



City of McCleary
Home of the McCleary Bear Festival

McCleary Rate Study



Revenue Requirement

June 14, 2023



Agenda

- **Overview of rate setting process**
- **Financial policies**
- **Key assumptions**
- **Revenue requirement summary**
 - » Electric
 - » Water
 - » Sewer
 - » Stormwater
- **Next steps**
- **Questions**



Overview of Rate Setting Process

Fiscal Policies – Set the Management Foundation

Today's
Focus

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

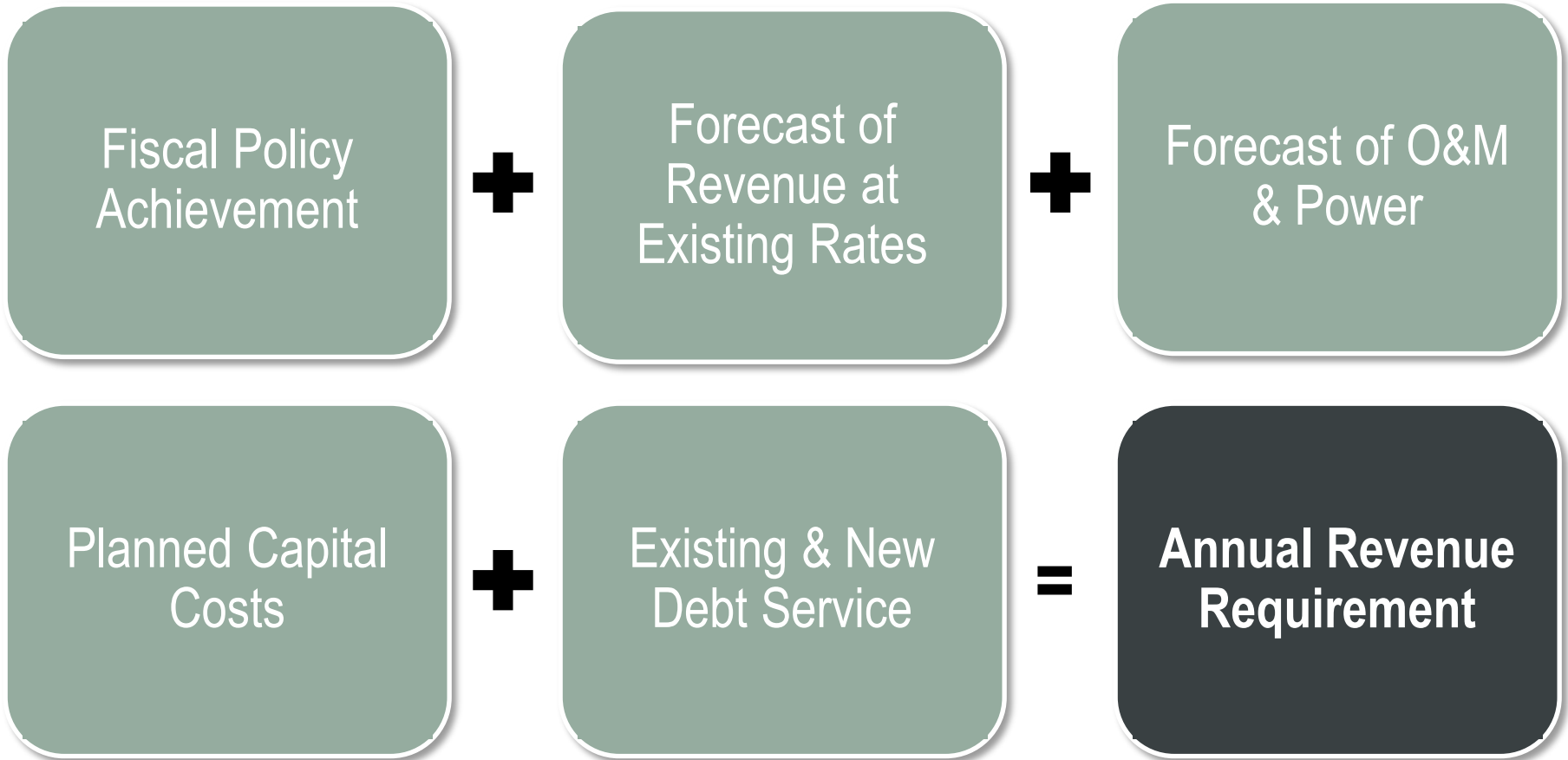


Revenue Requirement Objectives

- **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





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**
 - » Water / Sewer / Stormwater:
 - 2023 budget used as baseline for rate and non-rate revenues
 - » Electric:
 - 2021 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%

