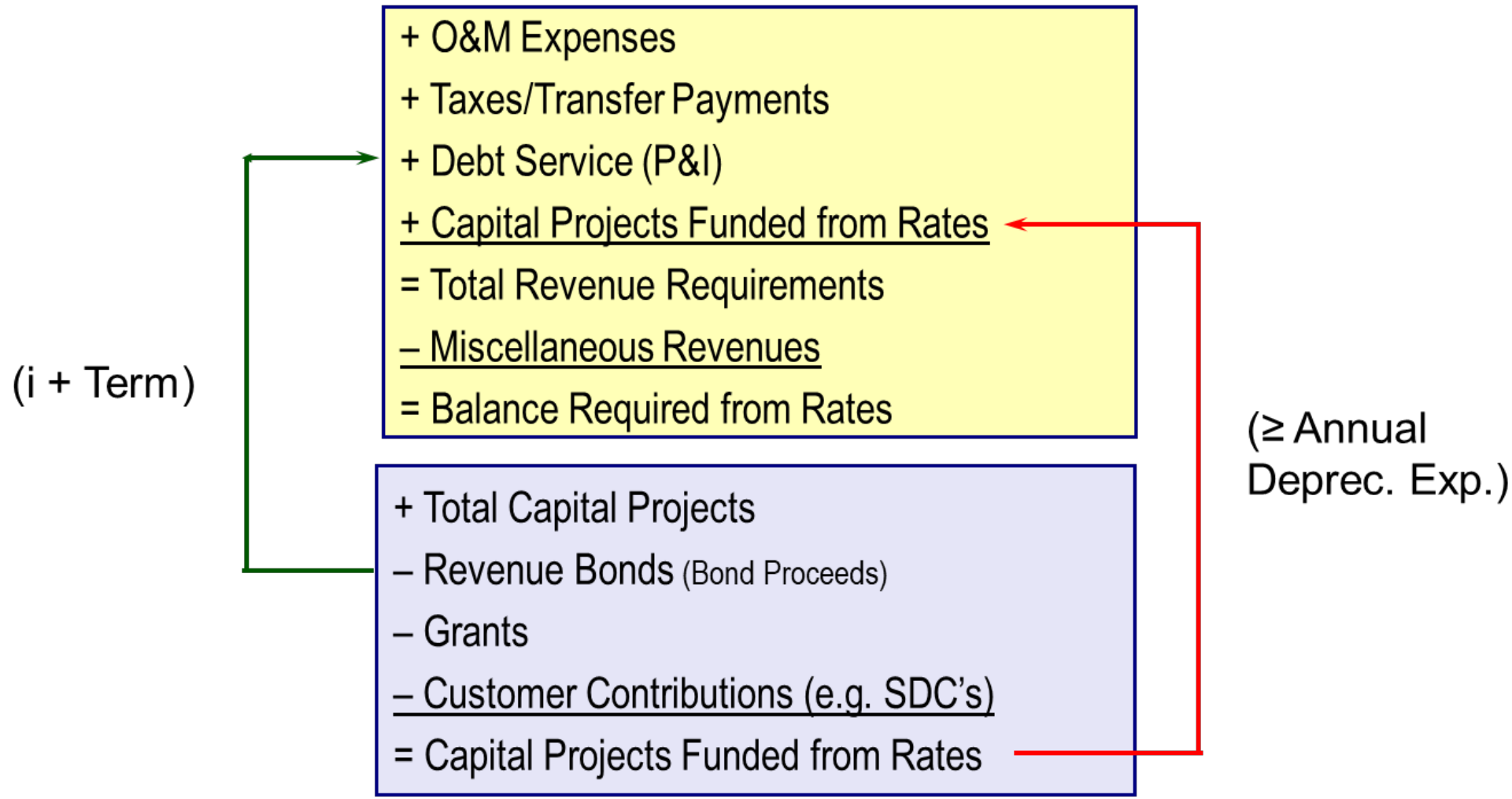
Rate Design

Design rates for each class of service to meet the revenue needs of the utility, along with the proportional distribution of costs to each customer class of service

