



City of McCleary
Home of the McCleary Bear Festival

McCleary Rate Study



Revenue Requirement

October 25, 2023



Agenda

- **Overview of rate setting process**
- **Financial policies**
- **Key assumptions**
- **Summary of findings**
 - » Electric
 - » Water
 - » Sewer
 - » Stormwater
- **Water rate design**
- **Next steps**
- **Questions**



Background

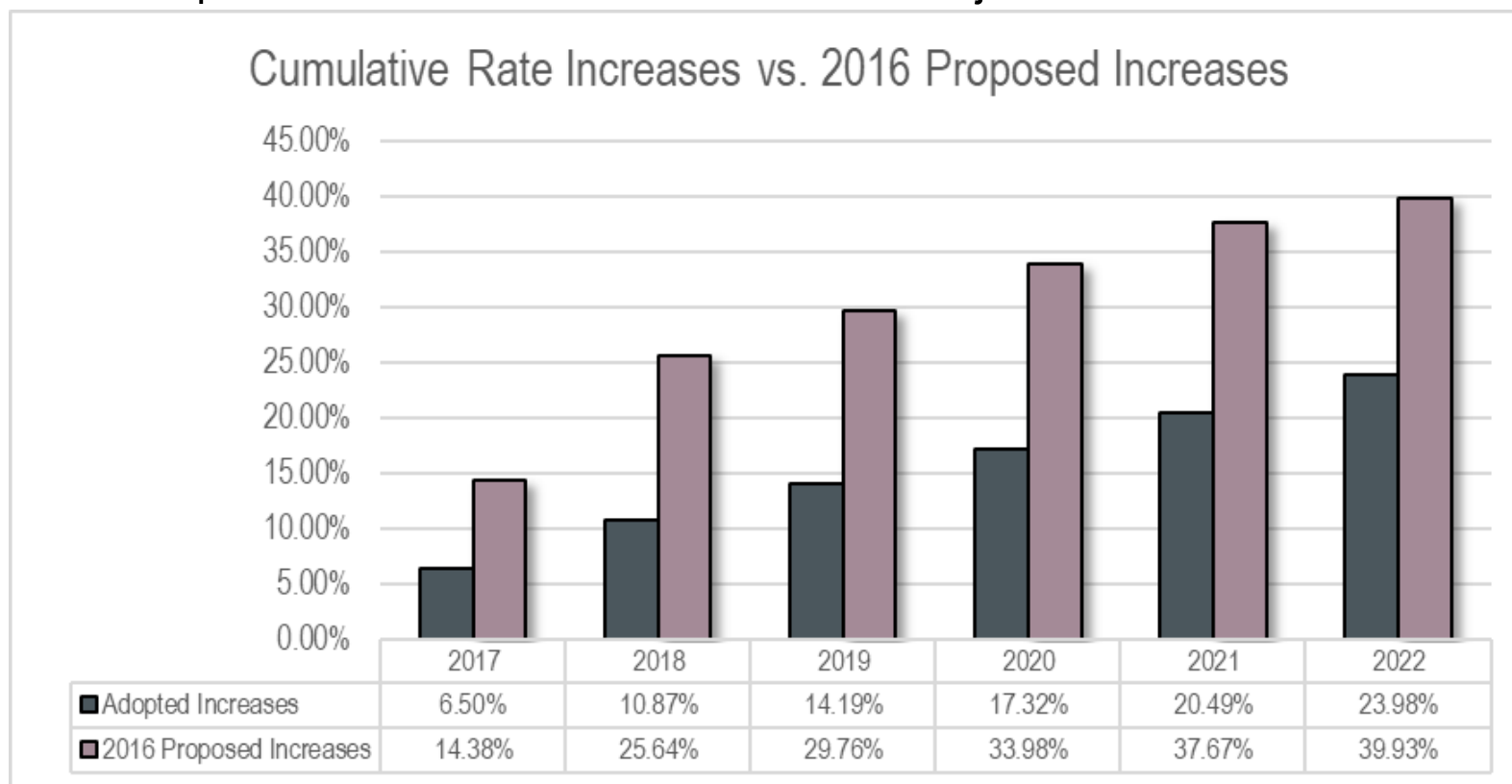
- **Study commenced 2022**
- **Presented draft revenue requirement findings in June 2023**
 - » Rates are not sufficient to meet operating and capital requirements
- **Scenarios presented at June meeting**

Proposed Rate Increases	2024	2025	2026	2027	2028
Electric					
<i>S1: Reserve Draw</i>	8.75%	8.75%	8.75%	8.75%	0.00%
Water					
<i>S1: Revenue Bonds & Reserve Draw</i>	28.00%	17.25%	17.25%	3.75%	3.75%
<i>S2: Low Interest Loans & Reserve Draw</i>	28.00%	16.25%	16.25%	3.00%	3.00%
Sewer					
<i>S1: Revenue Bonds & Reserve Draw</i>	16.00%	12.25%	8.50%	3.00%	3.00%
Stormwater					
<i>S1: Revenue Bonds</i>	93.00%	8.00%	8.00%	8.00%	8.00%
<i>S2: Low Interest Loans</i>	93.00%	5.50%	5.50%	5.50%	5.50%



Combined Sample Single Family Bill vs. CPI

- **Significant changes have occurred since last study**
 - » Recommended increases from 2016 rate study were not adopted
 - » Capital costs were deferred and now are subject to increased inflation



Notes:

1. Based on 1 ERU, 1,200 kWh electric usage, 6 ccf water consumption



Overview of Rate Setting Process

Fiscal Policies – Set the Management Foundation

Step 1:
Revenue Requirement
(defining overall needs)

Revenue

Debt

Reserves

O&M

Capital

Power

Step 2:
Cost of Service
(Electric Only)
(equity evaluation)

Define Customer Classes

Allocate Costs

Step 3:
Design Rates
(collect target revenue)

Fixed Charge

Variable Charge



Revenue Requirement Objectives

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



Revenue Requirement Elements

Fiscal Policy
Achievement



Forecast of
Revenue at
Existing Rates



Forecast of O&M
& Power

Planned Capital
Costs



Existing & New
Debt Service



**Annual Revenue
Requirement**



Financial Policies

Policy	Purpose	Target
Operating Reserve	Liquidity cushion to accommodate cyclical cash flow fluctuations	60 – 90 Days of O&M
Capital Contingency Reserve	To meet emergency repairs, unanticipated capital, and project cost overruns	Electric: \$1,000,000 Water: \$100,000 Sewer: \$250,000 Stormwater: \$100,000
Debt Service Coverage (DSC)	Compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance	Minimum Requirement: 1.25



Key Assumptions – Forecasting

- **Focus period 2023-2028**
 - » Projection through 2042 (2033 for electric)
- **Revenue based on historical data, budget and forecast assumptions**
 - » Sewer / Stormwater
 - 2023 budget used as baseline for rate and non-rate revenues
 - » Water / Electric:
 - 2021/2022 billing statistics used as baseline for rate revenues
 - 2023 budget used as baseline for non-rate revenues
 - » Annual growth set between 0.00% - 0.60% per year depending on utility and customer type
- **O&M expenses based on 2023 budget and escalated with**
 - » 6.00% - 3.00% depending on expense line item and year
 - » Forecast includes additional shared overhead expenses



Key Assumptions – Forecasting (continued)

- **Taxes**

- » Water state excise tax rate: 5.029%
- » Sewer state excise tax rate: 3.852% on collection share of revenue (50.00%)
- » B&O tax rate: 1.75% on non rate revenue, connection fee revenue, sewer treatment & transmission revenue (50.00%) and stormwater rate revenue
- » City tax (applied on top of customer bills):
 - Water / Sewer / Stormwater: 8.99%
 - Electric: 6.00%

- **Future debt: revenue bonds**

- » Term: 20-year
- » Interest rate: 5.00%
- » Issuance cost: 1.50%

Low interest loans

- 20-year
- 1.50%
- 0.00%



Electric



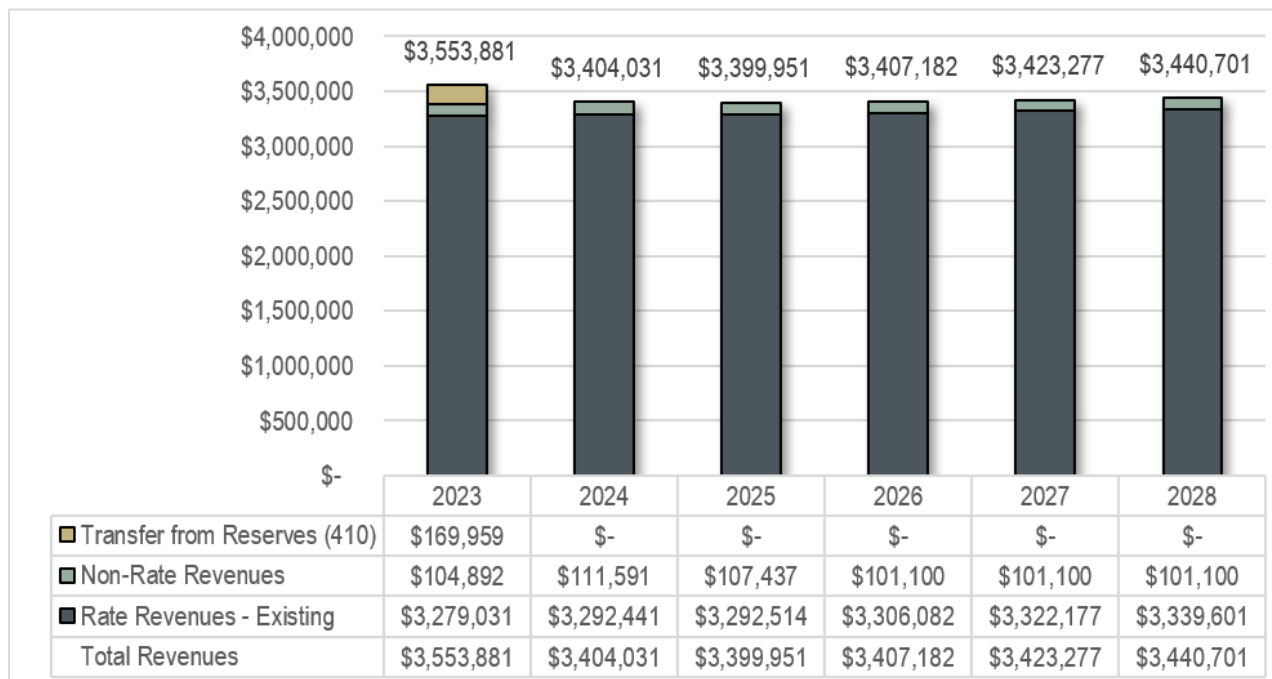
Electric Study Updates

- **Updates since June presentation**

- » Bonneville Power Administration finalized FY 2024 and FY 2025 power and transmission rates
- » Slight changes to power cost forecast
- » Improves proposed rate trajectory

Key Factors: Existing Revenue

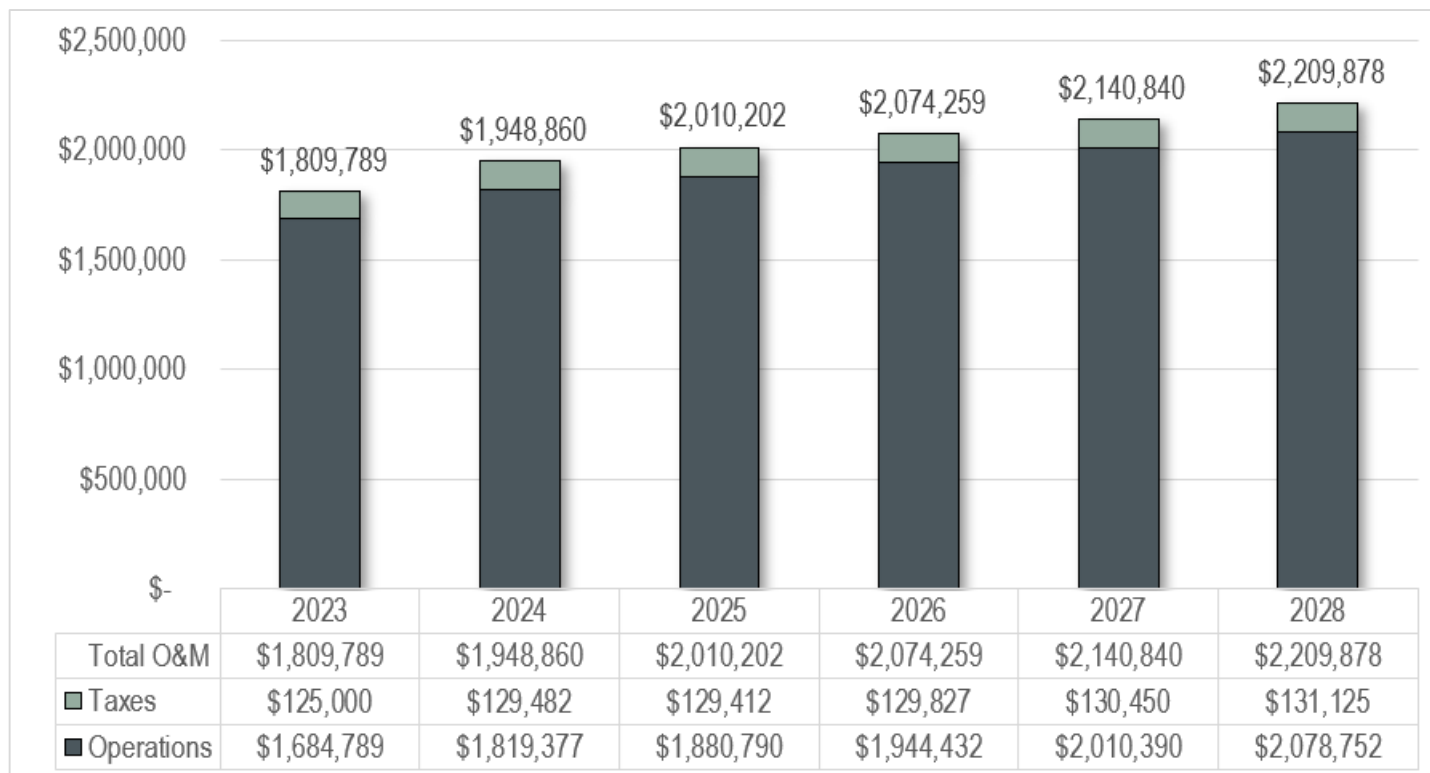
- **Focus period: 2023-2028**
 - » Rate revenue based on 2021 actual data plus growth for each class
 - Residential: 0.6% | Commercial: 0.5% | Industrial / Lighting: 0.0%
 - » Non rate revenue consists of BPA power dividend, charges for services & parts, energy conservation fees, equipment, pole & vehicle leases, and investment interest
 - 2023 includes one-time transfer from Fund 410 to Fund 401
- **Total existing operating revenue: \$3.5 million to \$3.4 million**





