

Wastewater Rate Study

July 25, 2022

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Wastewater Utility Rate Study

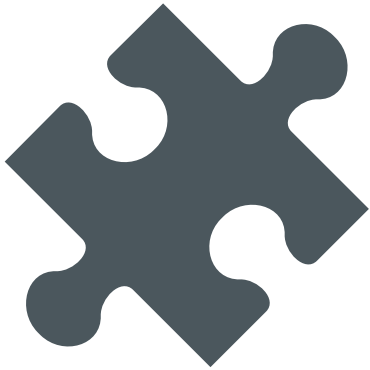


**Gordon Wilson,
Senior Program Manager**

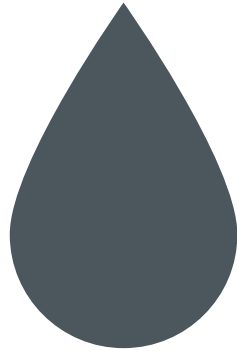
July 18, 2022



Agenda



Background



Revenue
Requirement



Alternative Rate
Scenarios



Policy Review &
Next Steps

Background





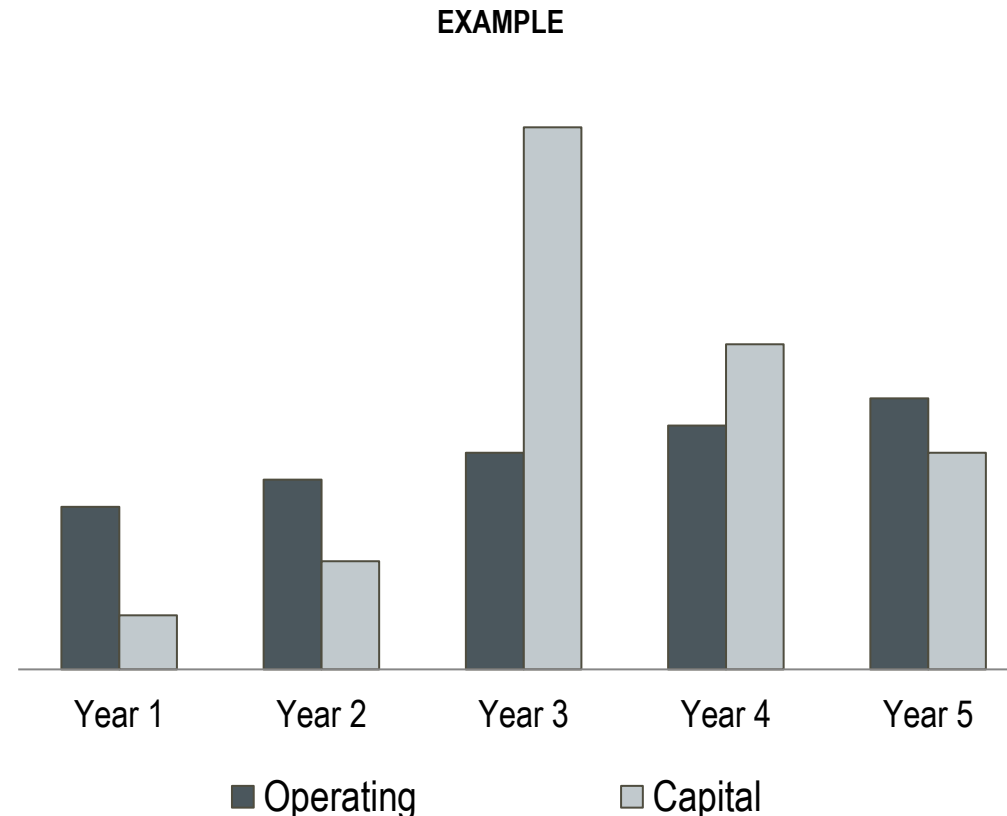
Study Background

- **FCS GROUP was contracted by the City to perform a wastewater rate study**
 - » Policy Issue Discussions – **presented April 4th**
 - Issue 1: Capital Funding Tools
 - Issue 2: Low-Income Customer Assistance Programs
 - Issue 3: Wastewater Rate Design Options
 - » Revenue Requirement Forecast – **presented today, July 25th**
 - Evaluate the wastewater utility’s financial self sufficiency
 - » Revise the General Facilities Charge (GFC) – **to be presented later this summer**
 - Update the maximum allowable charge for new customers connecting to the system
- **FCS GROUP previously worked with the Ronald Wastewater District prior to its assumption by the City**