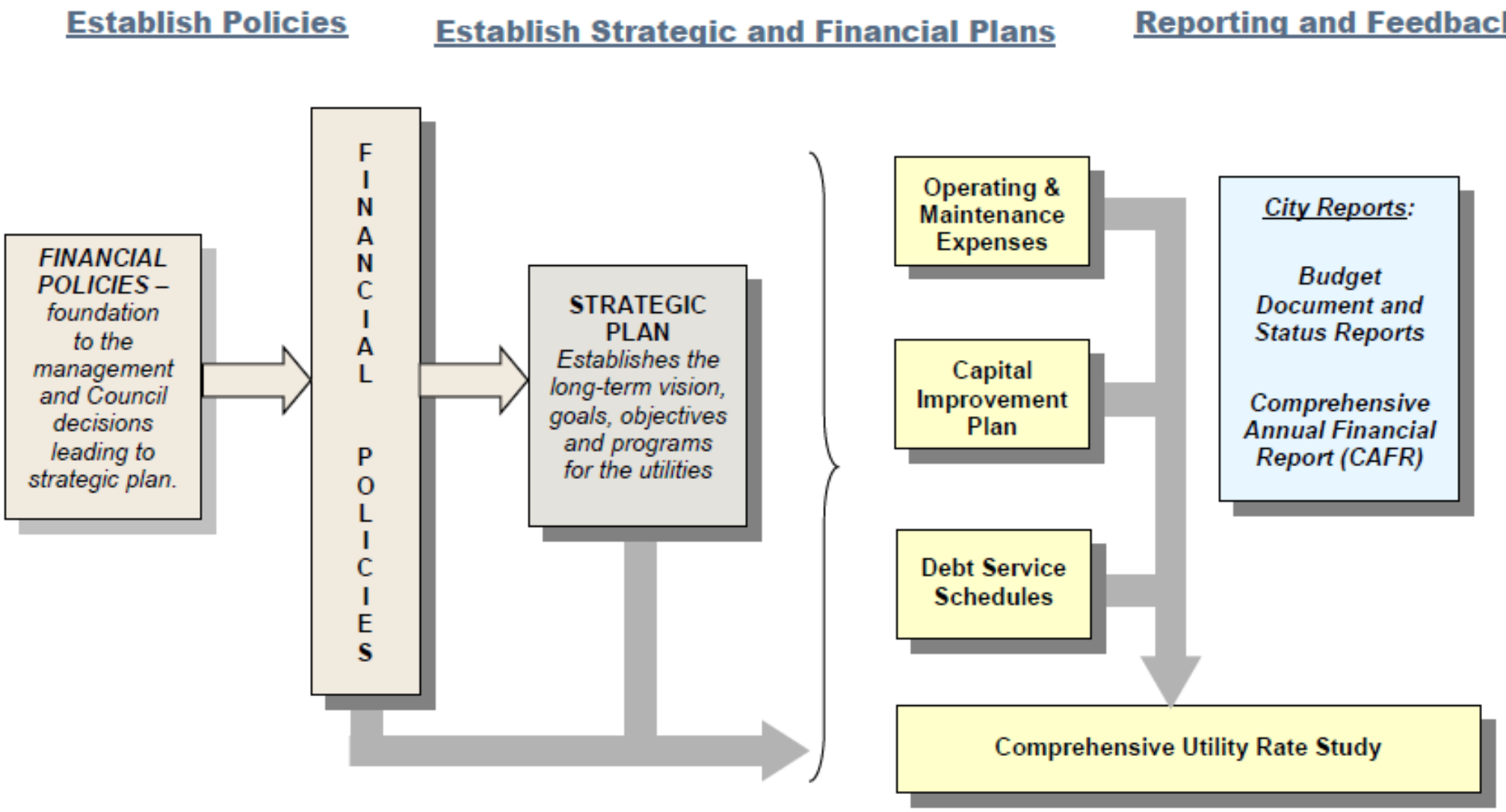


Water Rates, Fees, and Charges

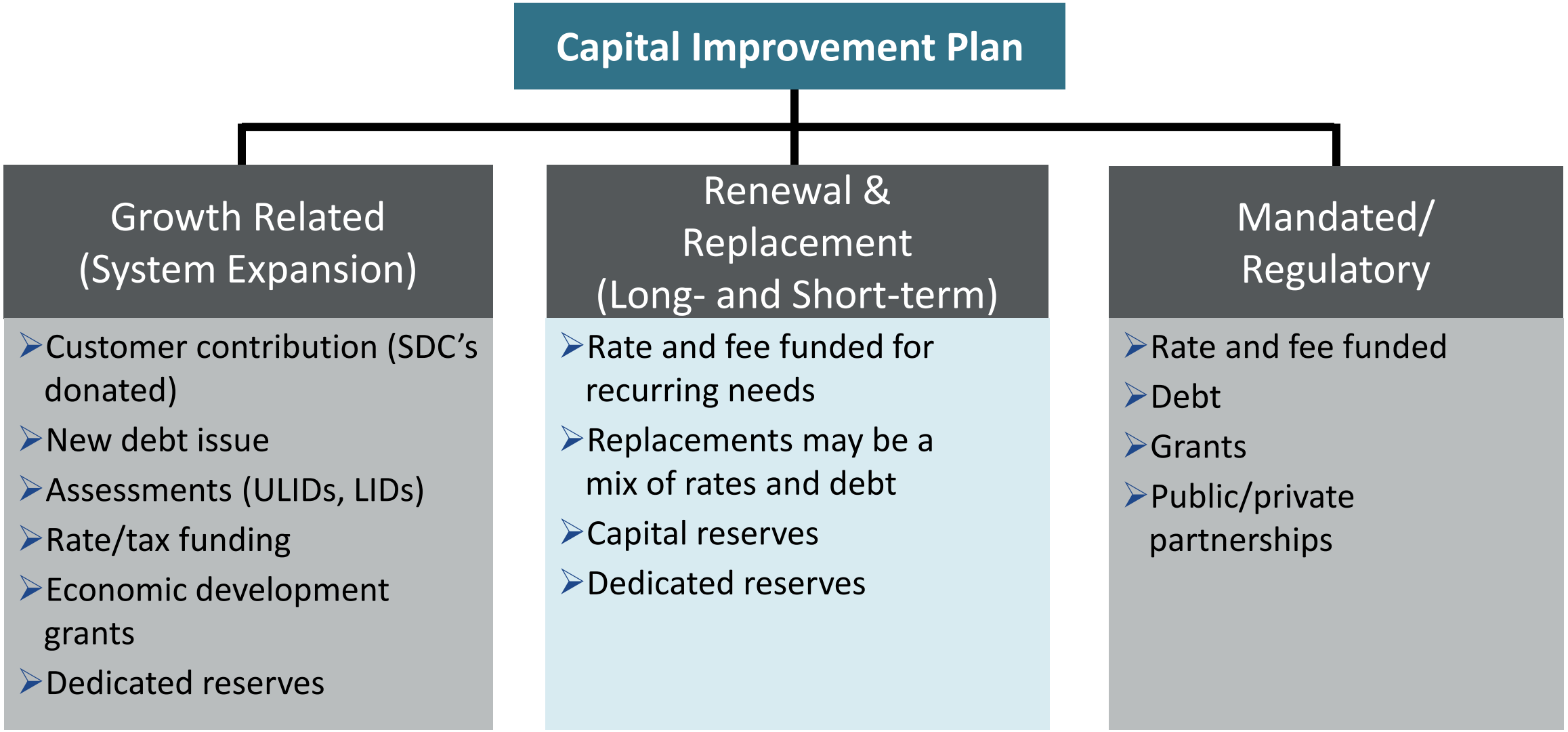
Details of the Cash Basis Revenue Requirement Methodology



