

**From:** [Debbie Tarry](#)  
**To:** [Laura Mork](#)  
**Cc:** [Pollie McCloskey](#); [Heidi Costello](#)  
**Subject:** RE: wastewater questions  
**Date:** Monday, July 25, 2022 2:48:23 PM  
**Attachments:** [20220725\\_CM\\_Mork\\_Questions.docx](#)  
[image001.png](#)  
[image002.png](#)

---

Laura –

Attached are the responses to your questions regarding the wastewater rate study. We will add these to the Green Folder for tonight.

**Debbie Tarry**

City Manager | City of Shoreline  
17500 Midvale Avenue N, Shoreline, WA 98133

Pronouns: she/her

☎ (206) 801-2211 | [www.shorelinewa.gov](http://www.shorelinewa.gov)



NOTICE OF PUBLIC DISCLOSURE: This email account is public domain. Any correspondence from or to this email account may be a public record. Accordingly, this email, in whole or in part, may be subject to disclosure pursuant to RCW 42.56, regardless of any claim of confidentiality or privilege asserted by an external party.

---

**From:** Laura Mork <[lmork@shorelinewa.gov](mailto:lmork@shorelinewa.gov)>  
**Sent:** Sunday, July 24, 2022 5:37 PM  
**To:** Debbie Tarry <[dtarry@shorelinewa.gov](mailto:dtarry@shorelinewa.gov)>  
**Cc:** Pollie McCloskey <[pmccloskey@shorelinewa.gov](mailto:pmccloskey@shorelinewa.gov)>  
**Subject:** wastewater questions

Why is the city appear to be transitioning from funding the CIP program with present dollars to financing?

Fig 2 "Financial Reserve policies capital reserve target", items 1-3 seem very low? Why are they so much lower than they were for RWD? Most special purpose districts work hard, just like Ronald did, to avoid paying for finance charges, by setting the rates to cover CIP and the cost of operations - to avoid paying finance charges. The proposal seems focused on transitioning to a debt based approach. Why does the city feel that it is better to finance, especially in a time with inflation concerns?

How do these financial policies compare with those of King County WTD? What factors might explain the differences? How do these policies compare with other local city run utilities? (I think Mountlake Terrace and Kirkland have municipal utilities, where other entities are performing the treatment, as a for instance).

Without understanding this level of detail, I can't provide direction for #2.

What were the operational costs for 2021? What are the operational costs expected to be in 2022? Projected for 2023? Am I correct in assuming that the additional staff members and DEA are both part of the operational costs? or are some considered to be part of CIP? What are the "larger rate increases"? What are they projected to be each of the 4 years? What percent are for operations, CIP, and "pay debt service"? Has the city already been borrowing for the wastewater utility?

There doesn't appear to be a justification for how the 6% rate increase was calculated. How much for CIP increases? how much for operational increases? Please help me understand how this level was selected after the 4 years of "higher rate increases"

Good move to increase the fees. While that was a priority for Ronald, it was determined it was more appropriate to wait for the City to make recommendations, as the costs were from operations that were already run by the city. Do the fees go into the operating costs as a credit, or somewhere else?

Is the comment regarding treatment rate charges increase meant to convey that the expectation of Edmonds rate increase = King county rate increase? Or is that statement meant to imply that the rate increase trajectory for each, while different, is expected to be linear?

Why is the delta between the 50% discount and the 25% discount so different from each other and the "no change" alternative? Is figure 3 only for the Shoreline Wastewater utility portion of the charges?

The rates for WTD have presumably been approved by the County Council for the next few years. Why does this report not include a chart showing the projected total bill for a residential homeowner from 2020 to at least 2025, with the percent for treatment and the percent for conveyance. With the large rate increases from the county for treatment, and the fact that most people are interested in the total bill they will receive from the wastewater utility - in my opinion, council needs to have that information in order to determine the direction to provide the direction requested.

Responses to Councilmember Mork's questions regarding:  
7/25/2022 WW Rate Study Discussion and Policy Questions

1. Why does the city appear to be transitioning from funding the CIP program with present dollars to financing?

*A: The proposed rate structure supports using a balance of rate supported CIP and some debt financing. As noted in the FCSG Issue paper discussed with Council on April 4th, 2022, with good financial planning, a significant part of the Shoreline wastewater CIP might be able to be funded with current rate revenue." However, recognizing that delaying critical projects can have impacts both in escalating costs, increased risk, and repair and maintenance, there are benefits to using a balance of debt and current rate supported financing for the CIP. One of the greatest benefits is the "spreading" of the impact of the costs over time, providing intergenerational equity and keeping rates consistent from year to year. There are two additional drivers for including debt into the rate model now. First is that the recent Master Plan update completed by RWD identified a significant number of new projects, increasing the size of the CIP considerably. That update did not include a long-term finance plan since the assumption occurred just as the update was completed. This rate study seeks to fund that CIP and operations. Additionally, it is our understanding that the district chose not to include debt in their capital funding strategy because of impending transition to the City. More information on the funding options considered in the rate study are found in Attachment A to the April 4<sup>th</sup> Wastewater Rate Study Update Staff Report (Page 7) here:*

*<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2022/staffreport040422-8d.pdf>*

2. Fig 2 "Financial Reserve policies capital reserve target", items 1-3 seem very low? Why are they so much lower than they were for RWD?