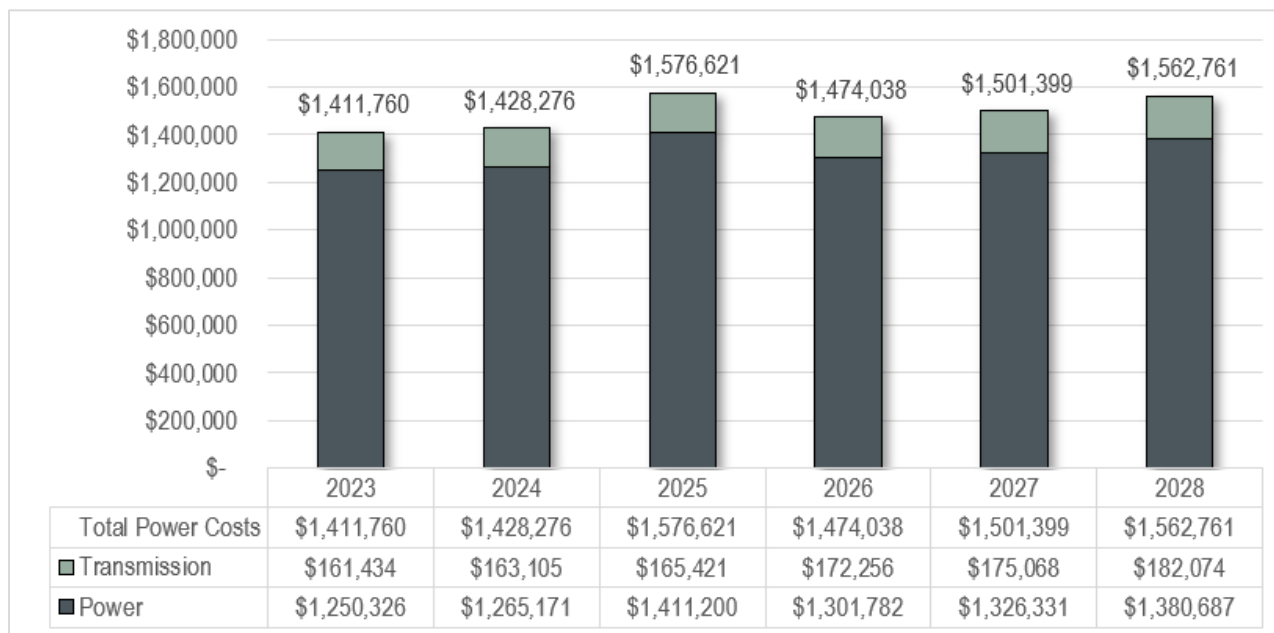
Key Factors: Operating Expenses

- **Forecast based on 2023 budget**
 - » Costs inflated between 6.0% - 3.0% per year
 - Average inflation (net of taxes) of 4.3%
- **Total O&M expenses: \$1.8 million to \$2.2 million**



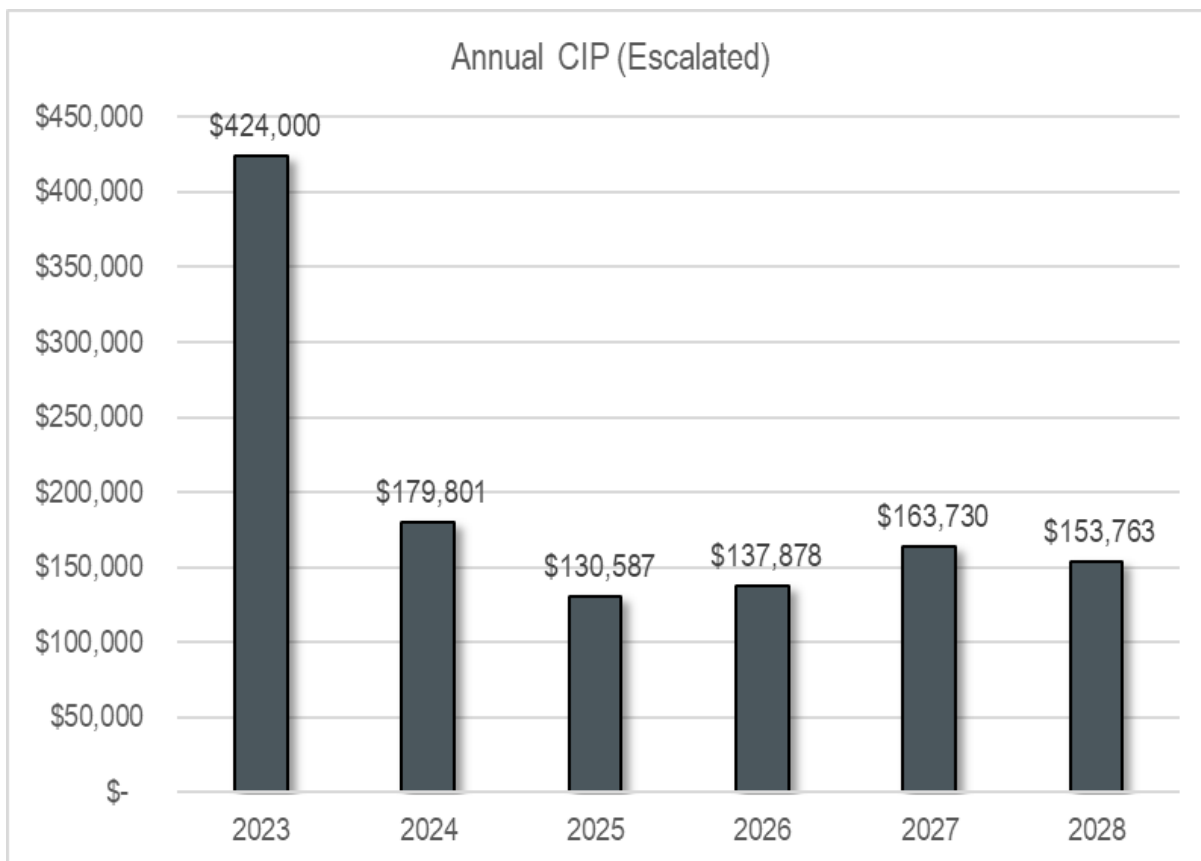
Key Factors: Power / Transmission Costs

- **Power / transmission based on load and BPA billing determinants**
 - » Includes BPA FY 2024 power / transmission final rates
 - Includes power dividend
 - » Future increases assume 5% biannual adjustment
 - » Assumes no Tier 2 purchases after FY 2025
- **Total power / transmission expenses: \$1.4 million to \$1.6 million**



Key Factors: Capital

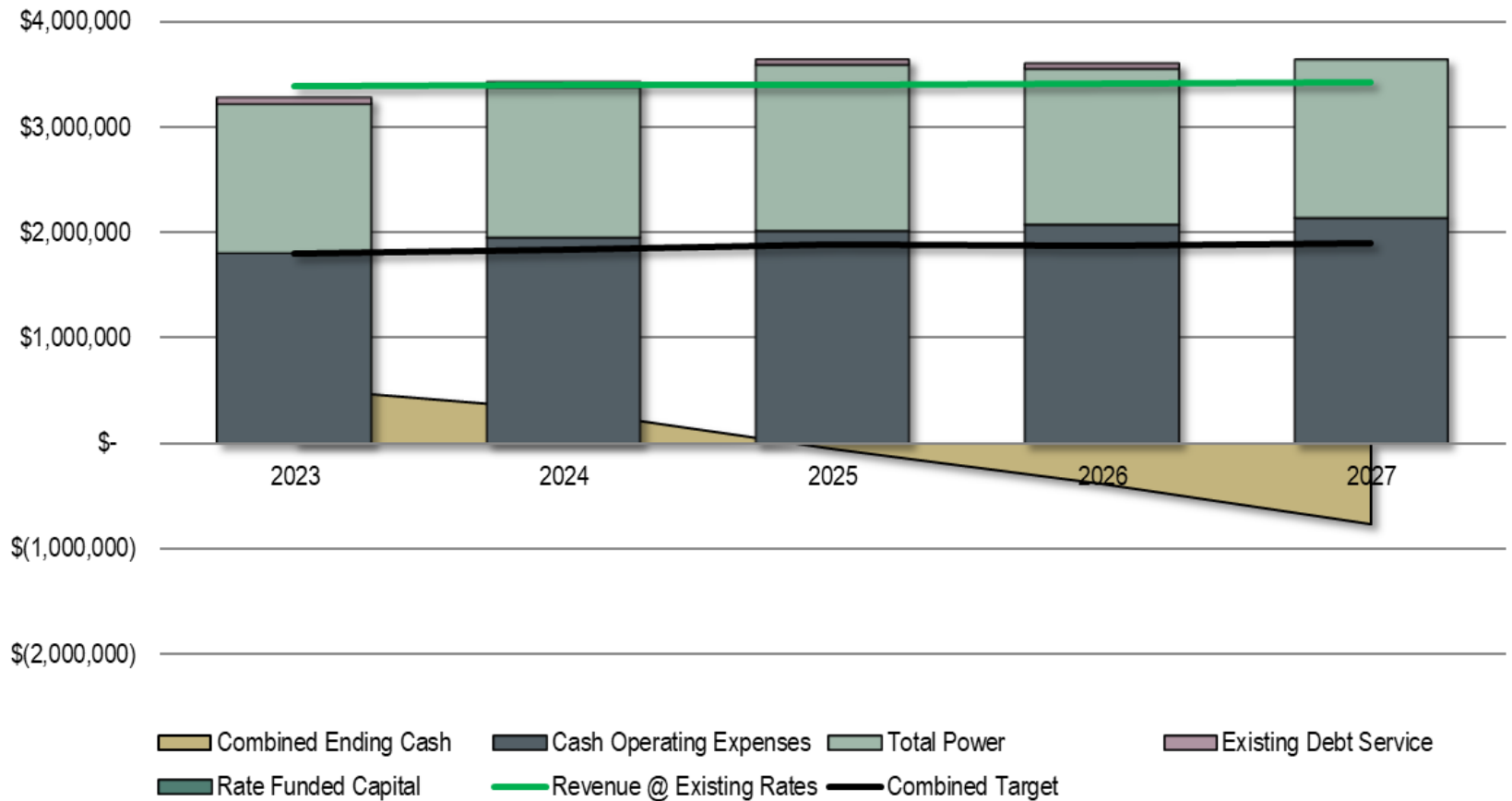
- **Capital funded through existing reserves**
 - » No new debt anticipated in 2024-2028 rate setting period



Year	CIP	Annual CIP (Escalated)
2023	\$ 424,000	\$ 424,000
2024	115,667	179,801
2025	81,167	130,587
2026	82,800	137,878
2027	95,000	163,730
2028	86,200	153,763
Total	\$ 884,833	\$ 1,189,758
2029-2033	400,400	770,694
Total	\$ 1,285,233	\$ 1,960,453