Financial Policies and the Planning Process



Overview of Capital Funding Sources



Funding Resources

The need to align projects to funding criteria



- Clean Water State Revolving Fund (CWSRF)
- Drinking Water State Revolving Fund (DWSRF)
- Water Infrastructure Finance Innovation Act (WIFIA)
- Housing and Urban Development (HUD)
- Economic Development Administration (EDA)
- U.S. Department of Agriculture (USDA)
- CARES Act & HEROES Act



- WA DOH
- EPA Regional Office
- Grants.gov
- Whitehouse.gov
- Congress.gov

Renewal and Replacement – WHY???

- Utilities provide vital services
- Vast, sophisticated systems requiring significant infrastructure investments
- Necessary for safety, sanitation, and health for customers and the environment
- As infrastructure ages, managing the assets becomes increasingly important
- Can minimize overall O&M costs
- Renewal and replacement programs must be developed and maintained
- WE WANT TO BE GOOD STEWARDS!
- The risk of failure can be devastating

Level of Annual Renewal and Replacement Funding

- How much should the utility invest annually in the renewal and replacement of the system?
  - % of plant investment
  - Look at the asset management plan / schedule and target this amount
  - Fund at least annual depreciation expense
    - Target: 1.5 – 2.0 times depreciation expense
- Rate study may refer to this as “rate funded capital” or “pay as you go”
  - First component of funding for capital projects
  - Should increase annually to keep pace with inflation
  - Helps to indicate financial health of a utility
    - Strong DSC ratio
    - Ability to repay long-term debt
- A consistent level of rate funded capital keeps rates steady

Approach to Replacement Planning

Basic	• Funding asset replacement projects through financial targets
Moderate	• Basic level with useful life and condition assessment included in prioritization
Sophisticated	• Uses state of the art technology in asset management planning

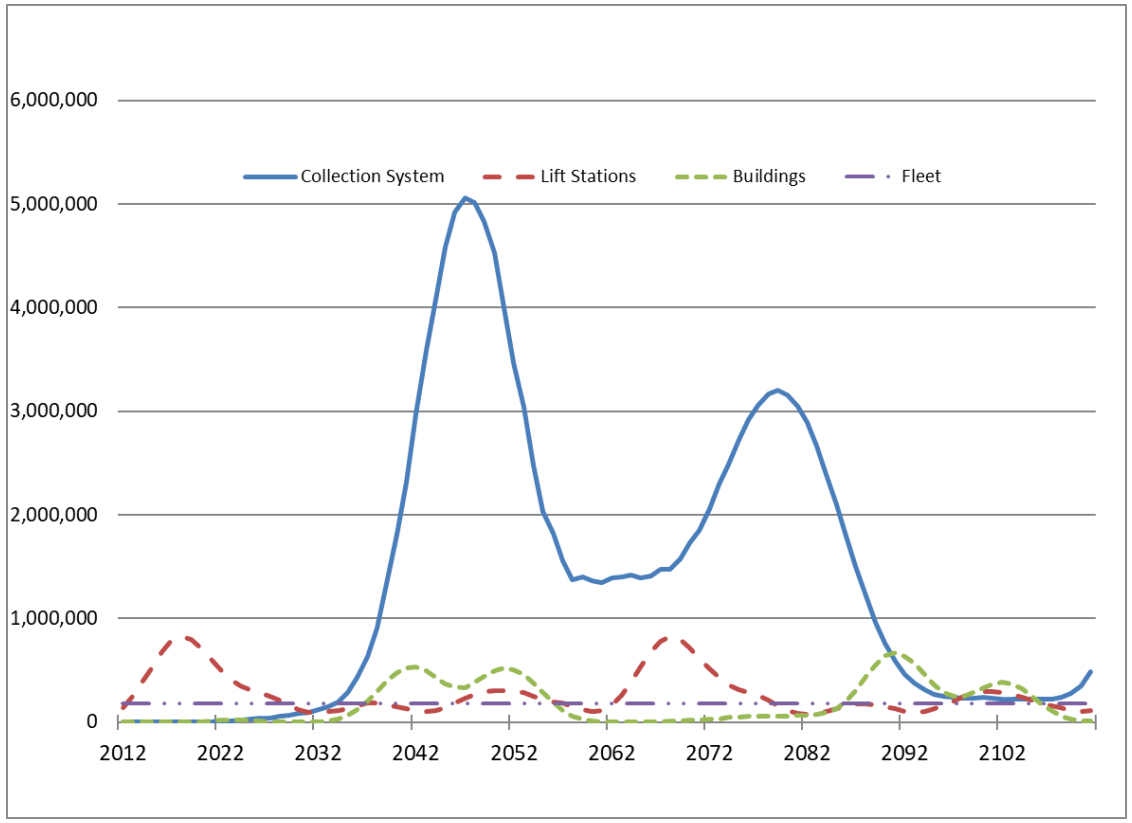
- Approach may vary by utility based on level of data available for asset replacement planning