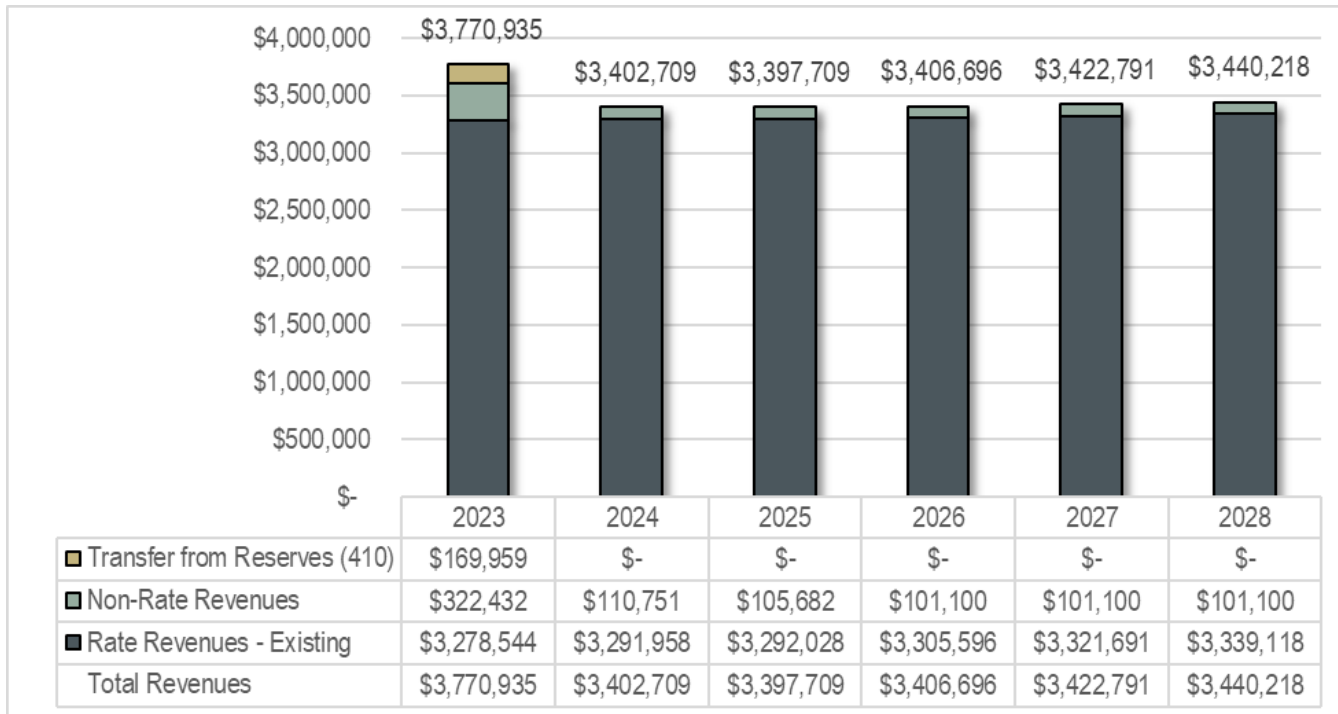


Electric



Key Factors: Existing Revenue

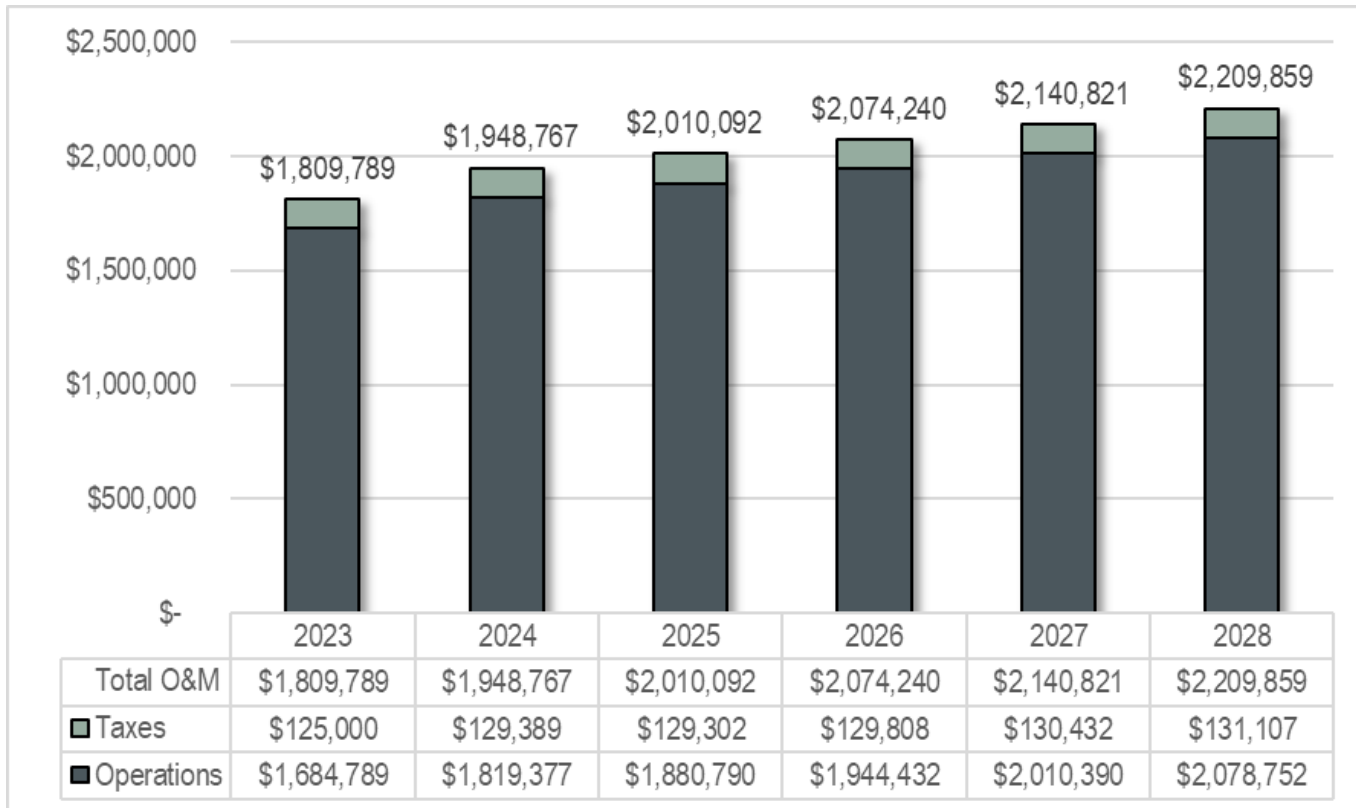
- **Focus period: 2023-2028**
 - » Rate revenue based on 2021 actual data plus growth for each class
 - Residential: 0.6% | Commercial: 0.5% | Industrial / Lighting: 0.0%
 - » Non rate revenue consists of BPA power dividend, charges for services & parts, energy conservation fees, equipment, pole & vehicle leases, and investment interest
 - 2023 includes one-time transfer from Fund 410 to Fund 401
- **Total existing operating revenue: \$3.7 million to \$3.4 million**