Revenue Requirement: Baseline





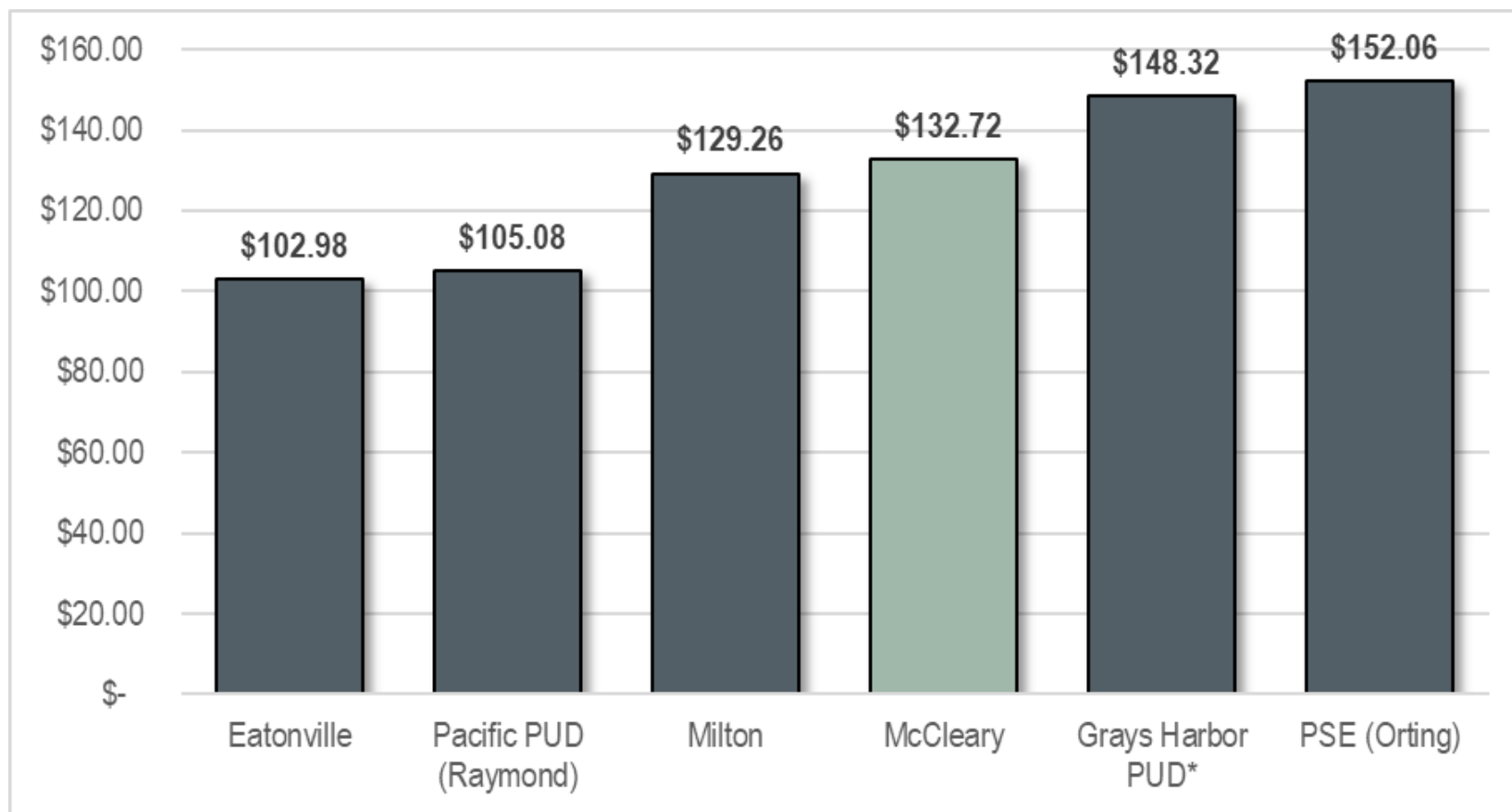
Summary & Scenarios for Consideration

- **Existing rates are not sufficient to keep up with ongoing obligations**
 - » Cannot meet debt and power obligations starting in 2024
 - » At existing rate levels, reserves would be depleted and go negative in 2025
- **Scenario for consideration**
 - » S1: Cash fund CIP and release 50% of Fund 410 in 2023

Description	Existing	2024	2025	2026	2027	2028
Annual Increase						
S1: Reserve Draw		8.25%	8.25%	8.25%	8.25%	0.00%
Average Residential Monthly Bill (1,200 kWh)						
S1: Reserve Draw	\$ 132.72	\$ 143.67	\$ 155.52	\$ 168.35	\$ 182.24	\$ 182.24
\$ per Mo. Difference		\$ 10.95	\$ 11.85	\$ 12.83	\$ 13.89	\$ -



Electric Residential Rate Survey



Notes:

1. Based on 1,200 kWh and single-phase meter
2. Grays Harbor PUD serves Westport, Hoquiam, Aberdeen, Ocean Shores, & Elma

The background of the slide features a monochromatic, sepia-toned image. In the center, a single water droplet is captured in mid-fall, just above a pool of water that shows concentric ripples. The background is a faint line graph with a grid. The y-axis on the left is labeled with values 64, 72, 80, 88, and 96. The x-axis at the bottom has labels 60, 70, 80, 90, and 100. The graph line fluctuates across the frame, with peaks and valleys. A dark grey arrow points from the left towards the center, containing the word 'Water' in white.

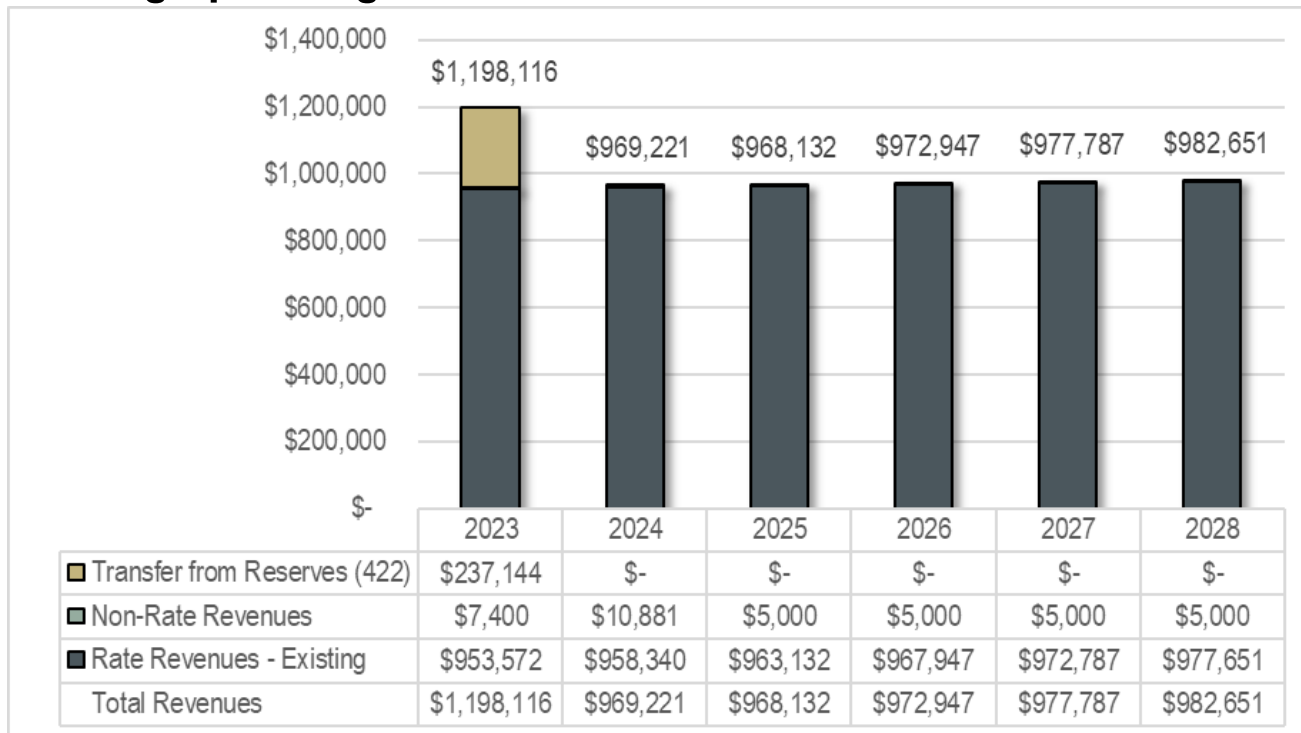
Water

Key Factors: Existing Revenue

- **Focus period: 2023-2028**

- » Rate revenue based on 2023 budget data plus 0.5% growth for each class
- » Non rate revenue consists of investment interest and other water-related charges
 - 2023 includes one-time transfer from Fund 422 to Fund 405

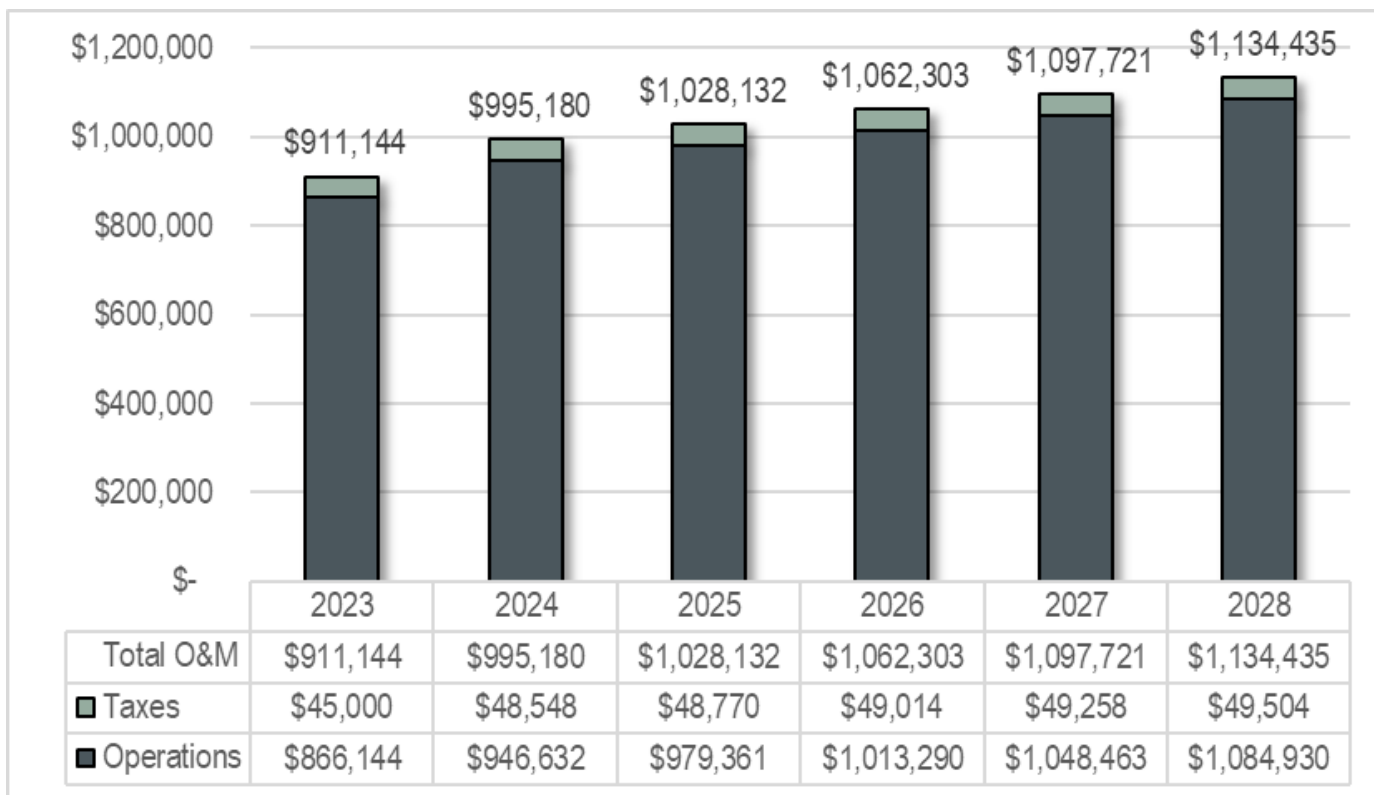
- **Total existing operating revenue: \$1.2 million to \$1.0 million**





Key Factors: Operating Expenses

- **Forecast based on 2023 budget**
 - » Costs inflated between 6.0% - 3.0% per year
 - Average inflation (net of taxes) of 4.6%
- **Total O&M expenses: \$0.9 million to \$1.1 million**