Identification of Renewal and Replacement Needs

- How do we know where to go if we don't know where we are?
  - Do we have a good fixed asset listing?
  - Do we have policies for what and how assets are booked and managed from construction to asset?
  - Do we have policies in place to manage asset both accounting and engineering "useful life"
    - Accounting useful life is usually a straight depreciation
    - Engineering useful life is assessment of condition of asset
- Group assets into categories
  - Source, Treatment, Transmission, Storage, Distribution
- Determine an appropriate asset life
  - If possible, include considerations for condition assessment
- Schedule a replacement timeline



Asset Replacement - Example



Time Period	Collection System	Lift Stations	Buildings	Vehicles & Equipment	Total
2013-2022	$18,544	$5,711,700	$18,868	$1,804,906	$7,554,018
2023-2032	560,931	2,691,967	87,899	1,804,906	5,145,702
2033-2042	11,032,453	1,409,031	2,133,802	1,804,906	16,380,192
2043-2052	44,084,256	2,037,860	4,339,470	1,804,906	52,266,491
2053-2062	17,807,643	1,911,473	2,027,728	1,804,906	23,551,750
2063-2072	15,787,116	5,751,753	63,782	1,804,906	23,407,557
2073-2082	28,958,703	2,737,800	516,205	1,804,906	34,017,614
2083-2092	14,429,775	1,323,919	3,176,085	1,804,906	20,734,685
2093-2102	2,606,025	1,913,861	3,787,875	1,804,906	10,112,668
2103-2112	2,464,490	1,801,777	1,719,919	1,804,906	7,791,092
Total	**$137,749,936**	**$27,291,141**	**$17,871,634**	**$18,049,057**	**$200,961,768**
Average/Year	$1,377,499	$272,911	$178,716	$180,491	$2,009,618

What Happens If We Do Nothing

- Renewal and replacement strategies are most effective when done in a programmatic way and a timely manner
  - If we “get behind” for too long, the funding shortfalls will increase
  - Possibility of infrastructure failure increases