Key Factors: Operating Expenses

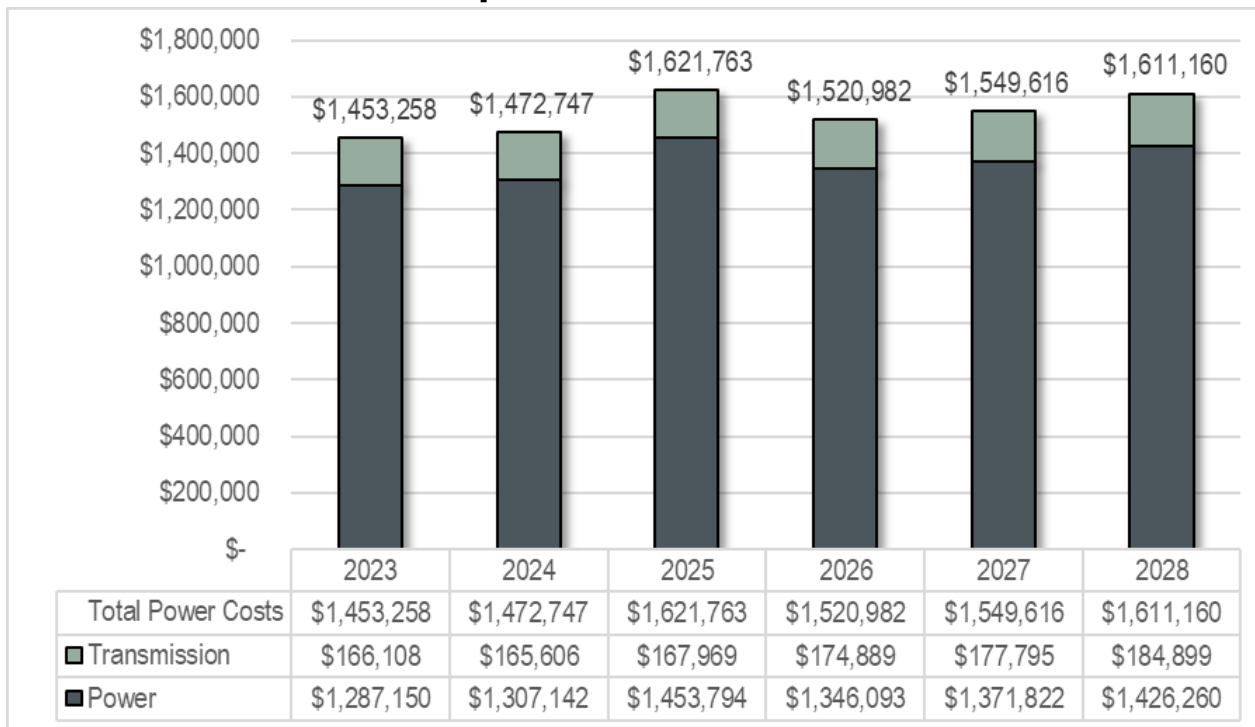
- **Forecast based on 2023 budget**
 - » Costs inflated between 6.0% - 3.0% per year
 - Average inflation (net of taxes) of 4.3%
- **Total O&M expenses: \$1.8 million to \$2.2 million**