Key Factors: Capital

- Capital funded through existing reserves, connection fee revenue, and new debt

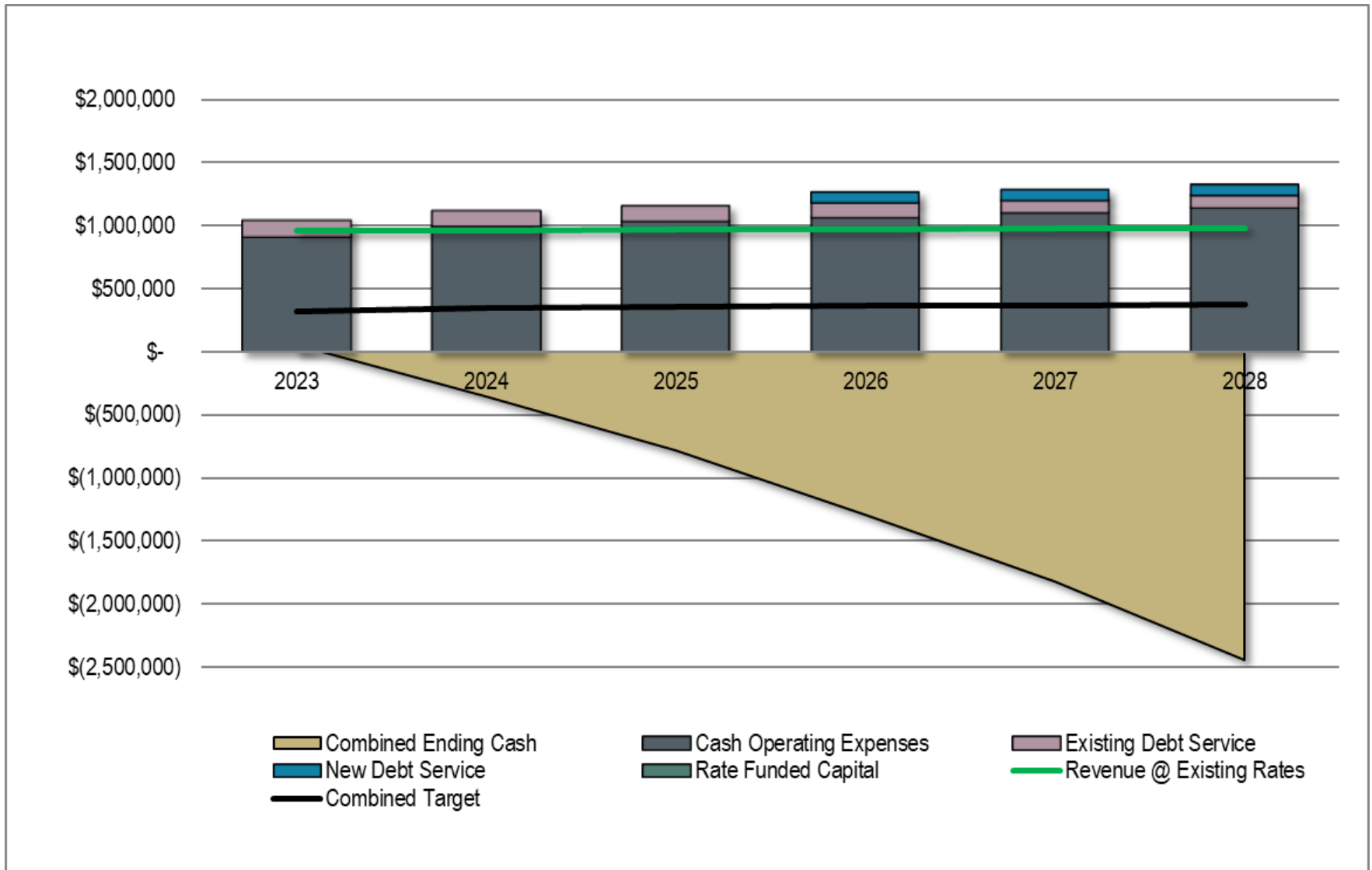
» \$1.4 million of new debt projected in 2026



Year	CIP	Annual CIP (Escalated)
2023	\$ 208,350	\$ 208,350
2024	215,000	271,319
2025	200,000	261,224
2026	1,174,000	1,587,051
2027	174,000	243,451
2028	207,000	299,760
Total	\$ 2,178,350	\$ 2,871,156
2029-2042	3,668,500	6,179,767
Total	\$ 5,846,850	\$ 9,050,923



Revenue Requirement: Baseline





Summary & Scenarios for Consideration

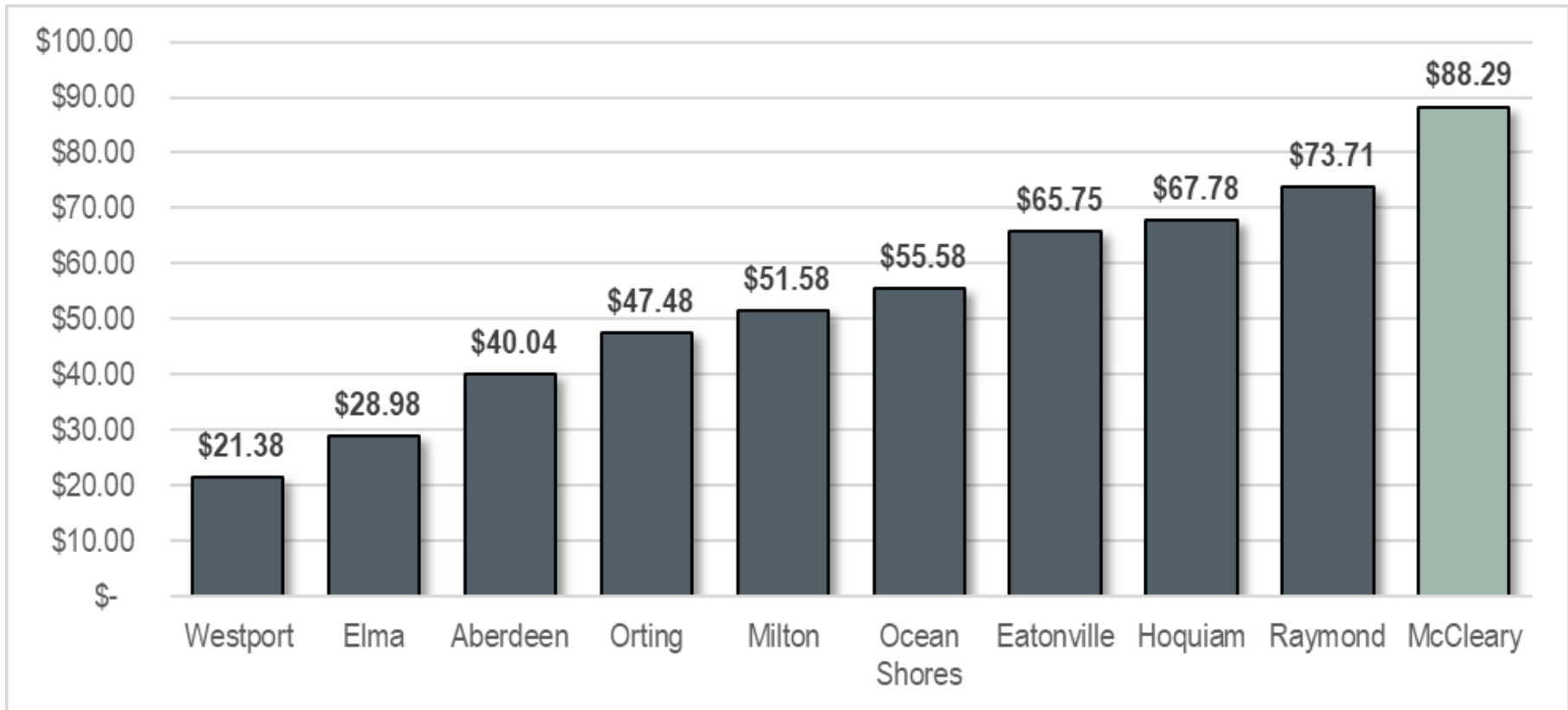
- **Existing rates are not sufficient to keep up with ongoing obligations**
 - » Cannot meet debt obligations starting in 2023
 - » At existing rate levels, reserves would be depleted and go negative in 2024
- **Scenario for consideration**
 - » S2: Fund CIP with low interest loans and release 50% of Fund 422 in 2023

Description	Existing	2024	2025	2026	2027	2028
Annual Increase						
S2: Low Interest Loans & Reserve Draw		28.00%	16.25%	16.25%	3.00%	3.00%
Average Residential Monthly Bill (3/4" Meter, x 6 ccf)						
S2: Low Interest Loans & Reserve Draw	\$ 88.29	\$ 113.01	\$ 131.38	\$ 152.72	\$ 157.31	\$ 162.02
\$ per Mo. Difference		\$ 24.72	\$ 18.36	\$ 21.35	\$ 4.58	\$ 4.72

Note: Actual increase will be dependent on rate design outcomes



Water Residential Rate Survey



Notes:

1. Based on 6 ccf and ¾" meter
2. Raymond includes booster pump fee



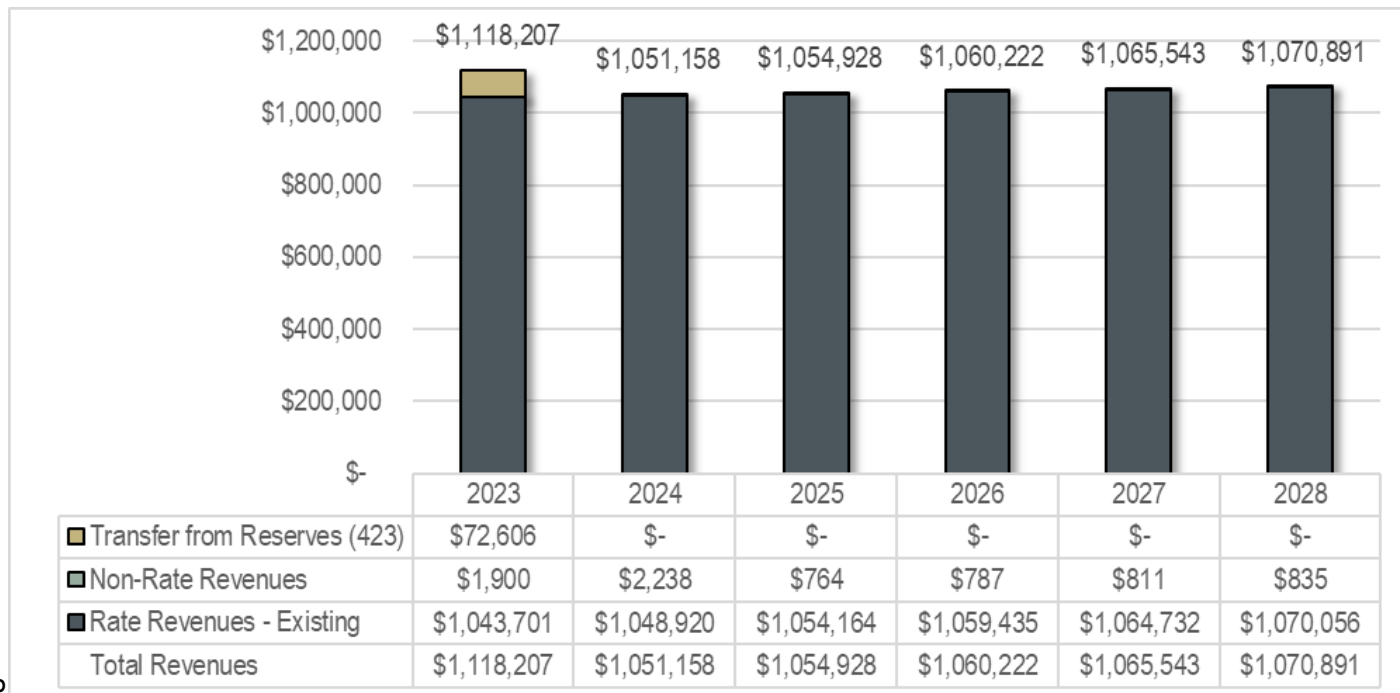
Sewer

Key Factors: Existing Revenue

- **Focus period: 2023-2028**

- » Rate revenue based on 2023 budget data plus 0.5% growth for each class
- » Non rate revenue consists of investment interest, sale of scrap metal, and other sewer-related charges
 - 2023 includes one-time transfer from Fund 423 to Fund 407

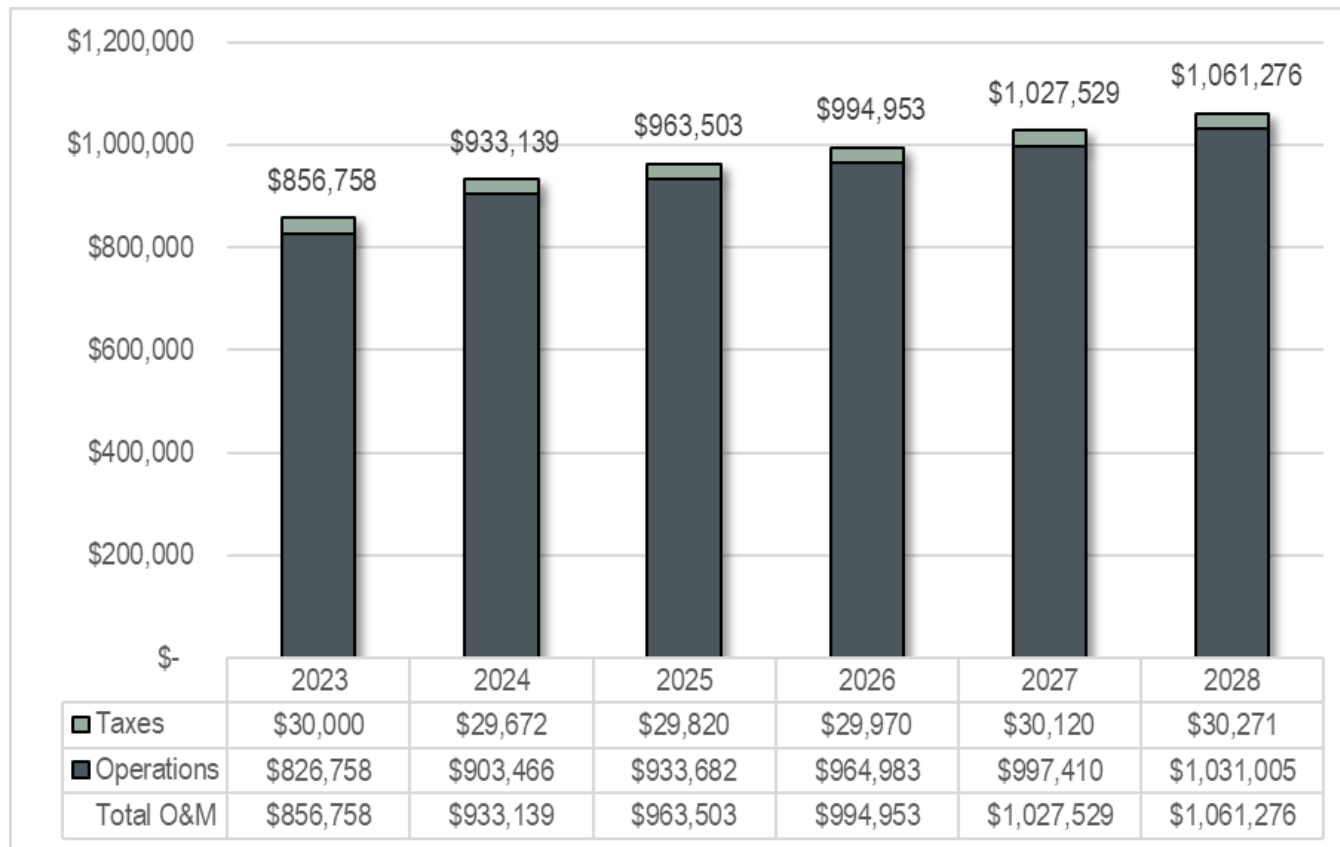
- **Total existing operating revenue: \$1.1 million per year**