Failing infrastructure imperils drinking water systems



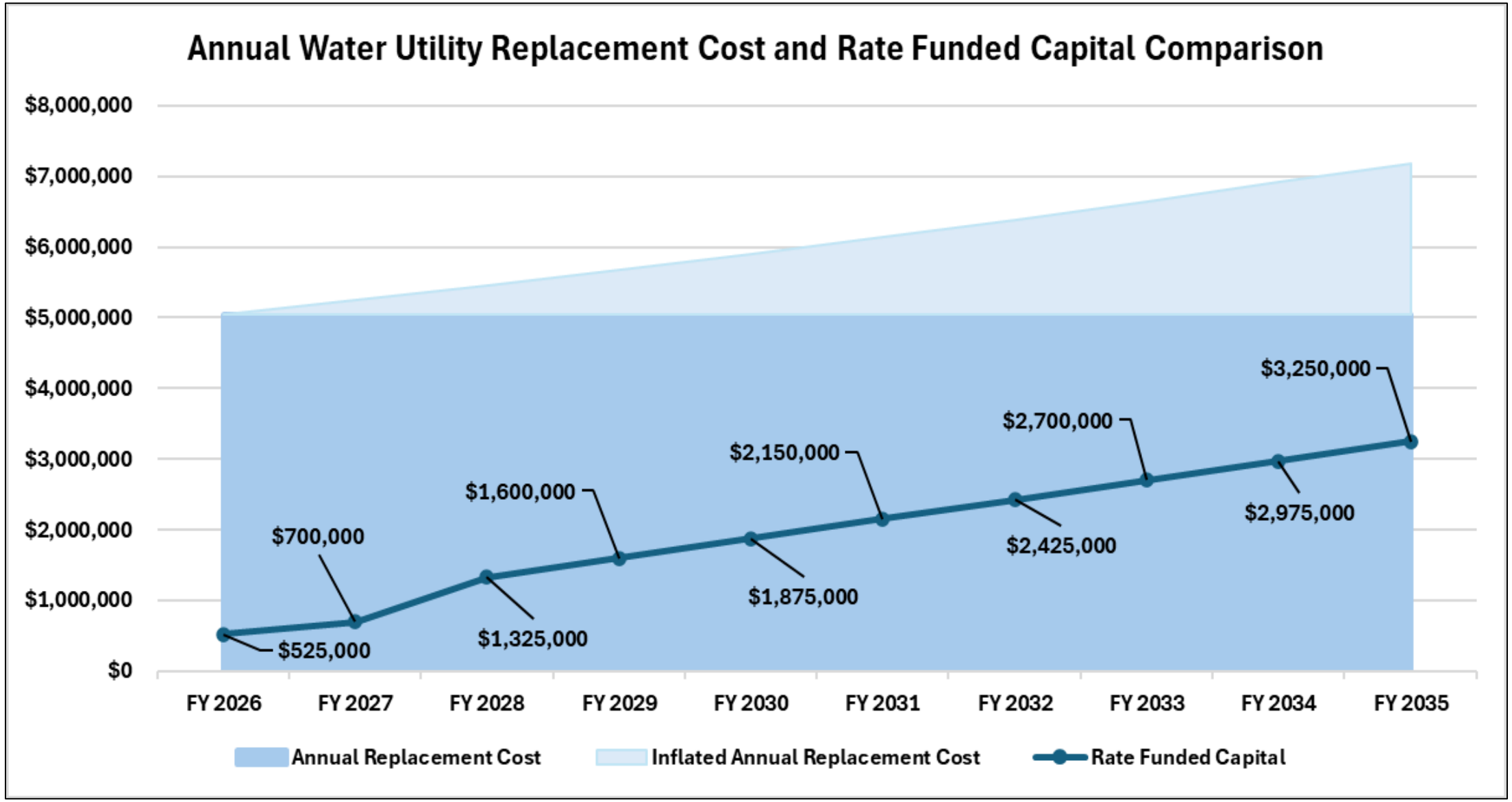
Example Process

- Identify critical infrastructure
  - Evaluate records and policies
- Review capabilities
  - Where are we and what are we able to do?
  - Unique to each utility based on numerous factors
- Develop asset management strategy
  - Determine schedule and cost or replacing assets
  - Perform condition assessment of existing assets
- Incorporate costs into financial planning model
  - Build in renewal and replacement costs into rate making procedures

Case Example #1: Renewal and Replacement Funding

Study Goal: Develop a projection of rates to <u>begin</u> to adequately fund annual renewal and replacement needs

- Majority of City's water assets are fully depreciated
  - Significant infrastructure put in place in 1960
- Minimal level of historical annual rate adjustments
- Capital plan includes some renewal and replacement projects
  - Purpose of analysis was to identify total target funding levels
- In the end… funding target was based on replacement cost divided by total years useful life for each asset
  - Provided an annual benchmark funding level



Rate funded capital dependent on proposed annual rate adjustments
Assumes 4.0% inflation

Case Example #2: Renewal and Replacement Funding

Study Goal: Establish an approach and policy to support the funding of a renewal and replacement program

- System was relatively new, planned community, established in the 1990's
- Identified annual funding needs based on projected renewal and replacement needs
  - Included assumption of long-term borrowing to "shave" peak needs
- Established a renewal and replacement fund, and set rates to provide annual funding

Proposed Renewal and Replacement Policy

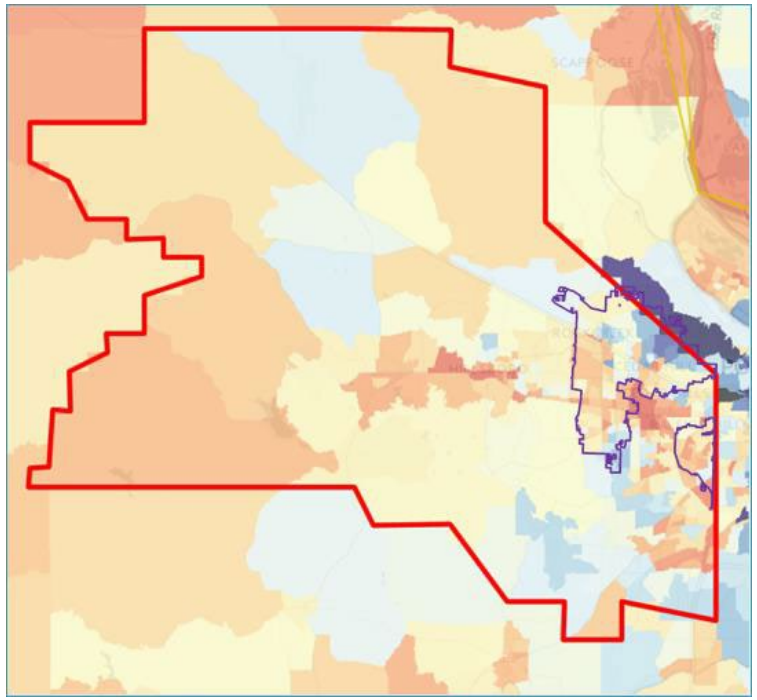
- Minimum – Annually fund an amount from rates equal to annual (**1.0x**) depreciation expense
- Target – **2.0 - 2.5x** annual depreciation expense for **each** utility or the identified renewal and replacement needs for **each** utility over a multi-year period (**5 or 10 years**)