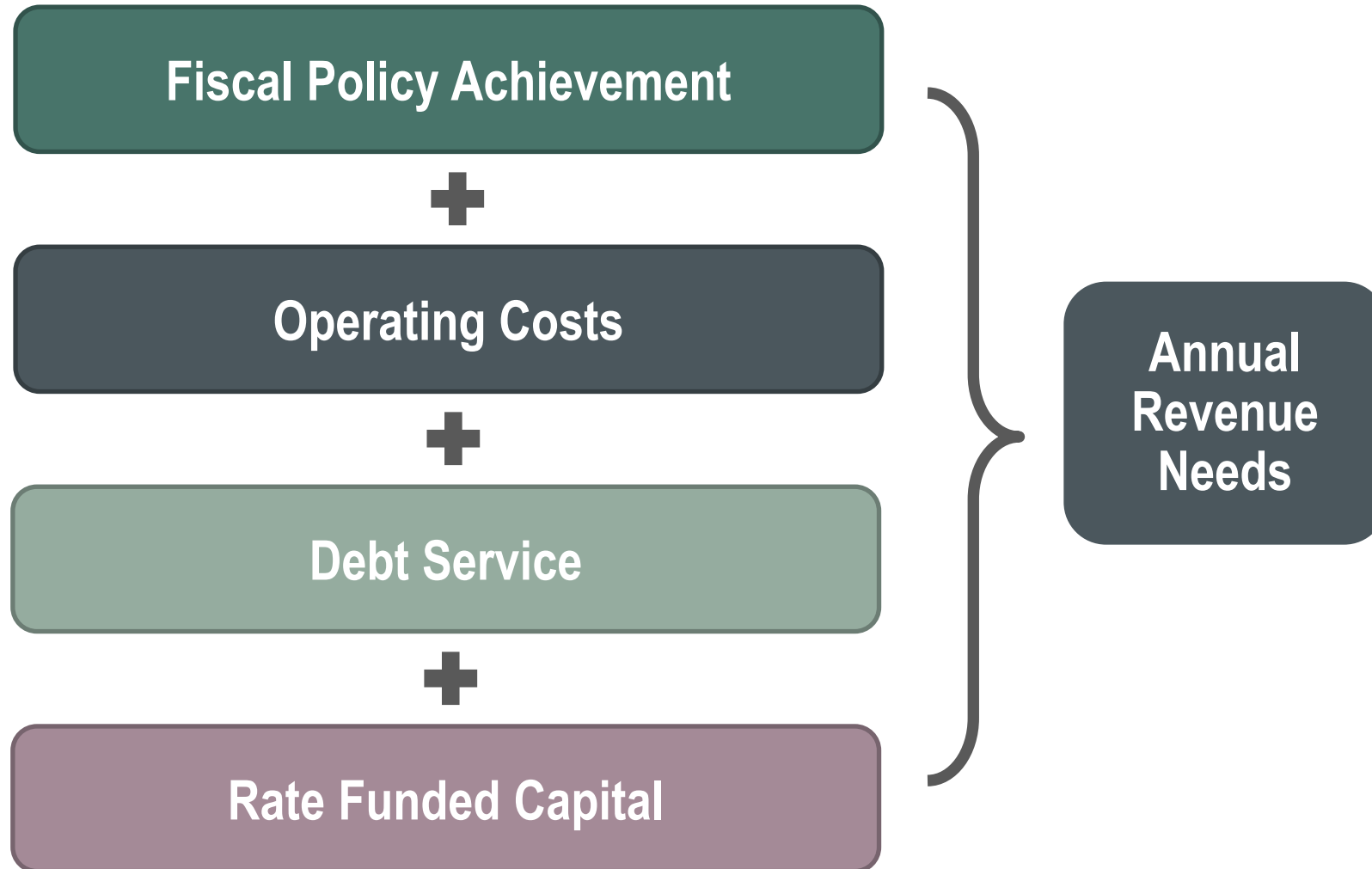
Introduction to Utility Ratemaking

- **Utility rates are set to recover the cost of providing service**
- **Utilities incur two primary types of costs**
- **Operating costs (regular / ongoing)**
 - » Employee salaries and benefits
 - » Asset repair and maintenance
 - » Power / utilities
 - » Wastewater treatment
 - » Monthly bill processing
- **Capital costs**
 - » Infrastructure replacement
 - » Facility expansions and upgrades





How Much Revenue is Needed?