Key Factors: Operating Expenses

- **Forecast based on 2023 budget**
 - » Costs inflated between 6.0% - 3.0% per year
 - Average inflation (net of taxes) of 4.5%
- **Total O&M expenses: \$0.9 million to \$1.1 million**

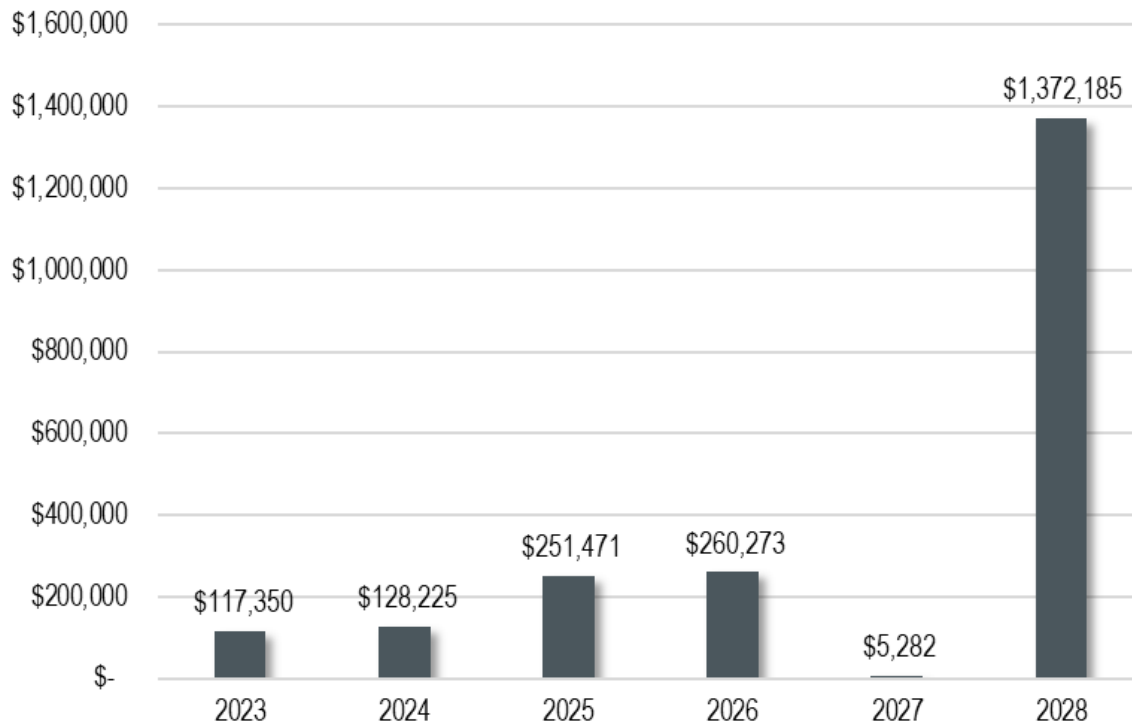




Key Factors: Capital

- Capital funded through existing reserves and new debt
 - » \$1.4 million of new debt projected in 2028

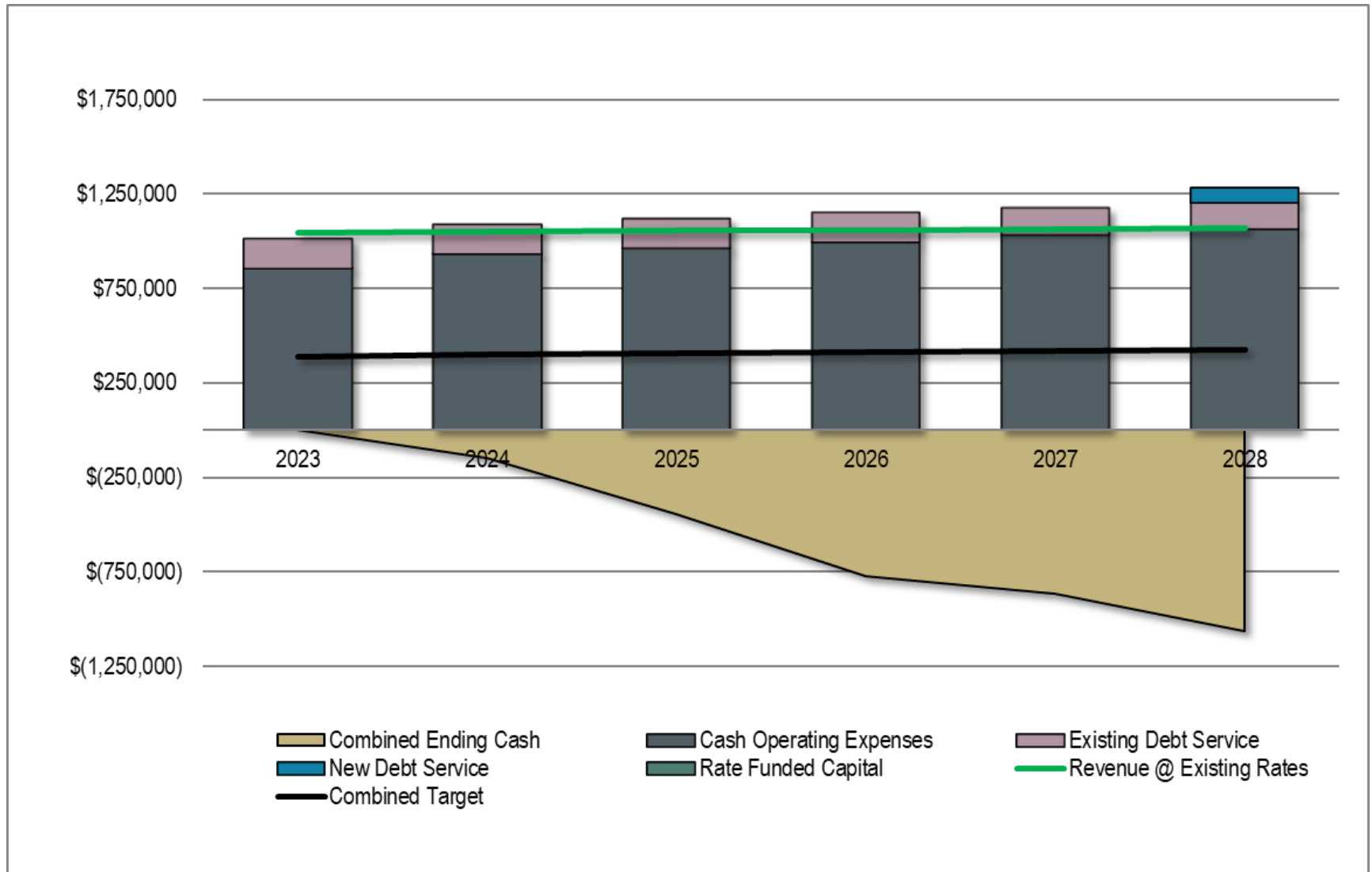
Annual CIP (Escalated)



Year	CIP	Annual CIP (Escalated)
2023	\$ 117,350	\$ 117,350
2024	116,000	128,225
2025	204,000	251,471
2026	204,000	260,273
2027	4,000	5,282
2028	1,004,000	1,372,185
Total		\$ 1,649,350 \$ 2,134,786
2029-2042		131,000 175,020
Total		\$ 1,780,350 \$ 2,309,806



Revenue Requirement: Baseline





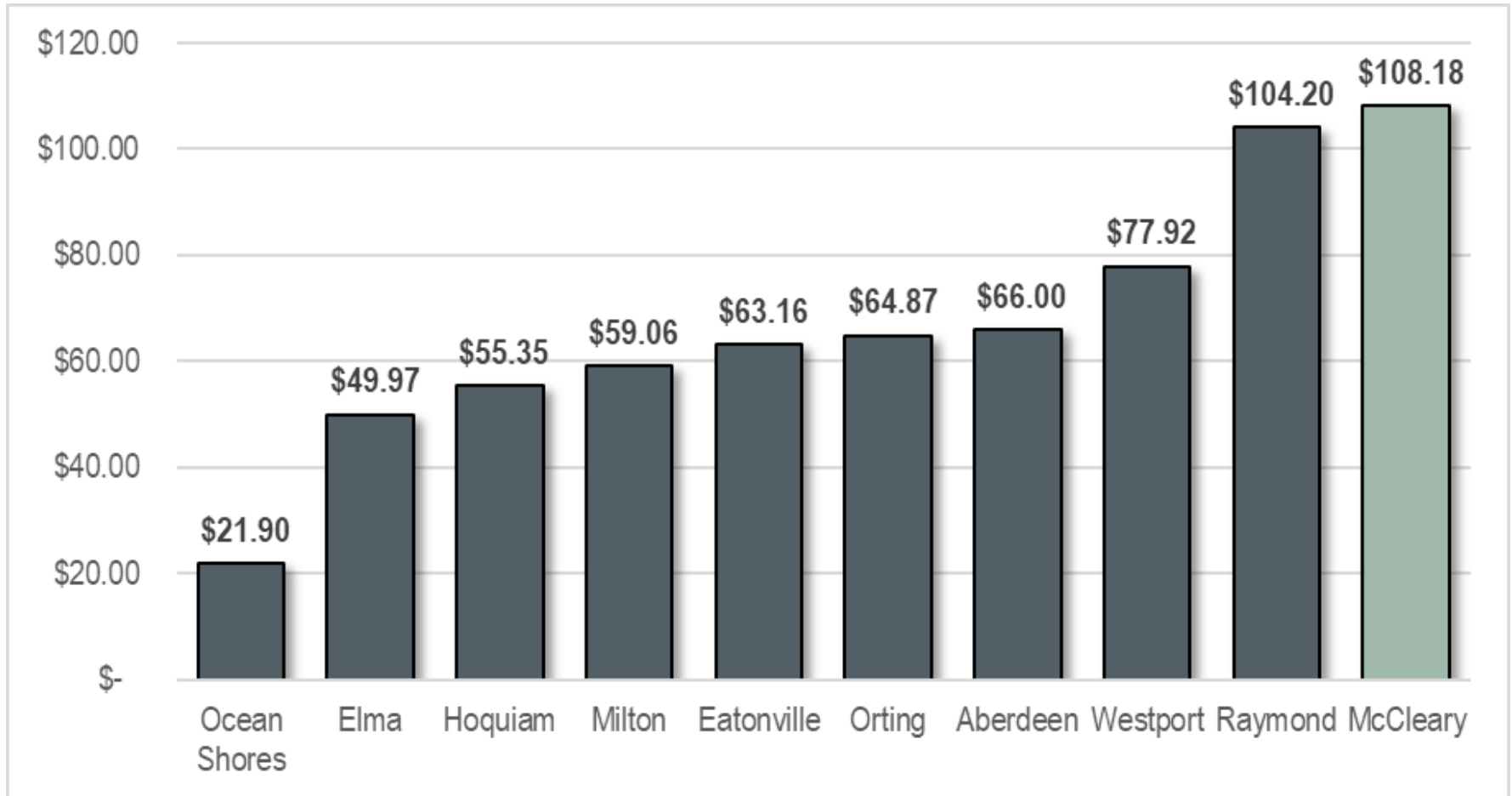
Summary & Scenarios for Consideration

- **Existing rates are not sufficient to keep up with ongoing obligations**
 - » Cannot meet debt obligations beginning in 2024
 - » At existing rate levels, reserves would be depleted and go negative in 2024
- **Scenario for consideration**
 - » S1: Fund CIP with revenue bonds and release 50% of Fund 423 in 2023

Description	Existing	2024	2025	2026	2027	2028
Annual Increase						
<i>S1: Revenue Bonds & Reserve Draw</i>		16.00%	12.25%	8.50%	3.00%	3.00%
Average Residential Monthly Bill						
<i>S1: Revenue Bonds & Reserve Draw</i>	\$ 108.18	\$ 125.49	\$ 140.86	\$ 152.83	\$ 157.42	\$ 162.14
<i>\$ per Mo. Difference</i>		\$ 17.31	\$ 15.37	\$ 11.97	\$ 4.59	\$ 4.72



Sewer Residential Rate Survey



Notes:

1. Milton provided service through Pierce County Sewer

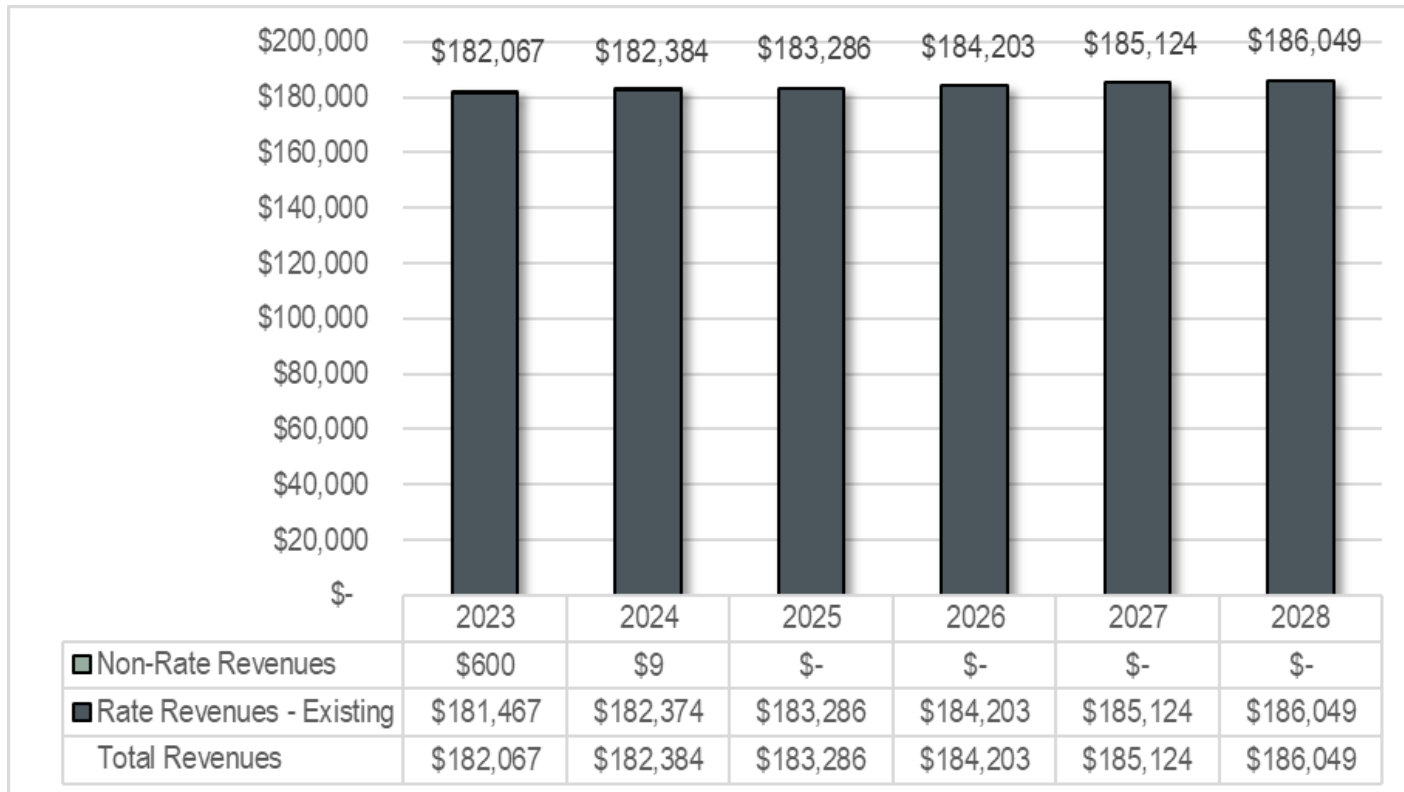


Stormwater



Key Factors: Existing Revenue

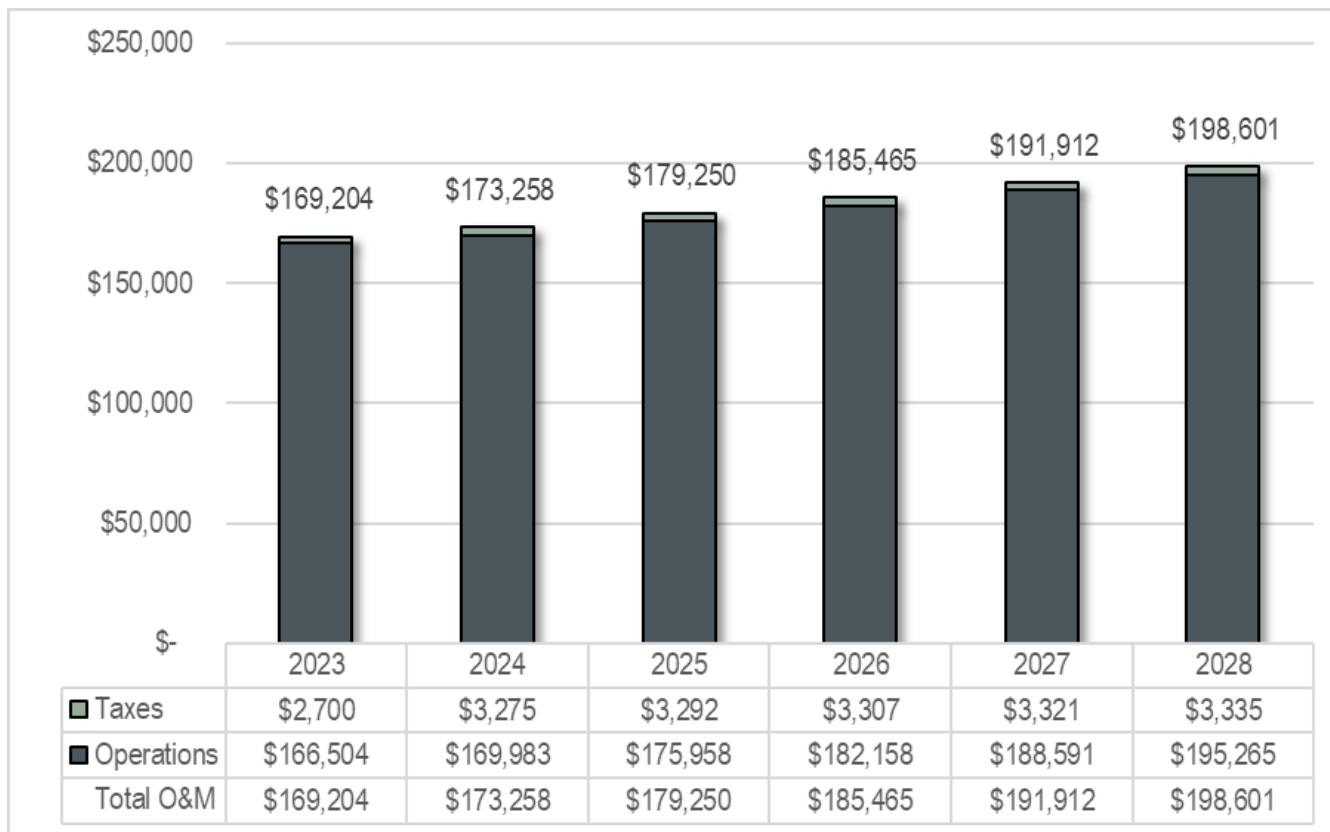
- **Focus period: 2023-2028**
 - » Rate revenue based on 2023 budget data plus 0.5% growth for each class
 - » Non rate revenue consists of investment interest.
- **Total existing operating revenue: \$180,000 per year**





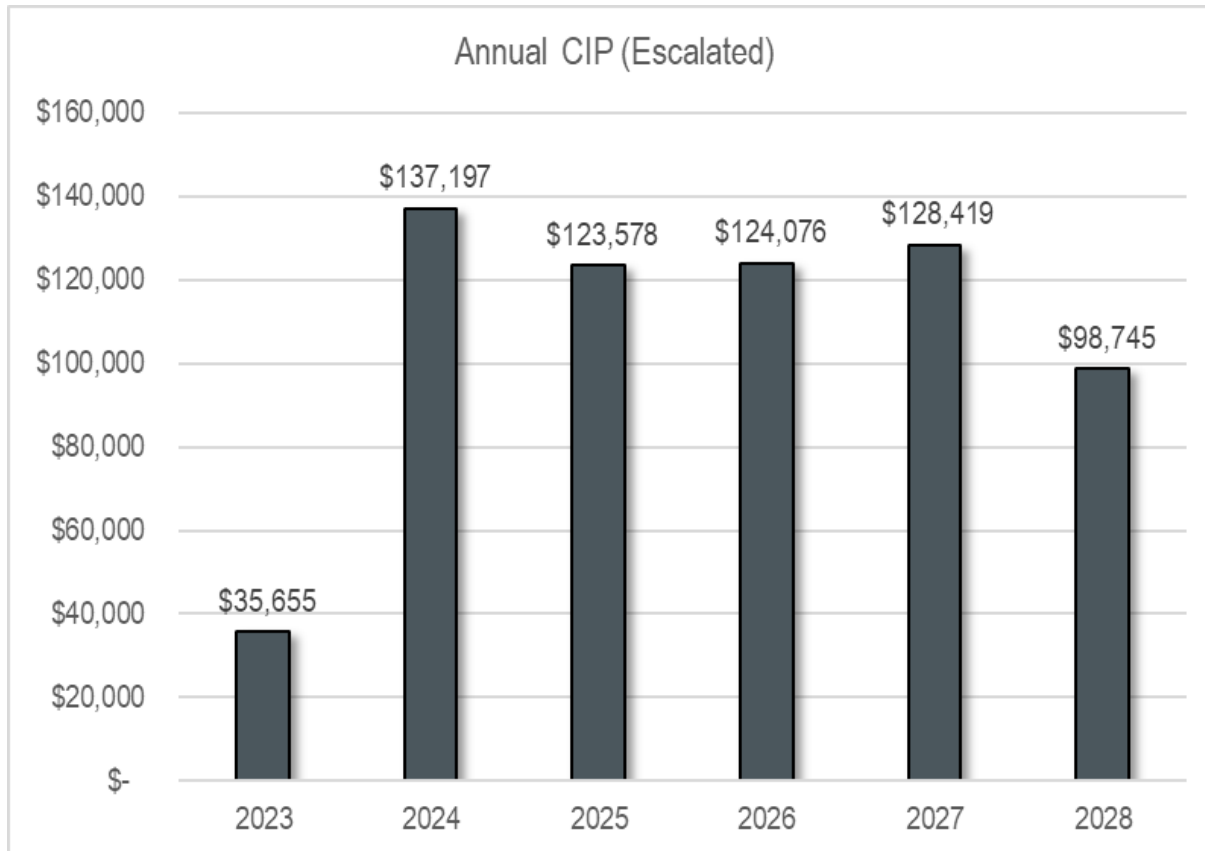
Key Factors: Operating Expenses

- **Forecast based on 2023 budget**
 - » Costs inflated between 6.0% - 3.0% per year
 - Average inflation (net of taxes) of 3.2%
- **Total O&M expenses: \$170,000 to \$200,000 per year**



Key Factors: Capital

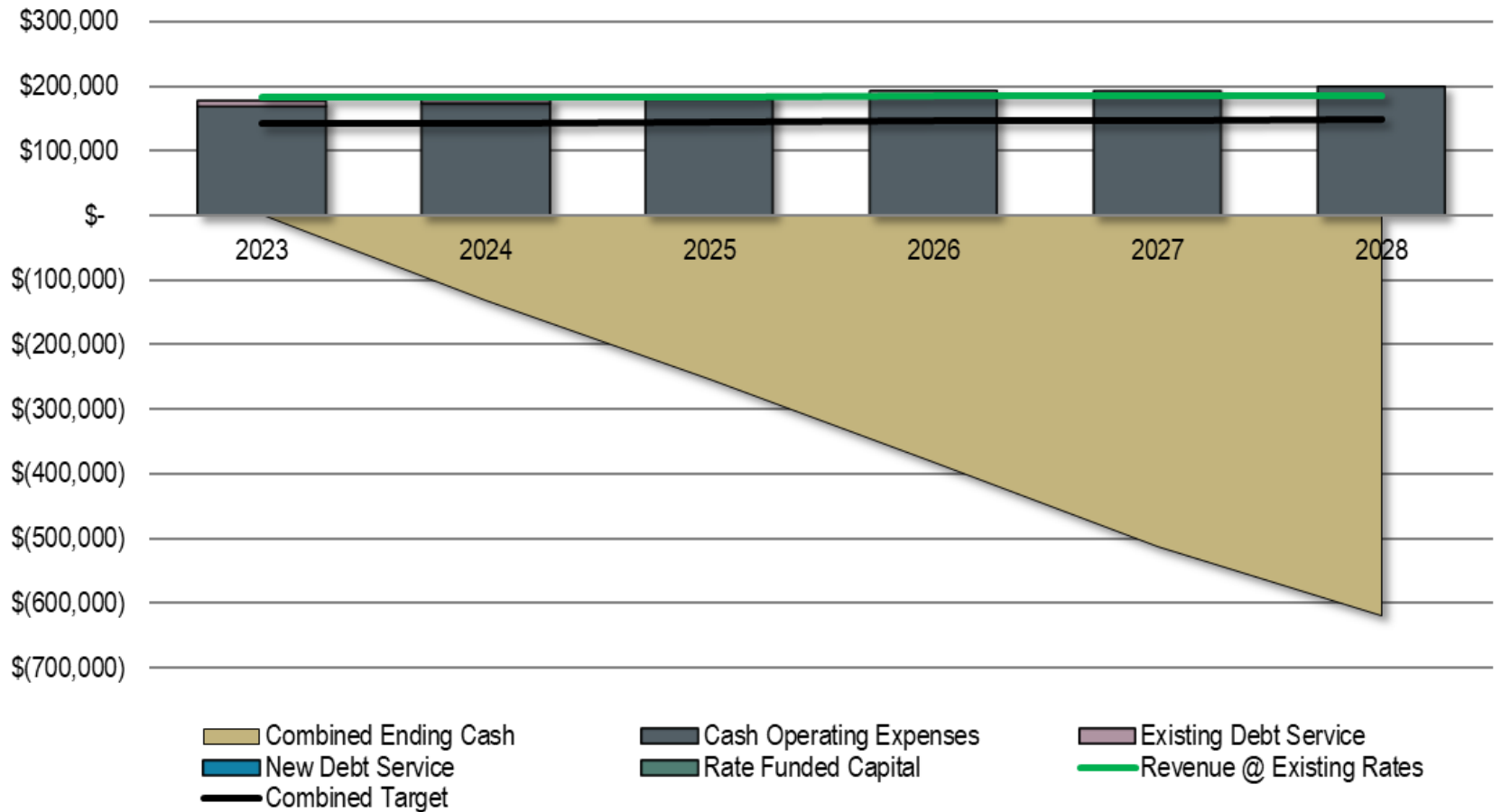
- **Capital funded through existing reserves and connection fee revenue**
 - » No new debt anticipated in 2024-2028 rate setting period
 - Debt projected in 2029 of \$2.9 million