Key Factors: Power / Transmission Costs

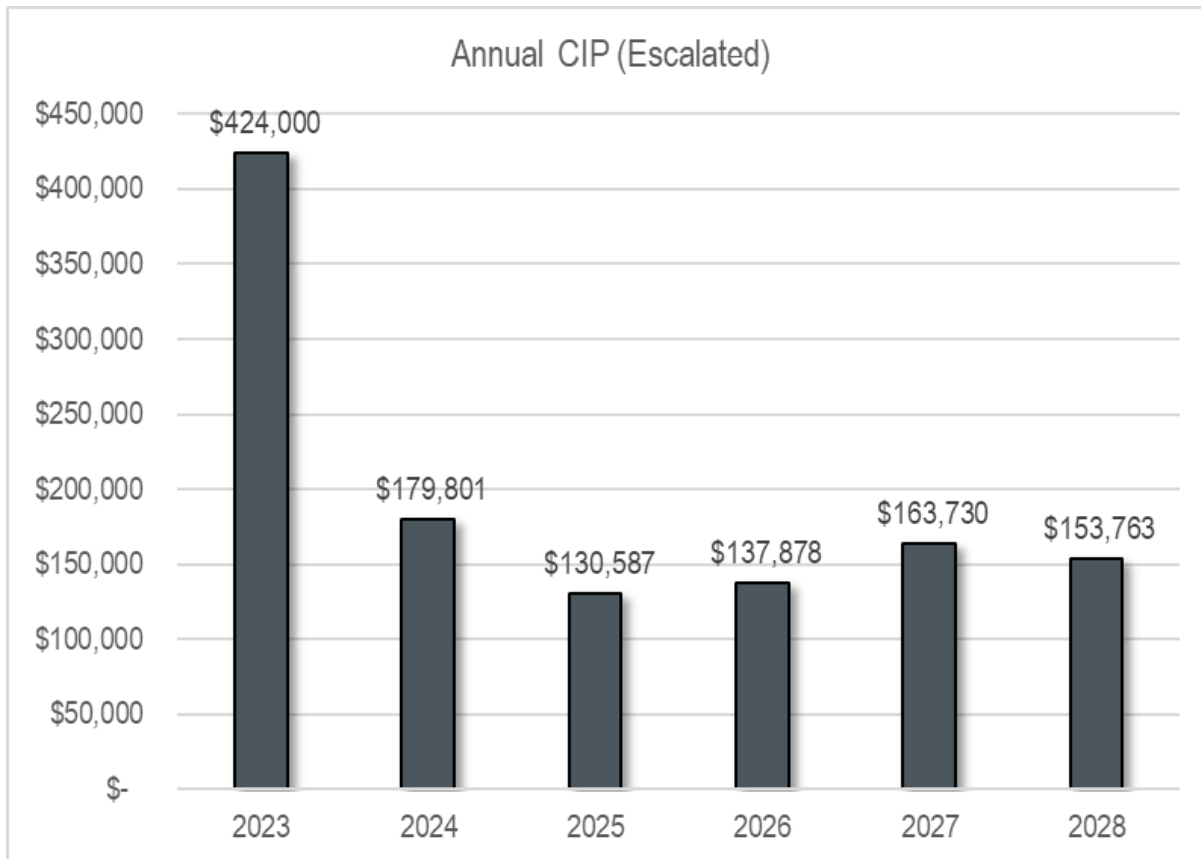
- **Power / transmission based on load and BPA billing determinants**
 - » Includes BPA FY 2024 power / transmission draft rates
 - Includes power dividend
 - » Future increases assume 5% biannual adjustment
 - » Assumes no Tier 2 purchases after FY 2025
- **Total power / transmission expenses: \$1.5 million to \$1.6 million**