Revenue Requirement





Current Wastewater Monthly Rates

- **Local City Charges**

- » Single Family: \$17.48
- » Single Family – ATL*: \$88.46
- » Low Income: \$8.75
- » Commercial: \$17.48 per unit or RCE†
- » Trailer/Mobile Home/Apt: \$17.48 per unit or RCE

- **Regional Treatment Charges**

- » King County Metro: \$49.79 per RCE
- » Edmonds: \$30.35 per RCE

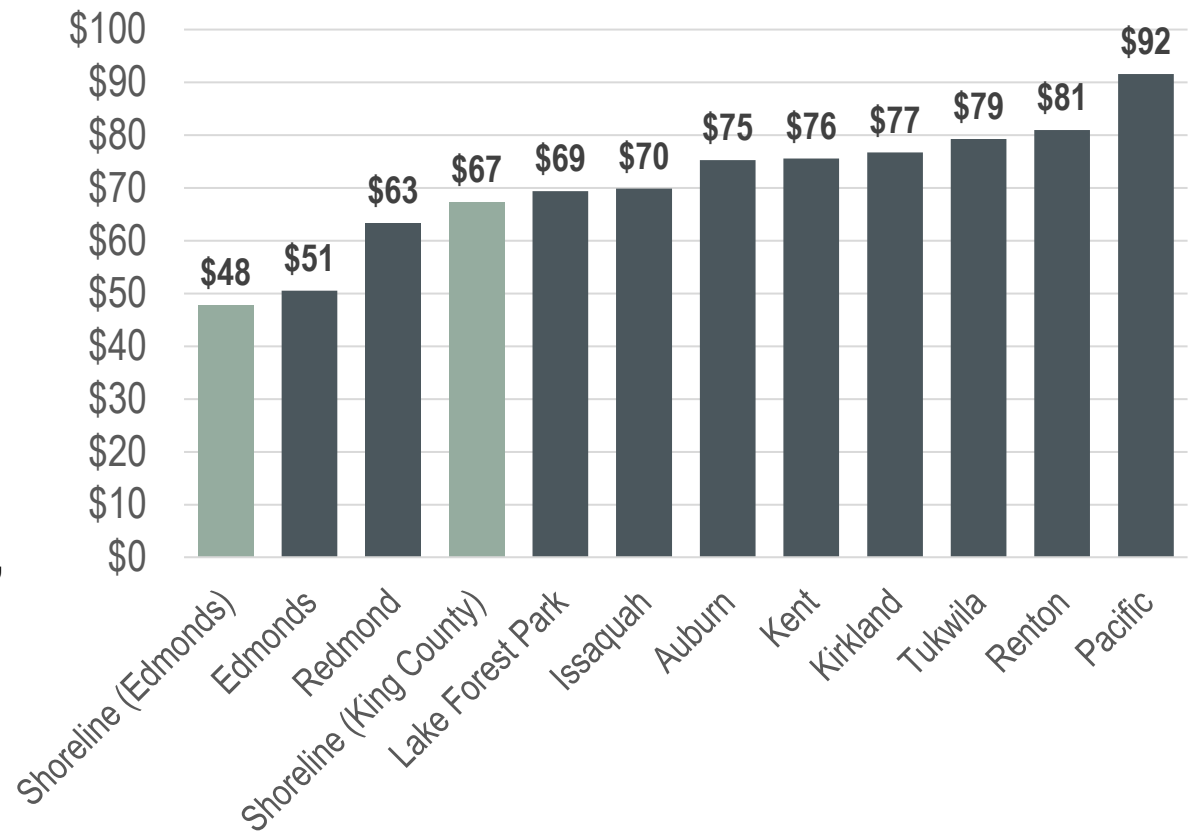
- **Customer bill shows treatment charge separate from local City charge**

- **Local charge covers cost of collection lines, lift stations, administration—everything except treatment**

*ATL = Apple Tree Lane

†RCE = Residential Customer Equivalent

Current 2022 Monthly Rates





Financial Policies and Targets

Financial Policy	Current Policy	Recommended Policy
Operating Reserve Target	20% of operations and maintenance costs excluding treatment	Maintain policy (\$1.1 million)
Capital Reserve Target	No current policy	1% of plant in service assets (\$500k)
Rate Funded System Reinvestment (RFSR)	No current policy	Target rate funding annual depreciation expense (currently \$1.1 million)
Debt Service Coverage (DSC)	No outstanding debt	Minimum: 1.25 coverage on bonded debt Target: At least 1.5 coverage



