



Commissioners

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WATER SYSTEM CONSOLIDATION PROJECT

PUGET ISLAND WATER SYSTEM AND TOWN OF CATHLAMET

Background

Past and current water system plans, a 2016 Consolidation Study and the current 2024 Consolidation Study all show that the Town of Cathlamet (the Town) water and wastewater systems need significant financial resources and physical repair to bring them up to standards. System rehabilitation funding through the Washington State Drinking Water State Revolving Fund is “provided for larger, well-run systems to acquire and upgrade struggling or failing systems.”

In August of 2023, the Washington State Department of Health (DOH) solicited grant applications for consolidation feasibility studies, formerly known as Restructuring Assessments. These studies are used by the DOH to identify struggling and troubled water systems. Wahkiakum County PUD (the PUD) applied for the grant with the Town consent and acknowledgment and a grant was awarded to the PUD. Gray and Osborne, the engineering firm of record for both the PUD and the Town, was awarded the task of preparing the study due to their intimate knowledge of both water systems and that they work for both entities.

Gray and Osborne performed a Consolidation Study in 2016, and the results recommended that consolidation was feasible. That study stated an analysis of the wastewater system should be included, so it was added to the scope of the 2024 study. During the process, Gray and Osborne submitted data requests to the PUD and to the Town and used the data provided to develop the Consolidation Study. The PUD was voted in by members of this community and established in 1937 to serve customers.

Frequently Asked Questions

Is it true there will be double-digit rate increases?

Per the 2024 Consolidation Study on page 27, “As shown in Table 16, the water bill for a residential customer inside the Town limits would increase by about 10%, on average, if billed at current PUD water rates.” The study goes on to say, “If the PUD were to take over the Town water system, the PUD should consider completing a rate study to better understand the revenue impacts of either charging Town customers’ existing PUD rate or maintaining the Town’s current rate structure. The PUD may want to consider a graduated adjustment in rates to minimize impacts to customers.” This statement does not say there will be a 10% rate increase.

What is a rate study and why is it needed?

A rate study is the tool used to calculate the required revenue to cover the expenses needed to operate and maintain the system. The Consolidation Study, as well as the Town’s water system plan, state the Town is currently underfunding its infrastructure. If the PUD acquires the Town’s water system, the PUD will conduct a rate study to determine the cost of providing service to the Town’s customers and any rate change would be reviewed and voted on by the PUD Commissioners. Without a rate study, it is not possible to determine the percentage of a potential rate increase.

Will taxes increase to maintain the current level of services the Town provides?

The Town Council is the only entity with the authority to approve tax increases. In the event of a consolidation of the water utilities, the Town would need to perform an analysis of its revenue sources and costs to provide services to the community to determine if additional revenue is needed. Any utility taxes currently paid by water utility customers would continue to be paid to the Town through the PUD’s utility bills to support the Town’s general fund expenses.

Will the Town have to dissolve if the consolidation were to move forward?

Our analysis shows that the water and wastewater systems are a burden on the Town, especially with the unfunded, necessary infrastructure upgrades, and that the Town would potentially prosper. The Town's lack of infrastructure funding is leading it on a trajectory to receivership. At that point, the State of Washington will mandate the utility systems be turned over to a receiving entity such as the PUD. The PUD is concerned that once the system is in receivership, the system will be in failure mode, costs will be exponentially higher, State funding will not be available, and the PUD may be forced to take over the Town's utility systems. At this point, it would be a much more expensive endeavor.

Why does the PUD want to consolidate/acquire the Town's water and wastewater utilities?

The PUD is concerned about the future of the Town's utility systems due to unfunded infrastructure maintenance and improvements and is concerned about its solvency. If the water utilities were forced into receivership, the PUD may be forced by the State to take over the utilities. The PUD is in the utility business and based on its concerns over the future of the Town's utilities, the PUD feels it is the appropriate time to move the consolidation forward while DOH Water System Rehabilitation and Consolidation (WSRC) funding is available to assist with the costs. This will minimize the impact on the PUD operations and its customers.

Through the WSRC, funding is made available to the PUD to acquire and improve the Town's utility systems. It is projected that this would be a 90/10 split with 90 percent funded through a grant. The PUD would be responsible for 10 percent of the cost. Alternatively, if the consolidation does not move forward at this time, the DOH will provide funding with a 35/65 split. If the Town continues on its current trajectory without funding necessary maintenance and infrastructure upgrades, it will ultimately require loans in the millions of dollars to cover 65 percent of the funding. DOH will cover 35 percent of the cost. This would have a significant impact on the Town's customers in the form of increased rates. The PUD is interested in this consolidation under the scenario where a grant provides 90 percent of the funding to cover the cost of the needed system improvements, minimizing the financial impact to the Town's existing utility customers.

Will there be a reduction and/or loss of Town Services including the Library, the Julia Butler Hansen Pool, and maintenance of City streets and parks (including the new Waterfront Park now being developed)?

At the Town Council meeting on July 15, 2024, the Town said services such as the pool, parks, and libraries will be impacted because some of the staff supporting these services are funded with utility revenues beyond the utility tax that goes to the general fund. It is generally accepted that utilities are meant to fund their own operations and capital improvements and revenues are meant to be re-invested back into the utility infrastructure to maintain the system and manage rates. Per the Town's 2023 Draft Water System Plan on page 8-13, "This planned level of spending is less than the water system's annualized replacement cost, so it can be concluded that the Town is likely not investing sufficient resources in its Capital Improvement Plan to maintain or improve its current level of service". Based on the statements made at the Town Council meeting and this report, it is implied that utility revenues are being directed to staffing of Town services instead of investing in the utility's Capital Improvement Plan. Utility revenues are not meant to fund staffing for other Town services outside of the funding provided through the utility tax. Additional analysis of the Town budget is necessary to determine the true impact on the Town if it is using utility revenues beyond the utility tax to fund other Town services.

PUD Water System Major Infrastructure Projects – Recently Completed or Funded

- 2024: 6000-foot mainline looping project on Puget Island – COMPLETED
- 2024: 1700-foot mainline extension along N Hull Creek in Grays River – COMPLETED
- 2023: 5000-foot mainline extension along Mill Road in Rosburg – COMPLETED
- 2024: Puget Island Water System Well Site Development – IN PROCESS AND FUNDED
- 2024: Skamokawa Water System SR 4 Main Line Extension – IN PROCESS AND FUNDED
- 2024: 4000-foot mainline replacement Western Wahkiakum Water System along SR 4 – IN PROCESS AND FUNDED

Reference Documents (<https://www.wahkiakumpud.org/consolidation-study>)

- [2024 DOH Water System Consolidation Study Report - DRAFT](#)
- [2016 DOH Water System Consolidation Study Report](#)
- [2023 Town of Cathlamet Water System Plan - DRAFT](#)
- [2024 DOH Comment Letter regarding the Town of Cathlamet Water System Plan](#)