Bringing It All Together

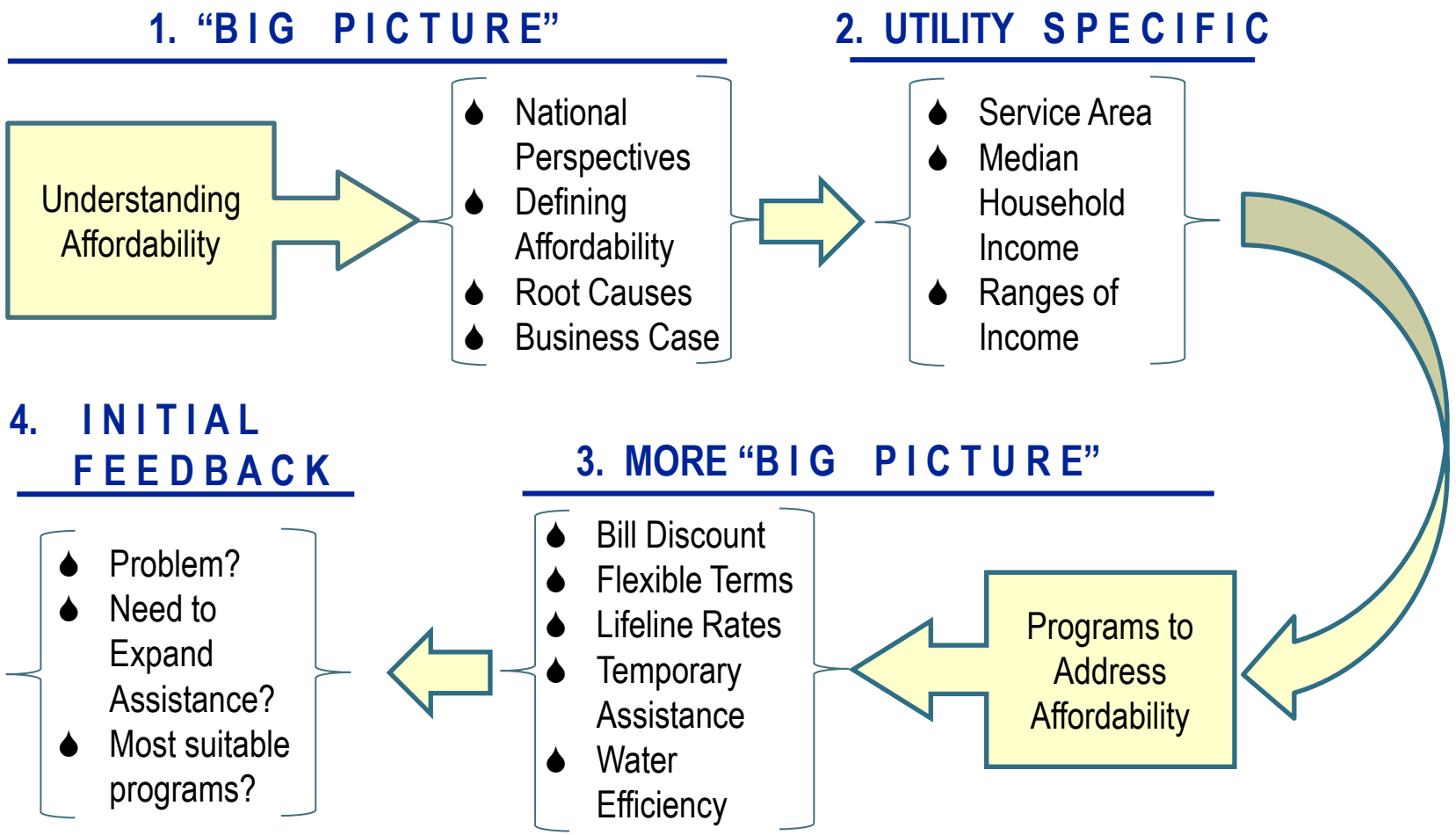
- Prudently/adequately funding renewal and replacement needs typically results in the need for additional rate revenue adjustments
  - Demonstrates, or justifies, the need and outlines the funding gap for “other” funding sources
- Clearly communicating the need before, during, and after is critical to the process
  - Establishing policies and approach
  - Defining the need and level of funding
  - Explaining both the short and long-term benefits to the customers
- Evaluate customer bill impacts
  - Affordability
  - Rate structure alternatives
- More frequent reliance on internal/external public outreach/communications staff

Affordability

- Increasing emphasis on the “affordability” of utility rates
- Defining the “affordable” from the “unaffordable”
  - Extensive industry literature and research and changing perspectives
- Identifying customers with affordability issues – today and in the future
- Utilities must make the business case to address affordability
- Example customer affordability assistance tools:
  - Bill discount
  - Temporary assistance
  - Lifeline rate
  - Flexible terms
  - Water efficiency
- Separate low-income rate structure



Affordability Roadmap



Low Income Rate Structure

1. **CHECK WITH LEGAL COUNSEL**
2. Qualification Criteria (e.g., proof of income)
   - ✓ Utility developed criteria
   - ✓ Utilize existing qualification criteria
3. Administration and Screening
   - ✓ Utilize outside organization to screen
   - ✓ Utility screen customers, specifically if other organization qualification is accepted
4. Other Qualifying Customers
   - ✓ Low-income only
   - ✓ Low-income and disabled
   - ✓ Low-income, disabled, and other (e.g., seniors)
5. Rate Structure
   - ✓ Separate and distinct rate structure
   - ✓ Existing rate structure with discount
6. Component of Rate Discounted
   - ✓ Fixed charge
   - ✓ Consumption charge
   - ✓ All charges
7. Level of the Discount (Appropriate Range/Amount)
8. How Are Costs Recovered (i.e., Program Paid For)
   - ✓ Where is the lost revenue recovered from (e.g., all customers