Major Study Assumptions

- **Inflation 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**)

- **Revenues**

- » General Facilities Charge Revenue: \$1 million/year through 2024 followed by ~\$500,000/year

- **Expenses**

- » Local Operations and Maintenance: 2022 estimates based on 2021 actuals with City staff adjustments
- » King County Metro Treatment: King County Residential Customer Equivalents (RCEs) served by Shoreline, multiplied by forecasted charge per RCE
- » Edmonds Treatment: based on forecasted percentage share of operating and capital costs



Major Study Assumptions (continued)

- **Debt Service**

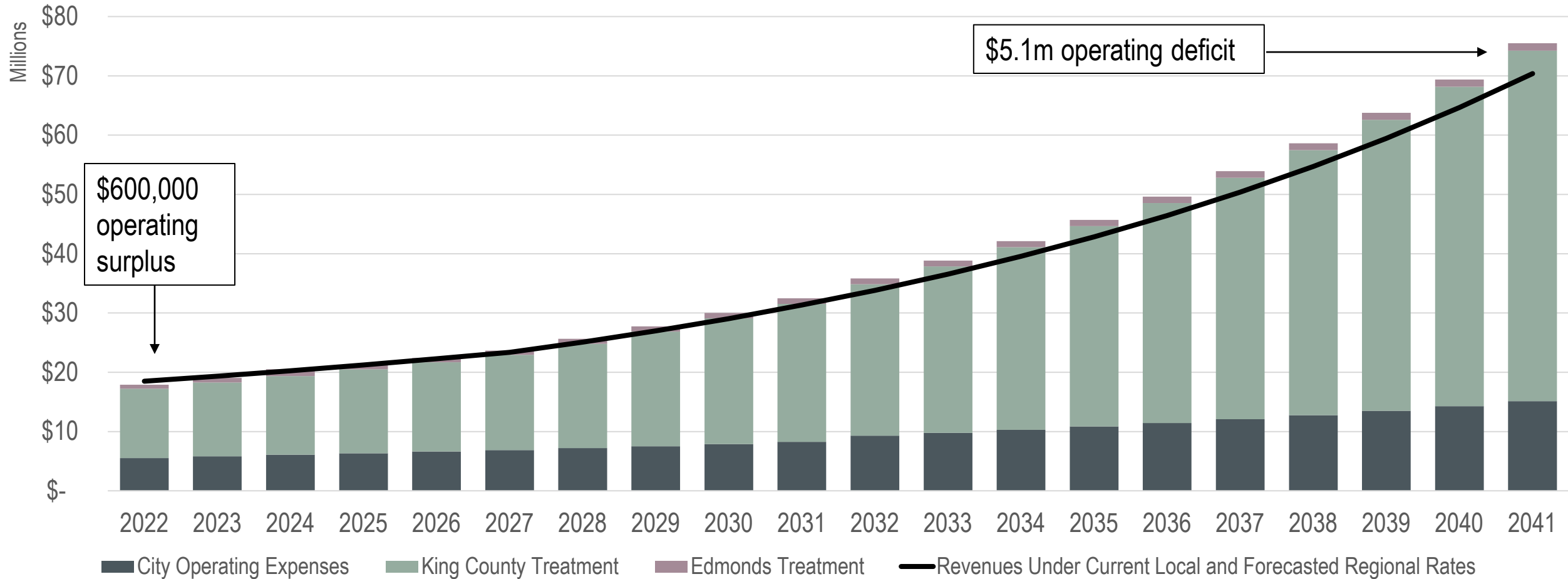
- » All debt issued is assumed funded by selling bonds
 - Term: 20-years
 - Interest Rate: 5.0%
 - Issuance Cost: 1.0%
 - No debt reserve requirement

- **Current Low-Income Discount Program**

- » At this time, 311 customers are enrolled in the program
- » Eligible customers receive a 50% discount on local *and* treatment charges
- » Foregone treatment charge revenue has to be offset by increased revenue from the local charge