Key Factors: Capital

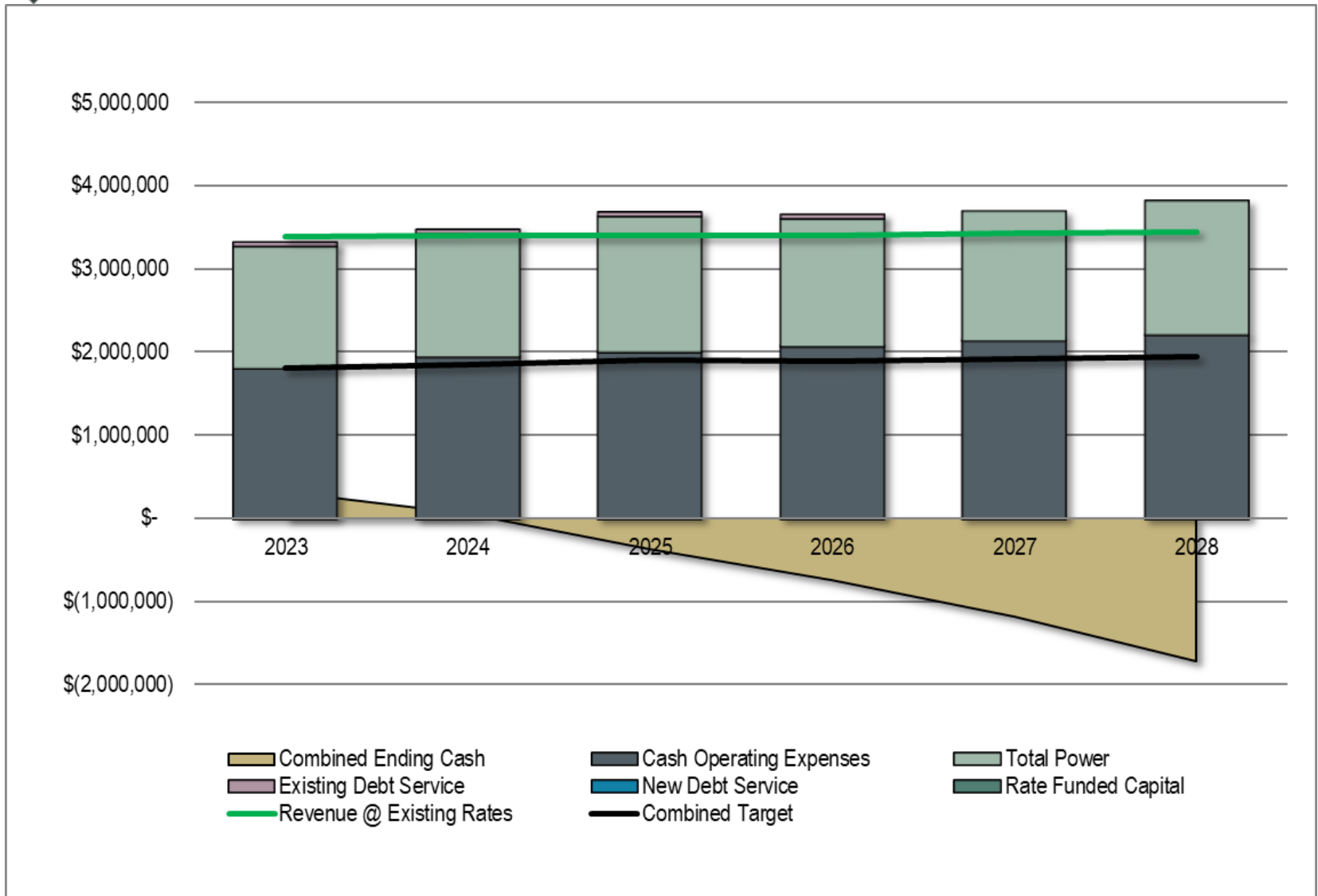
- **Capital funded through existing reserves**
 - » No new debt anticipated in 2024-2028 rate setting period