Year	2023\$	Annual CIP (Escalated)
2023	\$ 35,500	\$ 35,655
2024	122,250	137,197
2025	100,250	123,578
2026	97,250	124,076
2027	97,250	128,419
2028	72,250	98,745
Total	\$ 524,750	\$ 647,670
2029-2042	3,639,250	5,660,604
Total	\$ 4,164,000	\$ 6,308,274



Revenue Requirement: Baseline





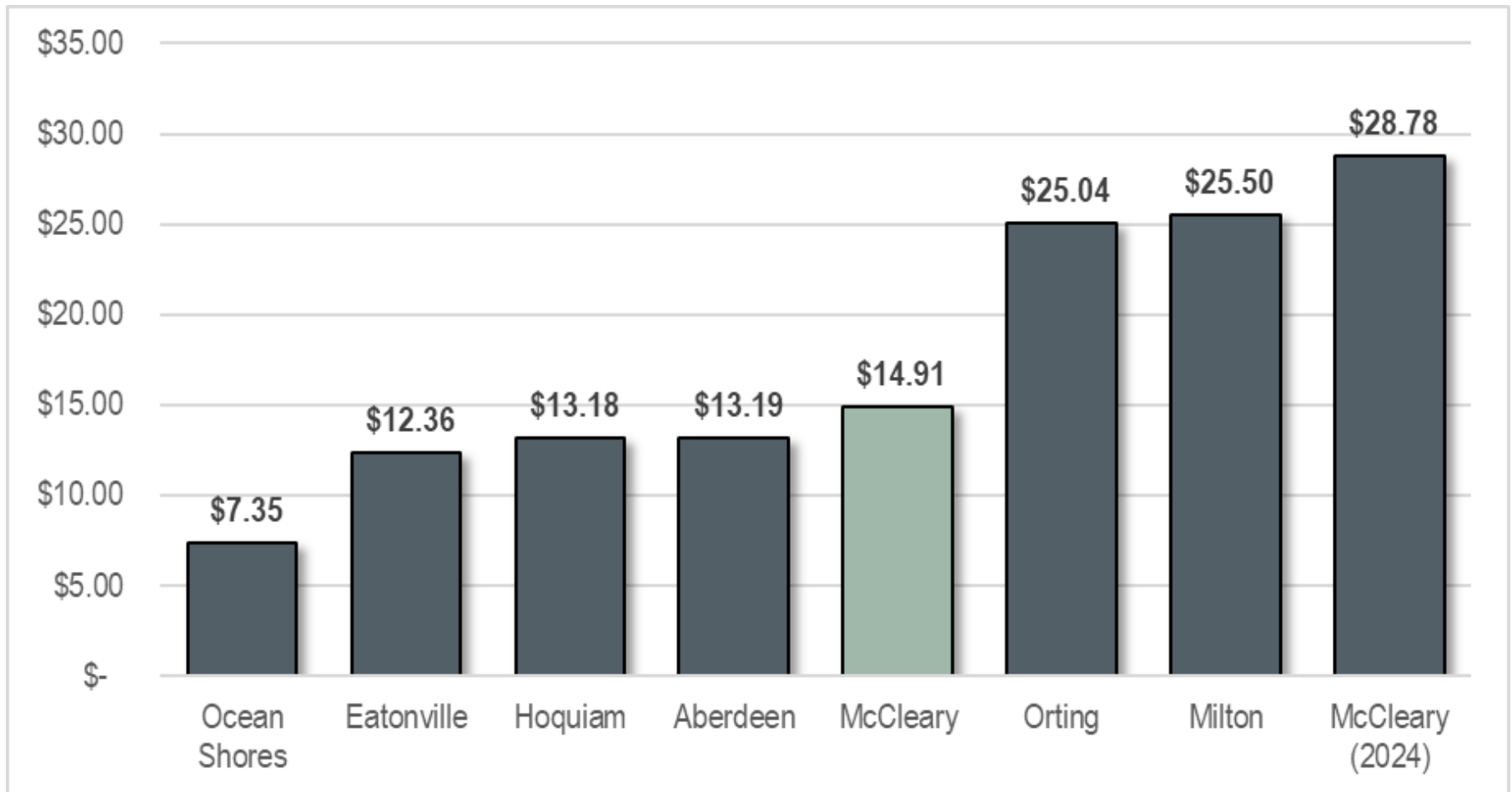
Summary & Scenarios for Consideration

- **Existing rates are not sufficient to keep up with ongoing obligations**
 - » Cannot meet debt obligations beginning in 2025
 - » At existing rate levels, reserves would be depleted and go negative in 2024
- **Scenario for consideration**
 - » S2: Fund CIP with low interest loans

Description	Existing	2024	2025	2026	2027	2028
Annual Increase						
S2: Low Interest Loans		93.00%	5.50%	5.50%	5.50%	5.50%
Average Residential Monthly Bill (1 ERU)						
S2: Low Interest Loans	\$ 14.91	\$ 28.78	\$ 30.36	\$ 32.03	\$ 33.79	\$ 35.65
\$ per Mo. Difference		\$ 13.87	\$ 1.58	\$ 1.67	\$ 1.76	\$ 1.86



Stormwater Residential Rate Survey



Notes:

1. Based on 1 ERU
2. Milton fee based on 41% - 70% impervious area range
3. Ocean Shores fee based on ¼ acre lot
4. No stormwater rates identified for Raymond, Westport, & Elma



Scenario Summary

- **Scenarios keep operating cash reserves above 50% of target in all periods starting in 2024**
- **Operating reserve target is achieved by 2026 in all scenarios**
- **All cash reserve targets met by 2027 in all scenarios**
- **Scenarios fully fund capital improvement program**
- **All scenarios except stormwater assume cash release from reserves**



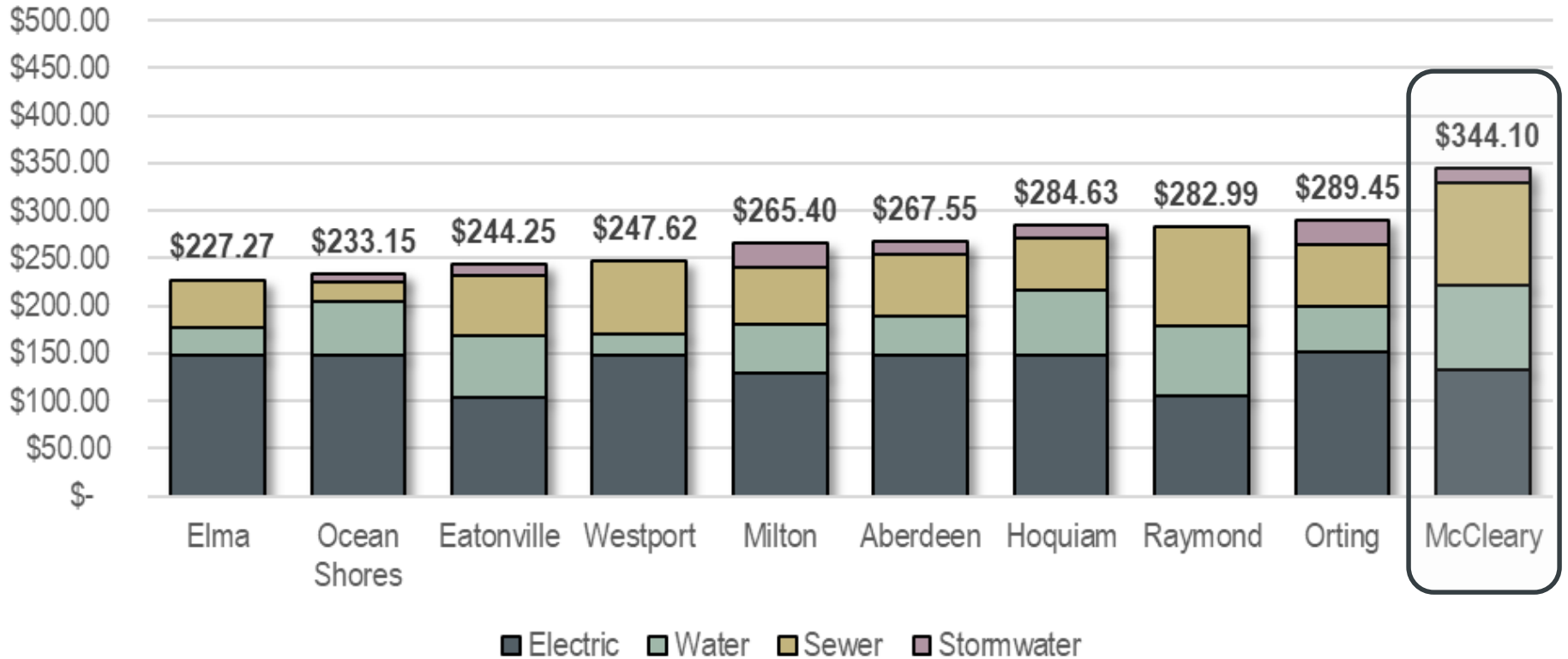
Scenario Rate Projections

Average Residential Bills	Existing	2024	2025	2026	2027	2028
Electric						
S1: Reserve Draw		8.75%	8.75%	8.75%	8.75%	0.00%
Average Residential (1,200 kWh)	\$ 132.72	\$ 144.33	\$ 156.96	\$ 170.70	\$ 185.63	\$ 185.63
\$ per Mo. Difference		\$ 11.61	\$ 12.63	\$ 13.73	\$ 14.94	\$ -
Water						
S2: Low Interest Loans & Reserve Draw		28.00%	16.25%	16.25%	3.00%	3.00%
Average Residential Bill (6 ccf)	\$ 88.29	\$ 113.01	\$ 131.38	\$ 152.72	\$ 157.31	\$ 162.02
\$ per Mo. Difference		\$ 24.72	\$ 18.36	\$ 21.35	\$ 4.58	\$ 4.72
Sewer						
S1: Revenue Bonds & Reserve Draw		16.00%	12.25%	8.50%	3.00%	3.00%
Average Residential Bill (1 ERU)	\$ 108.18	\$ 125.49	\$ 140.86	\$ 152.83	\$ 157.42	\$ 162.14
\$ per Mo. Difference		\$ 17.31	\$ 15.37	\$ 11.97	\$ 4.59	\$ 4.72
Stormwater						
S2: Low Interest Loans		93.00%	5.50%	5.50%	5.50%	5.50%
Average Residential Bill (1 ERU)	\$ 14.91	\$ 28.78	\$ 30.36	\$ 32.03	\$ 33.79	\$ 35.65
\$ per Mo. Difference		\$ 13.87	\$ 1.58	\$ 1.67	\$ 1.76	\$ 1.86
Total Average Residential Bill	\$ 344.10	\$ 411.61	\$ 459.56	\$ 508.28	\$ 534.15	\$ 545.45
Percentage Change		19.62%	11.65%	10.60%	5.09%	2.12%

Note: Actual increases will be dependent on rate design outcomes



Combined Residential Rate Survey



Notes:

1. No stormwater rates identified for Raymond, Westport, & Elma

A background image showing a business meeting. Two people in business attire are seated at a table. One person is holding a pen and pointing at a tablet displaying a bar chart. Another person is holding a laptop. The scene is overlaid with a network of glowing lines and dots, suggesting data connectivity. A dark blue arrow-shaped banner is positioned across the middle of the image.