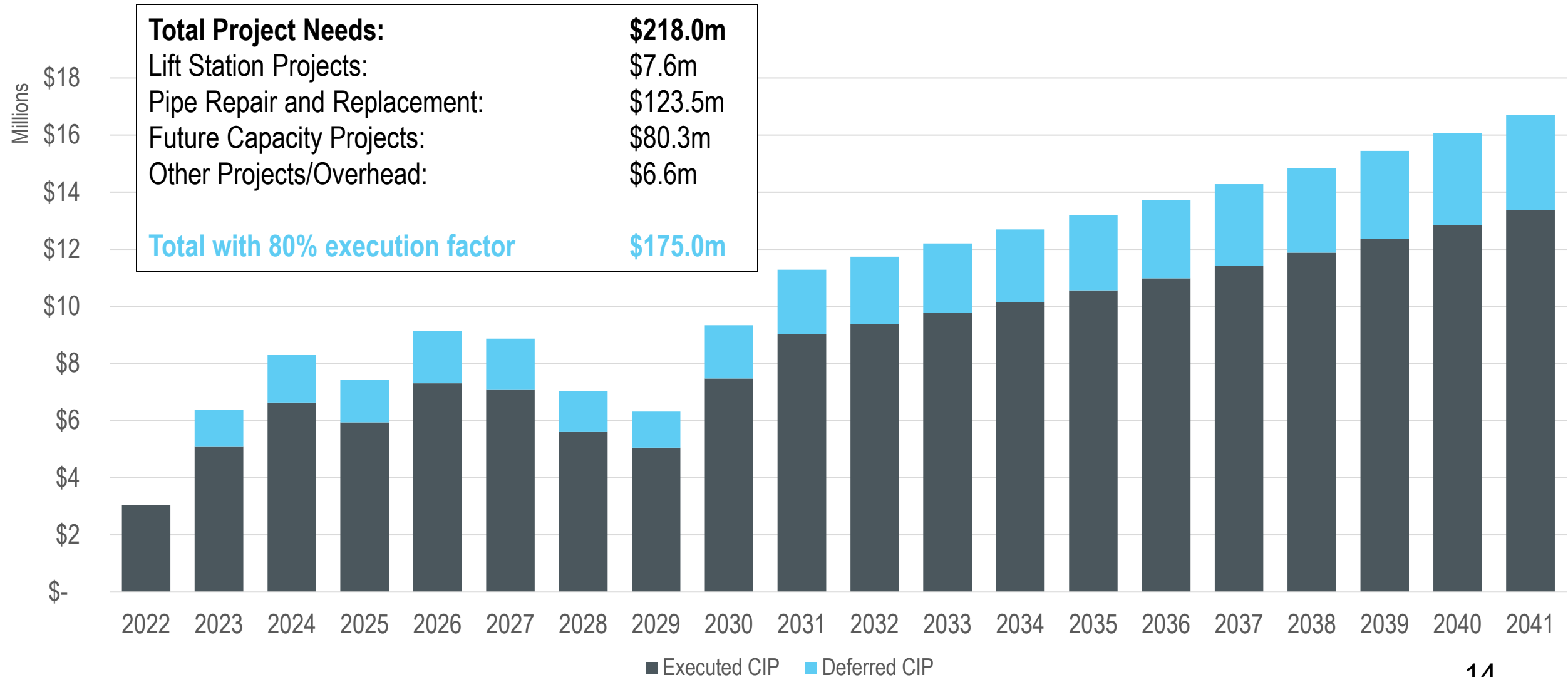


Operating Forecast without Local Increases





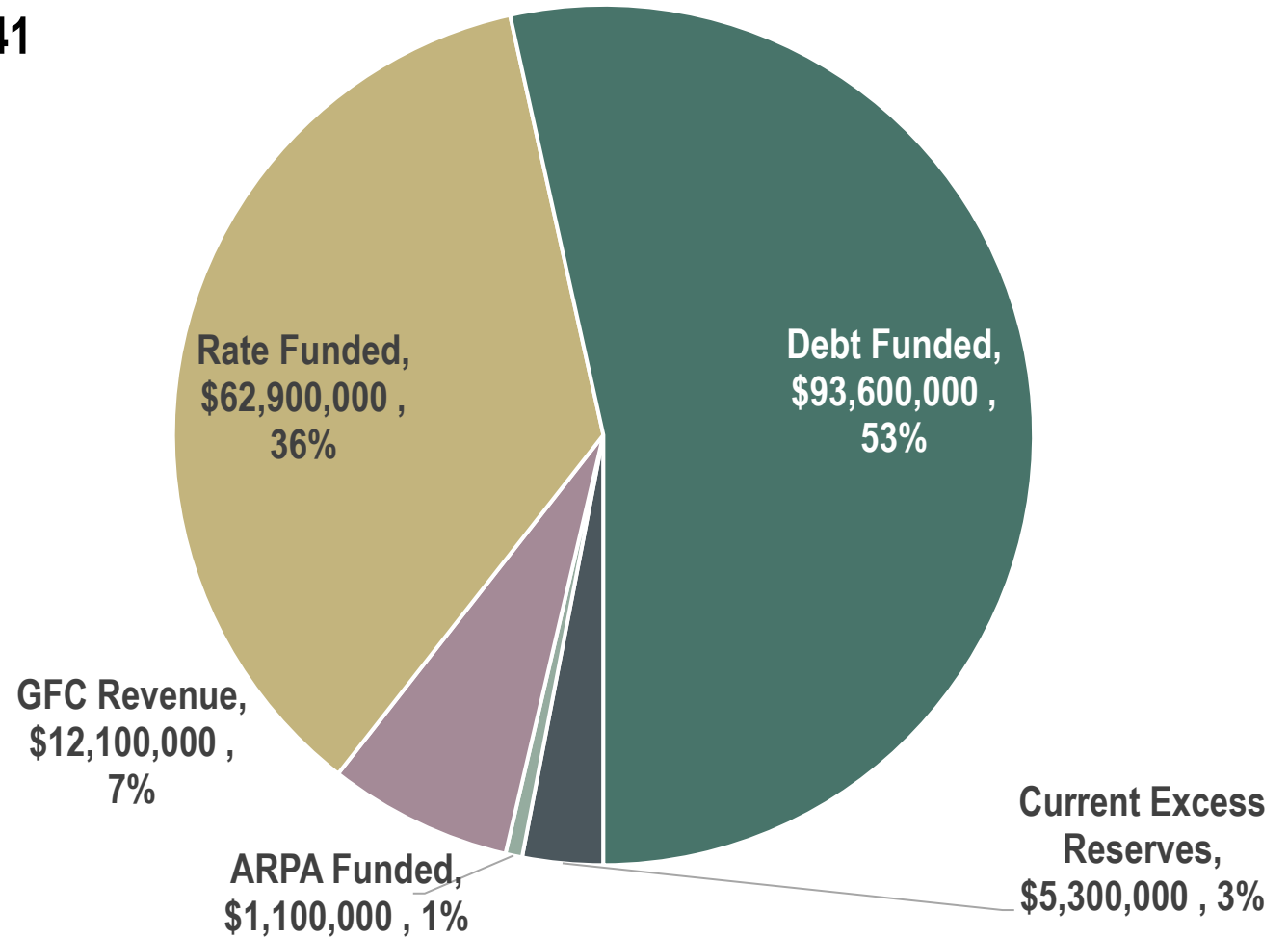
Capital Improvement Plan (escalated)





Capital Funding Plan

- **\$175 million in capital to be funded from 2022-2041**
- **\$81.4 million (47%) million funded through cash**
 - » \$62.9 million from rate revenue
 - » \$12.1 million from GFCs
 - » \$5.3 million from existing reserves
 - » \$1.1 million in ARPA funds in 2022
- **\$93.6 million (53%) funded through the sale of revenue bonds**