Public Outreach – What, where, when, how

- The customers (citizens) need to be informed about **why** rates agreeing proposed to be increased
- Based on the volume of technical and specific data from a rate study, we need to strategize about communicating key information
- Start developing a strategy:
  - Key staff for the development team
  - Vital information we want to highlight
  - Identify constraints
    - Staff or effort
    - Budget
    - Timeline

Public Outreach Examples

Public Meeting Presentations: the most widely used method, typically the easiest to use and lowest cost

Fact Sheet: describe key pieces of information that may be relevant to the rate study and customers

Frequently Asked Questions: anticipate questions customers may have and provide context, education, and (most importantly) answer the question

Flyer / Customer Mailer: often a mix of a fact sheet and FAQ, the flyer is designed to be appealing and still convey the information effectively

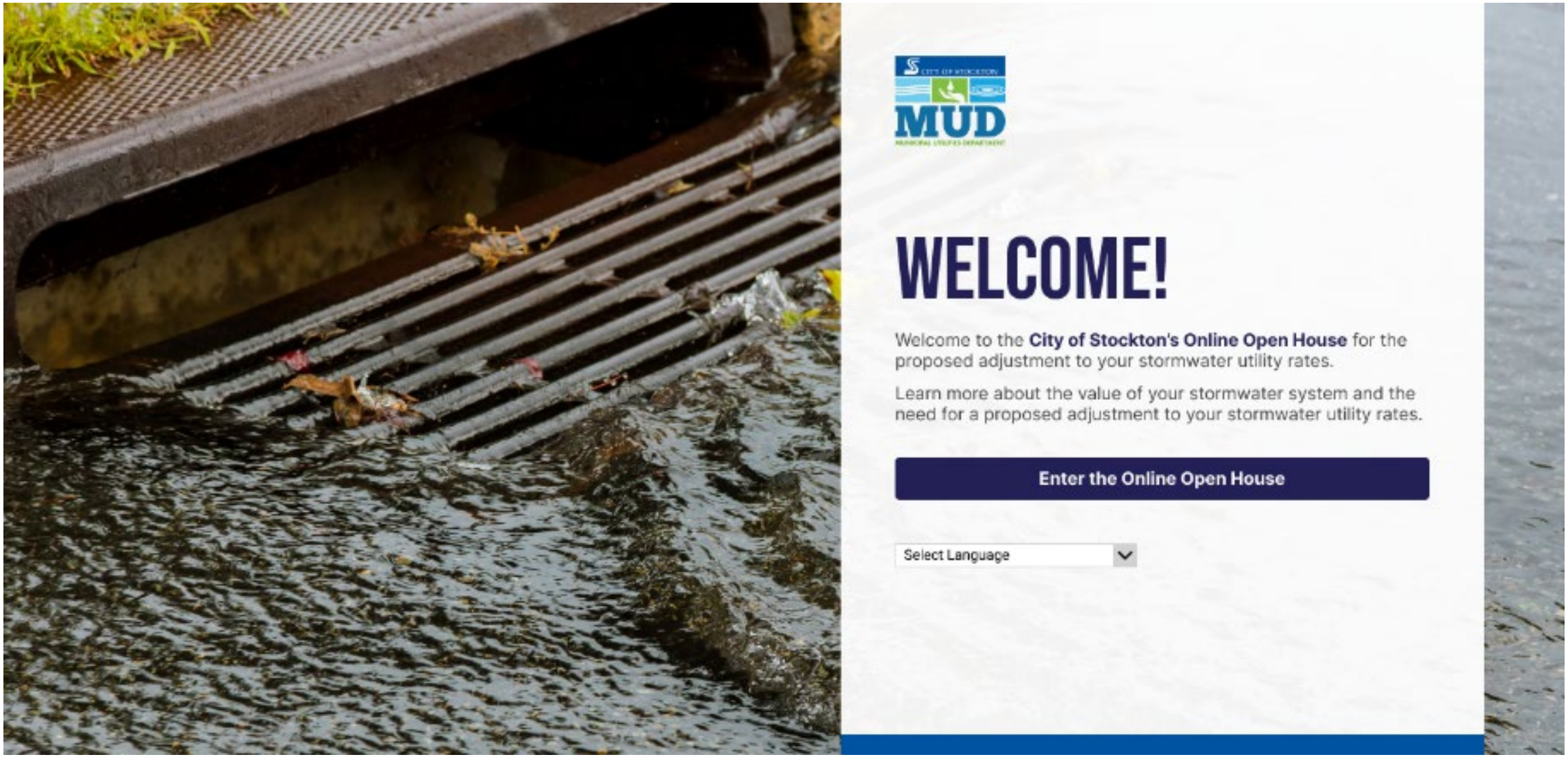
Open House: hold a special event that invites customers to learn about the rate study

Public Outreach Example Open House / Workshop

- A special meeting or event specifically for the rate study content
- Provides a more laid-back environment than a public meeting
- Allows agenda to focus on the rate study
  - Discuss structure and methodology of the rate study
  - Identify key assumptions
  - Describe results and recommendations
- Provides an opportunity for customer engagement
  - Appears more like a conversation
- ALTERNATIVE: Virtual Open House



Public Outreach Example Online Open House



Public Outreach Example Flyer / Customer Mailing

UNDERSTANDING THE NEW

Water Rate Structure

West Slope Water District



A new water rate structure is coming to West Slope Water District.