*A: The City is proposing to maintain the existing policy for operating reserves – equal to 3 months and is proposing new policies regarding Capital Reserves. These policies were not needed when debt was not being used to fund the Capital Program. The proposed Capital Debt Policies are conservative and in line with best practices for a utility. I believe that you are comparing Ronald's goal of maintaining \$1M for the Edmonds Treatment Plant and \$2 M in the repair and replacement fund. These last two funds were then utilized to fund the current CIP projects. The proposed approach looks at the enterprise fund more holistically and looks at projected Capital and operating costs over the 6-year period to determine the rates necessary to*

3. Most special purpose districts work hard, just like Ronald did, to avoid paying for finance charges, by setting the rates to cover CIP and the cost of operations - to avoid paying finance charges. The proposal seems focused on transitioning to a debt based approach. Why does the city feel that it is better to finance, especially in a time with inflation concerns?

*A: As noted in the answer to #1, there are several drivers that make us believe that adding some debt into the WW Utilities financing plan will be beneficial, particularly during a time of rising costs. While there is significant cost to issuing debt (interest and issuance costs), the cost of delaying projects until you can afford to pay for them typically offsets some of those costs (i.e., added cost escalation if projects are delayed many years). In addition to the financial aspects, considering the risk of system failure and repairs and maintenance, we believe that it makes good fiscal sense to use a*

Responses to Councilmember Mork's questions regarding:  
7/25/2022 WW Rate Study Discussion and Policy Questions

*balance of both rate and debt financed capital investments . Lastly, by incorporating debt financing into the capital funding strategy, the City's local rates can be lower than they would have been under an all-cash financing capital funding strategy (assuming the same level of capital projects over the same period).*

4. How do these financial policies compare with those of King County WTD? What factors might explain the differences? How do these policies compare with other local city run utilities? (I think Mountlake Terrace and Kirkland have municipal utilities, where other entities are performing the treatment, as a for instance).

*A: We are not familiar with King County WTD Financial Policies, however the proposed financial policies for operating and capital reserve targets are in-line with industry best practice. FCSG recently performed the Rate Study for both Mountlake Terrace and Lakehaven Water & Sewer District. Mountlake Terrace assumed an operating reserve between 15-25% and a Capital reserve of at least 1% of fixed assets. For Lakehaven W&S District, they used 45-60 days operating reserve and 1% of fixed assets for capital reserve.*

Without understanding this level of detail, I can't provide direction for #2.

5. What was the operational costs for 2021?

*A: According to the unaudited financial statements the operating costs for 2021 were \$17.2m*

6. What are the operational costs expected to be in 2022?

*A: Staff projected 2022 Operating Expenditures at \$18M for this study*

7. What are the operation costs projected to be for 2023?

*A: For the purposes of this study we used the following assumptions.*

- » General Cost Inflation: based on historical CPI-U (3.0% annually)*
- » Labor Cost Inflation: based on internal staff forecasting (2.3%-5.7% annually)*
- » Benefit Cost Inflation: based on internal staff forecasting (5.9%-8.4% annually)*
- » Customer Growth: based on comprehensive planning data (0.7% annually)*

*These assumptions are meant to represent long-term averages over a twenty-year rate study. Some years are higher and some may be lower. We anticipate that we will need to do a rate study every few years to make sure that our forecast assumptions align with reality. Additionally, for this year, we will be making some adjustments through the budget process to address recent changes, supplemental and one-time requests that weren't included in this forecast and anticipate that there might be some changes in the proposed rates based on those updates. Staff will be updating the rate model to reflect these adjustments and will present those to Council with the 2023-2024 Budget.*

8. Am I correct in assuming that the additional staff members and DEA are both part of the operational costs? or are some considered to be part of CIP?

Responses to Councilmember Mork's questions regarding:  
7/25/2022 WW Rate Study Discussion and Policy Questions

*A: The DEA costs are a mix of operating and CIP. The City has added 3.4 FTE to the WW intended to start replacing work that DEA has historically done. These positions are split between operating and capital: 0.75 Inspector, 2- Engineer II positions- one each in operating and CIP, and 0.625 FTE Admin Assistant. More details can be found in the staff report from the Mid-Biennial Review and Discussion here:*

*<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2021/staffreport110121-9a.pdf>*

9. What are the "larger rate increases"? What are they projected to be each of the 4 years? What percent are for operations, CIP, and "pay debt service"?