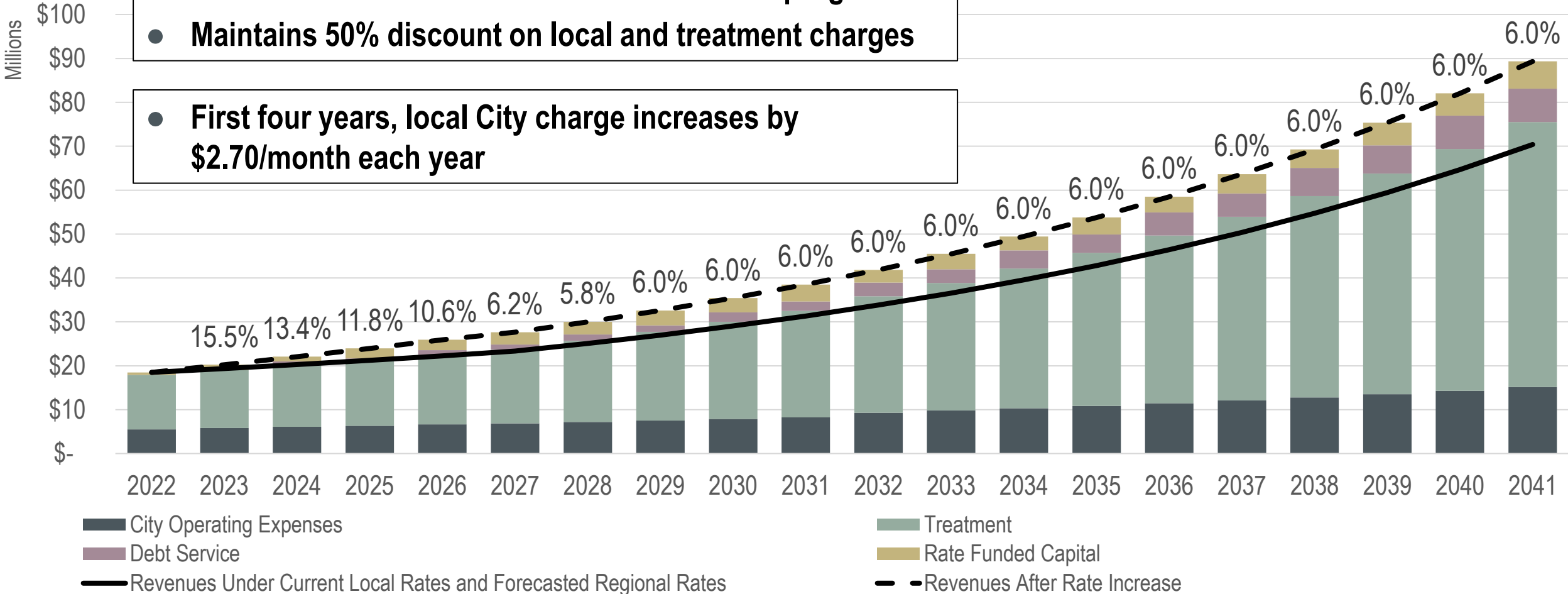




Revenue Forecast with Rate Increases

- This is the *base case scenario*: assumes no increase in number of customers enrolled in low-income program
- Maintains 50% discount on local and treatment charges