Water 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



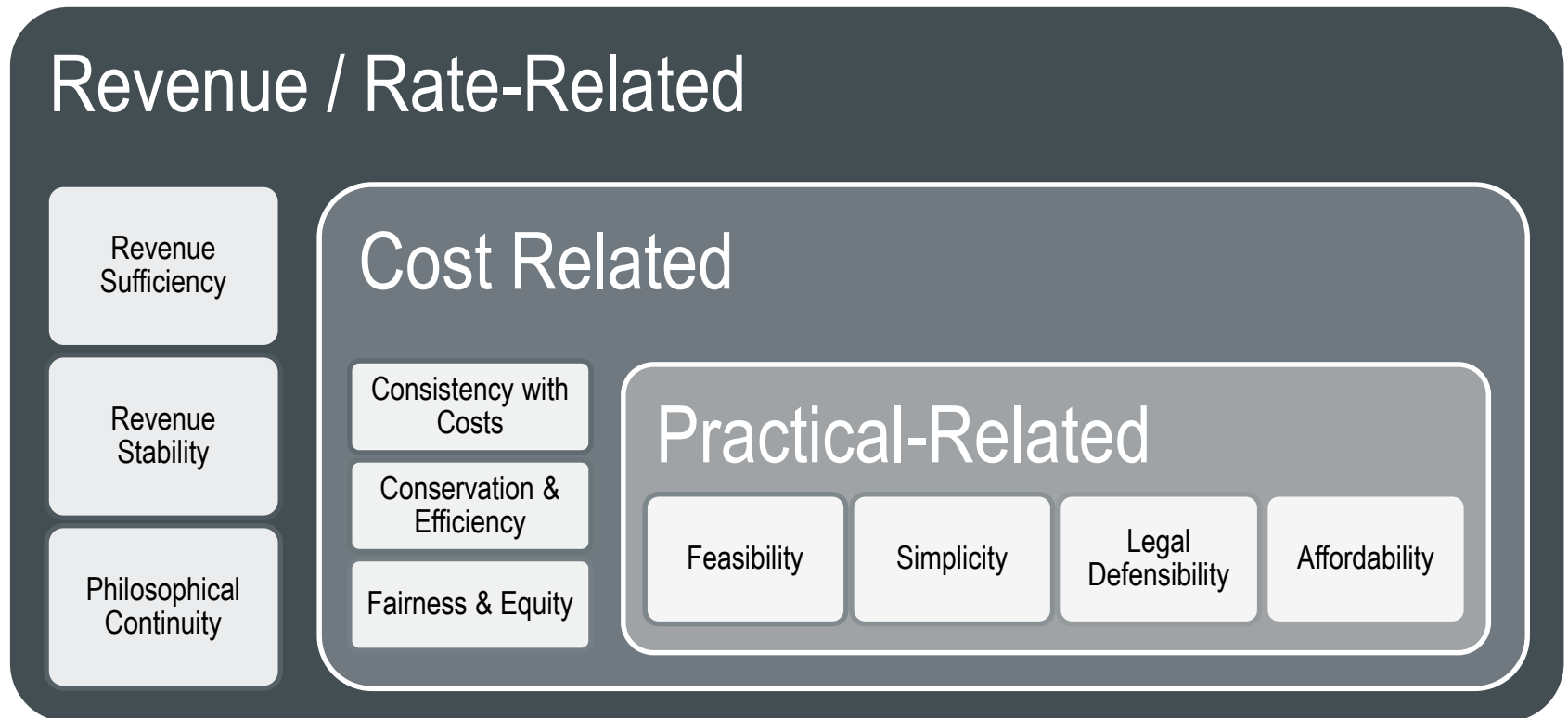
Meet goals and objectives of the utility (e.g., conservation)



Evaluate monthly rate impact for different levels of use

Rate Design Goals

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



Source: *Principles of Public Utility Rates*, Bonbright, Danielson and Kamerschen

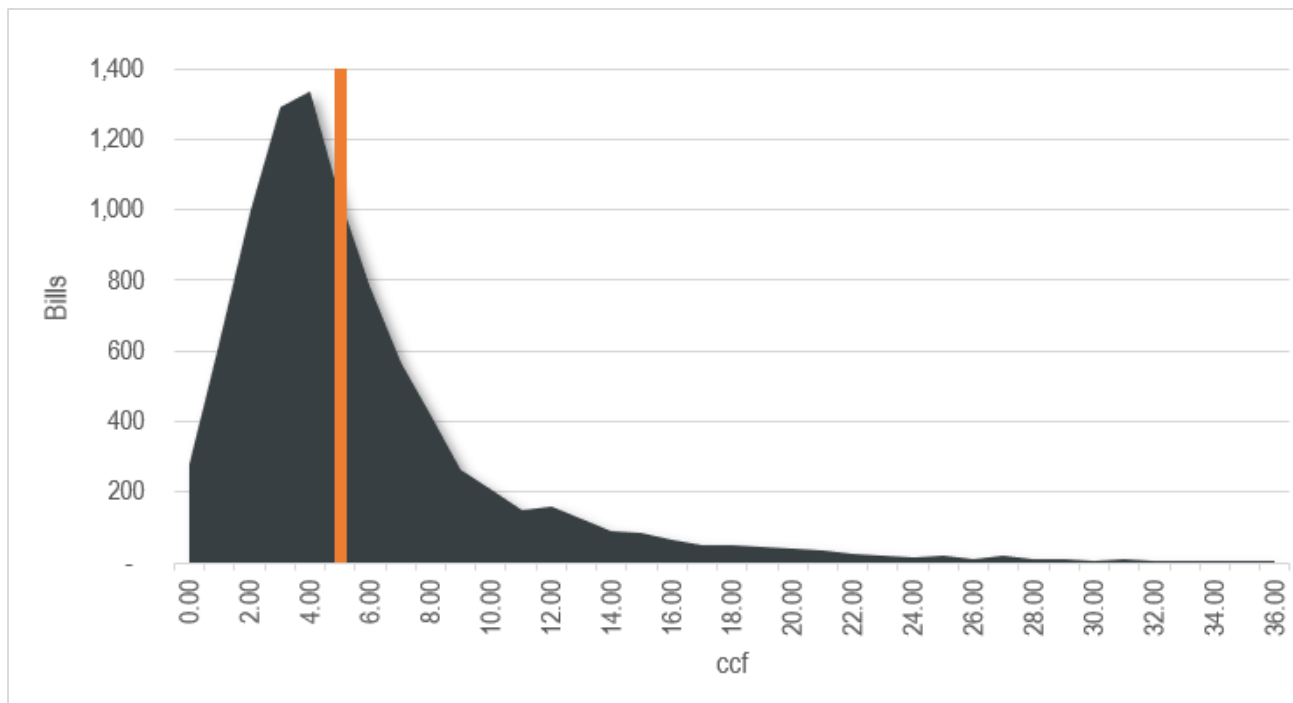


Water Rate Design – Considerations

- **Separate residential single family and non-single family**
- **All customers pay the same meter-based monthly fixed charge**
 - » 2024 proposed fixed charges increased by 20% (below system average of 28%)
 - Volumetric rates make up the difference
- **Residential volumetric structural changes**
 - » Keep volumetric block ceilings (5 ccf and >5 ccf)
 - Eliminate allowance in block 1 (charge for all usage)
 - Gives customers more control over their bill
 - Proposed rates benefit low users
- **Non-single family volumetric structural changes**
 - » Eliminate tiered structure
 - » Charge all non-single family customers a uniform volume rate for all usage
- **2025 – 2028 proposed rates increase across the board**



Single Family Usage



2022 Single Family Data	Monthly Average Use												Annual Avg.
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Mo. Average	5	5	4	5	5	5	8	11	10	7	6	5	6
25% Percentile	3	3	2	3	3	3	3	4	4	3	3	2	3
50% Percentile	4	4	4	4	4	4	5	7	6	5	4	4	4
75% Percentile	6	6	6	6	6	6	9	14	13	8	7	6	7



Rate Design Alternative

Description	Existing	Rate Design Alternative				
		2024	2025	2026	2027	2028
Fixed Monthly Charge						
Meters 1" or smaller	\$ 87.02	\$ 104.42	\$ 121.39	\$ 141.12	\$ 145.35	\$ 149.71
Meters larger than 1"	111.57	133.88	155.64	180.93	186.36	191.95
Volume Charge (\$ / ccf)						
Single Family Residential						
Block 1 (0-5 ccf)	\$ -	\$ 1.27	\$ 1.48	\$ 1.72	\$ 1.77	\$ 1.82
Block 2 (>5 ccf)	1.27	2.54	2.95	3.43	3.54	3.64
Non-Single Family						
Block 1 (0-5 ccf)	\$ -	n/a	n/a	n/a	n/a	n/a
Block 2 (>5 ccf)	1.27	n/a	n/a	n/a	n/a	n/a
Uniform Volume Rate	n/a	1.99	2.32	2.70	2.78	2.86

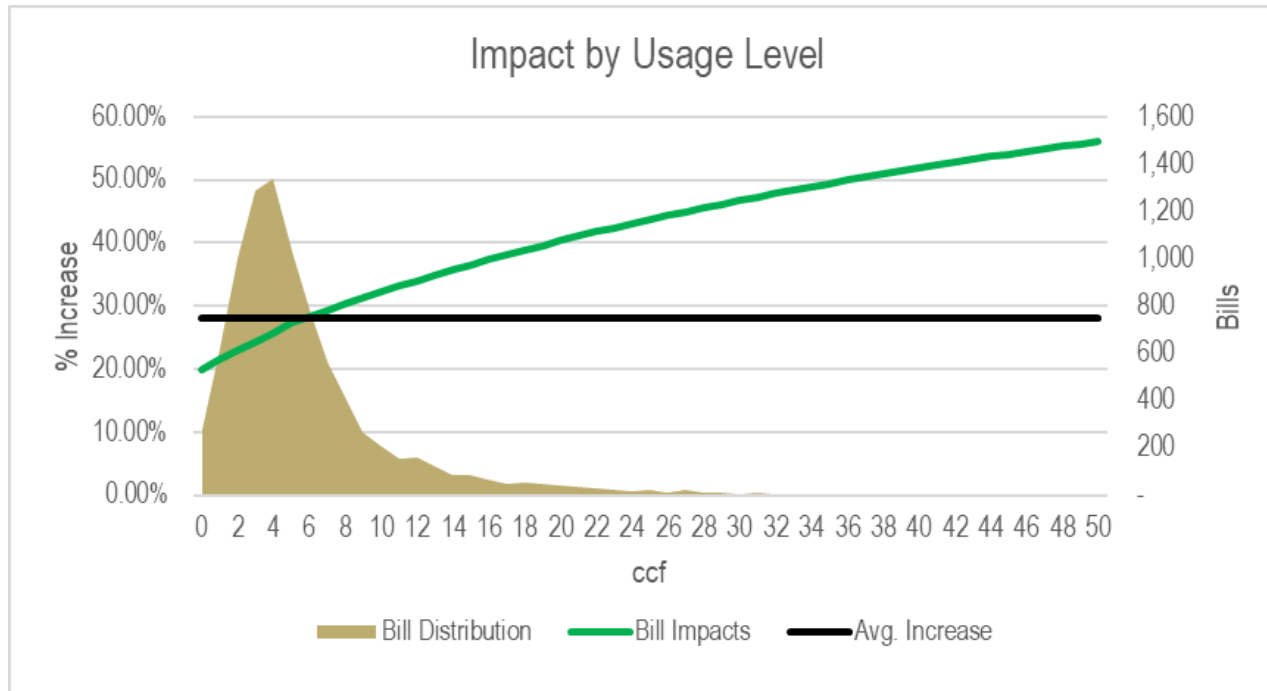
Notes :

Monthly meter charge for customers located outside the City are increased by 1.50

Unmetered customers are billed the meter rate based on number of units



Single Family Residential 2024 Impacts



ccf	Existing		2024 Proposed		Difference	
					\$	%
0	\$	87.02	\$	104.42	\$ 17.40	20.00%
3		87.02		108.23	21.21	24.38%
5		87.02		110.77	23.75	27.30%
6		88.29		113.31	25.02	28.34%
7		89.56		115.85	26.29	29.36%
8		90.83		118.39	27.56	30.35%
9		92.10		120.93	28.83	31.31%
10		93.37		123.47	30.10	32.24%
11		94.64		126.01	31.37	33.15%
20		106.07		148.87	42.80	40.35%
30		118.77		174.27	55.50	46.73%
40		131.47		199.67	68.20	51.87%

winter avg.
annual avg.

peak mo. avg.



Non-Single Family 2024 Impacts

ccf	Existing		2024 Proposed		Difference	
					\$	%
0	\$	87.02	\$	104.42	\$ 17.40	20.00%
5		87.02		114.37	27.35	31.43%
10		93.37		124.32	30.95	33.15%
15		99.72		134.27	34.55	34.65%
20		106.07		144.22	38.15	35.97%
25		112.42		154.17	41.75	37.14%
30		118.77		164.12	45.35	38.18%
35		125.12		174.07	48.95	39.12%
40		131.47		184.02	52.55	39.97%
45		137.82		193.97	56.15	40.74%
50		144.17		203.92	59.75	41.44%
55		150.52		213.87	63.35	42.09%
60		156.87		223.82	66.95	42.68%
65		163.22		233.77	70.55	43.22%
70		169.57		243.72	74.15	43.73%
75		175.92		253.67	77.75	44.20%
80		182.27		263.62	81.35	44.63%
85		188.62		273.57	84.95	45.04%
90		194.97		283.52	88.55	45.42%
95		201.32		293.47	92.15	45.77%
100		207.67		303.42	95.75	46.11%



Next Steps

- **Incorporate direction on scenarios**

Proposed Rate Increases	2024	2025	2026	2027	2028
Electric					
<i>S1: Reserve Draw</i>	8.75%	8.75%	8.75%	8.75%	0.00%
Water					
<i>S2: Low Interest Loans & Reserve Draw</i>	28.00%	16.25%	16.25%	3.00%	3.00%
Sewer					
<i>S1: Revenue Bonds & Reserve Draw</i>	16.00%	12.25%	8.50%	3.00%	3.00%
Stormwater					
<i>S2: Low Interest Loans</i>	93.00%	5.50%	5.50%	5.50%	5.50%

- **Water rate design**

- » Separate single family residential & non-single family customers
- » Eliminate allowance

- **Next Steps**

- » Electric cost-of-service
- » Water/sewer connection fees
- » Electric pole attachment fee

- **Questions?**

Thank you!

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