*A: The "larger rate increases" are needed in 2023-2026 and are estimated to be between \$2.70 - \$3.70, depending on Council's direction regarding extending the Low Income Discount program to renters. The increases for 2027-2028 are projected to be between \$1.75-\$2.00. Our study did not allocate the rate between Operating, Capital – Cash versus Capital Debt as you have requested. We will try to do that update and provide it to Council with the next Wastewater Rate Study Update in August.*

10. Has the city already been borrowing for the wastewater utility?

*A: No, the City has not done any borrowing for the Wastewater Utility. Council approval is needed for all debt issuances.*

11. There doesn't appear to be a justification for how the 6% rate increase was calculated. How much for CIP increases? how much for operational increases? Please help me understand how this level was selected after the 4 years of "higher rate increases"

*A: The higher increases in the first 4 years are needed to get the fund balances in place to meet the financial policies, to get local rate revenues to a level to cover anticipated debt service, to grow the utility's ability to rate funded capital, and to achieve strong levels of debt service coverage. The increases in the subsequent years allow the City to maintain those balances and meet the operating and capital needs of the 6 year CIP.*

12. Good move to increase the fees. While that was a priority for Ronald, it was determined it was more appropriate to wait for the City to make recommendations, as the costs were from operations that were already run by the city. Do the fees go into the operating costs as a credit, or somewhere else?

*A: Permitting fees are a revenue for the Wastewater Fund and are intended to offset the costs associated with permitting and inspection functions. The increase of these fees was not considered in this study and as such, the additional revenue could support a reduction in rates. This will be evaluated with the additional costs mentioned earlier and the final recommended rate will be presented to Council with the 2023-2024 budget.*

13. Is the comment regarding treatment rate charges increase meant to convey that the expectation of Edmonds rate increase = King county rate increase? Or is that statement meant to imply that the rate increase trajectory for each, while different, is expected to be linear?

Responses to Councilmember Mork’s questions regarding:  
7/25/2022 WW Rate Study Discussion and Policy Questions

*A: Because Edmonds approaches their system investments and the billing of those investments very differently than King County, staff recommend increasing the Edmonds Rate at the same rate as King County. This allows us to keep the Edmonds rates more stable and avoid a significant assessment in the future.*

14. Why is the delta between the 50% discount and the 25% discount so different from each other and the "no change" alternative? Is figure 3 only for the Shoreline Wastewater utility portion of the charges?

*A: The big difference between the No Change and both the 50% and 25% is that you are extending the current 50% discount from a very small group of senior low income homeowners (311) to a very large group of all low income customers (2,184) whether they are homeowners or renters. Additionally, because the discount applies to the whole bill – the City rate has to be adjusted to cover the discount for the treatment charges. Recognizing the significant rate impact of extending the 50% discount, the study offers the 25% option to extend the discount but at a lower level. It should be noted that there is a rate increase impact for the existing low-income customers to implement the staff recommended program.*

15. The rates for WTD have presumably been approved by the County Council for the next few years. Why does this report not include a chart showing the projected total bill for a residential homeowner from 2020 to at least 2025, with the percent for treatment and the percent for conveyance. With the large rate increases from the county for treatment, and the fact that most people are interested in the total bill they will receive from the wastewater utility - in my opinion, council needs to have that information in order to determine the direction to provide the direction requested.

*A: This chart is part of the presentation that will be made to Council on 7/25*

## Monthly Bill Impacts

|                         | 2022    | 2023    | 2024    | 2025    | 2026    | 2027    | 2028     |
|-------------------------|---------|---------|---------|---------|---------|---------|----------|
| Local City Rate         | \$17.48 | \$20.18 | \$22.88 | \$25.58 | \$28.28 | \$30.03 | \$31.78  |
| \$ Increase             |         | \$2.70  | \$2.70  | \$2.70  | \$2.70  | \$1.75  | \$1.75   |
| King County Rate        | \$49.79 | \$52.11 | \$55.11 | \$58.28 | \$61.64 | \$65.19 | \$71.06  |
| Edmonds Rate            | \$30.35 | \$32.10 | \$33.95 | \$35.90 | \$37.97 | \$40.16 | \$43.77  |
| Total Bill– King County | \$67.27 | \$72.29 | \$77.99 | \$83.86 | \$89.92 | \$95.22 | \$102.84 |
| \$ Increase             |         | \$5.02  | \$5.70  | \$5.87  | \$6.06  | \$5.30  | \$7.62   |
| Total Bill– Edmonds     | \$47.83 | \$52.28 | \$56.83 | \$61.48 | \$66.25 | \$70.19 | \$75.55  |
| \$ Increase             |         | \$4.45  | \$4.55  | \$4.65  | \$4.77  | \$3.94  | \$5.36   |

Responses to Councilmember Mork's questions regarding:  
7/25/2022 WW Rate Study Discussion and Policy Questions