- First four years, local City charge increases by \$2.70/month each year





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

Alternative Rate Scenarios



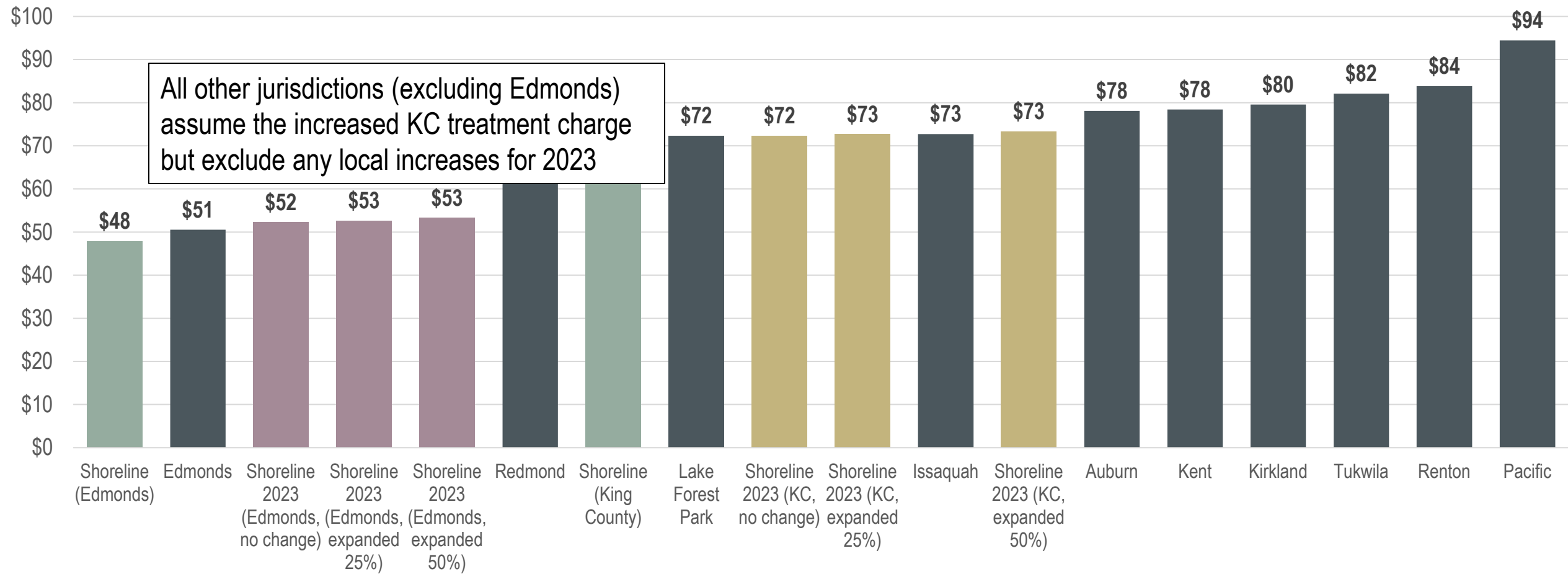


Low-Income Discount Alternatives

- **Potential to partner with Seattle City Light to reach more low-income customers**
 - » Potential to reach 2,184 customers (7x increase from 311 currently enrolled)
 - » Forecast assumes expanded program is implemented January 1, 2023
- **Scenario alternatives**
 - » Expand the program and reduce the discount from 50% to 25% of collection and treatment costs
 - » Expand the program and maintain the 50% discount of collection and treatment costs

Year	No Change		Expanded, 25% Discount		Expanded, 50% Discount	
	% Increase	\$ Increase	% Increase	\$ Increase	% Increase	\$ Increase
2023	15.5%	\$2.70	17.7%	\$3.10	21.2%	\$3.70
2024	13.4%	\$2.70	15.1%	\$3.10	17.5%	\$3.70
2025	11.8%	\$2.70	13.1%	\$3.10	14.9%	\$3.70
2026	10.6%	\$2.70	11.6%	\$3.10	13.0%	\$3.70
2027	6.2%	\$1.75	6.2%	\$1.85	6.2%	\$2.00
2028	5.8%	\$1.75	5.8%	\$1.85	5.8%	\$2.00

Jurisdictional Survey



Reinstate Late Fees and Interest Charges

- The Shoreline City Code, imposes a one-time 10% late fee (maximum allowed by RCW) and 8% interest per annum on late balances, credit card processing fees, and a refund request fee.
- RWD Board implemented policies to waive these fees during the pandemic
- Staff Recommends:
 - Reinstate 10% late charge; eliminate 8% interest
 - Reinstate refund request charge
 - Do not reinstate credit card processing fee

Evolving Issues

- As the City gains experience with the utility, new information or practices will develop that will affect the level of service and rates
 - An evaluation of how planned development aligns with actual development in the Station Areas
 - Ongoing inflow and infiltration (I&I) study
 - Wastewater permit fees
 - Operational supplemental requests
- Due to the status of the studies, possible projects or activities have not been included in this rate study but will be added to the CIP and workplan when complete
- Staff will discuss operational supplemental requests in the 2023/24 budget
- Staff will recommend updating the wastewater permit fees to match how the other permit fees are established in the 2023-2024 budget

Policy Direction

- Low Income Program Expansion:
 - Maintain current low-income program
 - Expand reach of low-income program, in partnership with Seattle City Light? If so,
 - Decrease discount to 25%
 - Maintain discount of 50%
- CIP
 - Assume 80% CIP completion factor for CIP as modeled in this rate study
 - Delay or decrease planned CIP
- Implementation of Financial Policies
 - Capital Reserve Target
 - Rate Funded System Reinvestment
 - Maintain a minimum debt service coverage
- Wastewater Fees Suspended during the Pandemic – Late Fees, Credit Card Fees & Refund Processing Fee

Policy Direction

- Staff recommendations:
 - Expand low Income Program, extend discount at 50% for all recipients
 - Assume 80% CIP completion factor for CIP as modeled in this rate study
 - Implement recommended Financial Policies
 - Reinstating fees
 - Reinstating 10% late charge; eliminate 8% interest
 - Reinstating refund request charge
 - Do not reinstate credit card processing fee

Next Steps

- General Facilities Charge (GFC) update – underway
- Study report to be drafted based on Council policy choices
- Final Rates to be presented with 2023-2024 Biennial Budget in October

Thank you! Questions?

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