The goals of the new rate structure:

EQUITABLE COSTS
Develop water rates that promote cost equity among the District's rate payers.

FINANCIAL STEWARDSHIP
Provide sustainable revenues to ensure future operating and capital costs are funded.

AFFORDABILITY & EFFICIENCY
Improved affordability for low-water users while promoting efficient water use among high-water users.

INDUSTRY STANDARDS
Align water rates with industry best practices.

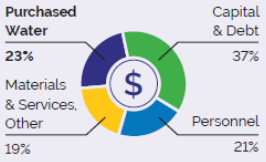
These goals were developed from a water rate study conducted in 2024.



Water consumption habits will affect costs

How much water is used impacts how much water the District purchases. Customers will be charged based on how the District incurs costs.

DISTRICT COST STRUCTURE
2024/2025 Budget



The new rate structure offers unique rates for each customer class.



Residential

- **Tier 1** (1 – 8 CCF): Indoor water use
- **Tier 2** (9 – 20 CCF): Modest outdoor water usage in summer months
- **Tier 3** (20+ CCF): Highest level of water usage in summer months

Commercial

- **Tier 1** (1 – 325 CCF): Average water use for the customer class (90% of total)
- **Tier 2** (325+ CCF): Highest level of water usage, typically in summer months (10% of total)

Multi-Family

Uniform flat rate: Average use for customer class as multi-family customers do not have a significant peak demand in summer months

Note: 1 CCF = 748 Gallons



Fixed Charge

All customers are billed a monthly base charge which varies based on meter size. As the water meter size increases, the accompanying charge increases corresponding to the increase in potential demand the customer may place on the District's water system.

When these changes will begin

The new rate structure will be reflected in your **November 2025** bill. However, you will see changes reflected in your water bill starting in July 2025 when a proposed 5% rate increase is applied to the current flat consumption rate and increases are made to the fixed meter charges.



For more information

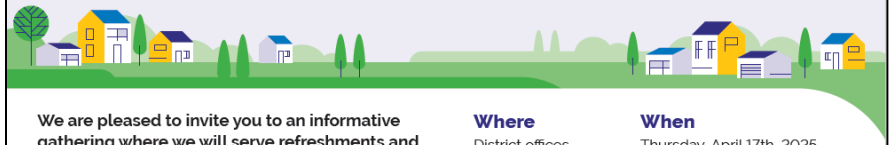
To learn more about the water rate study report and the new rate structure, visit **wswd.org/new-rate-structure** or scan the QR code.

West Slope Water District

YOU'RE INVITED TO A DISCUSSION ON THE

New Water Rate Structure

West Slope Water District



We are pleased to invite you to an informative gathering where we will serve refreshments and discuss the upcoming changes to our water rate structure. This gathering aims to provide clarity on the new water rate structure effective in November 2025 and to address any questions you may have.

Your participation is important to us, and we look forward to your attendance.

Please RSVP to ensure we accommodate all guests appropriately.



Where
District offices
3105 SW 89th Ave,
Portland OR 97225

When
Thursday, April 17th, 2025
- **Refreshments:** 5:00pm
- **Presentation:** 5:30pm
- **Q&A Session:** 6:00pm

RSVP
Please scan the QR code.

Contact
customer.service@wswd.org
(503) 292-2777

Learn more
For more information, visit:
wswd.org/new-rate-structure

▶ See reverse for a summary of the present and proposed water rates.

Summary of Proposed Water Rates

	Present Rates	Proposed July 2025	Proposed November 2025	Proposed July 2026
Consumption Charge				
All Customers	$7.61	$7.99	--	--
Residential				
Tier 1 (0 – 8 CCF)	--	--	$5.90	$6.18
Tier 2 (9 – 20 CFF)	--	--	8.85	9.27
Tier 3 (21+ CCF)	--	--	11.80	12.36
Multi-Family				
Uniform flat rate	--	--	$6.25	$6.55
Commercial				
Tier 1 (0 – 325 CCF)	--	--	$7.61	$7.97
Tier 2 (326+ CCF)	--	--	11.42	11.96
Monthly Fixed Charge				
5/8" x 3/4"	$21.14	$23.50	$23.50	$24.00
1"	35.94	43.71	43.71	48.48
1 1/2"	59.01	75.98	75.98	88.20
2"	90.38	117.98	117.98	138.36

Note: 1 CCF = 748 Gallons

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Summary

- Renewal and replacement funding is critical to maintaining critical infrastructure
- Establishment of renewal and replacement policies provides a framework to establish rates that support identified needs
- Developing a long-term funding plan, and identifying funding sources, for renewal and replacement improvements begins the communication process
- Carefully consider the impacts to all customers from any course of action, and how best to address affordability concerns
- Creating and customer outreach approach/program is critical to communicating the need and impacts to customers

Thank you for your participation!

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