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





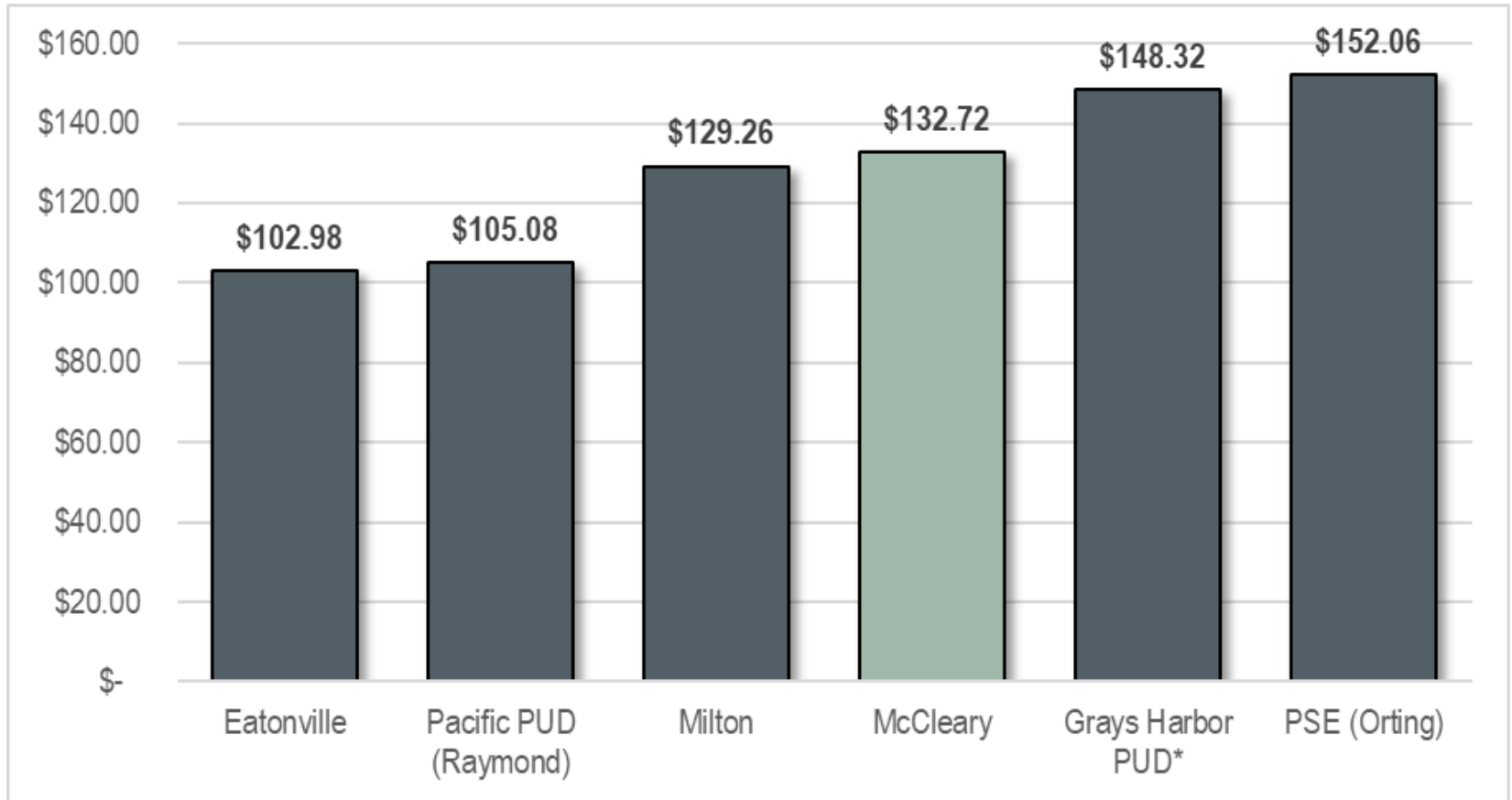
Summary & Scenarios for Consideration

- **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						
<i>S1: Reserve Draw</i>		8.75%	8.75%	8.75%	8.75%	0.00%
Average Residential Monthly Bill (1,200 kWh)						
<i>S1: Reserve Draw</i>	\$ 132.72	\$ 144.33	\$ 156.96	\$ 170.70	\$ 185.63	\$ 185.63
<i>\$ per Mo. Difference</i>		\$ 11.61	\$ 12.63	\$ 13.73	\$ 14.94	\$ -

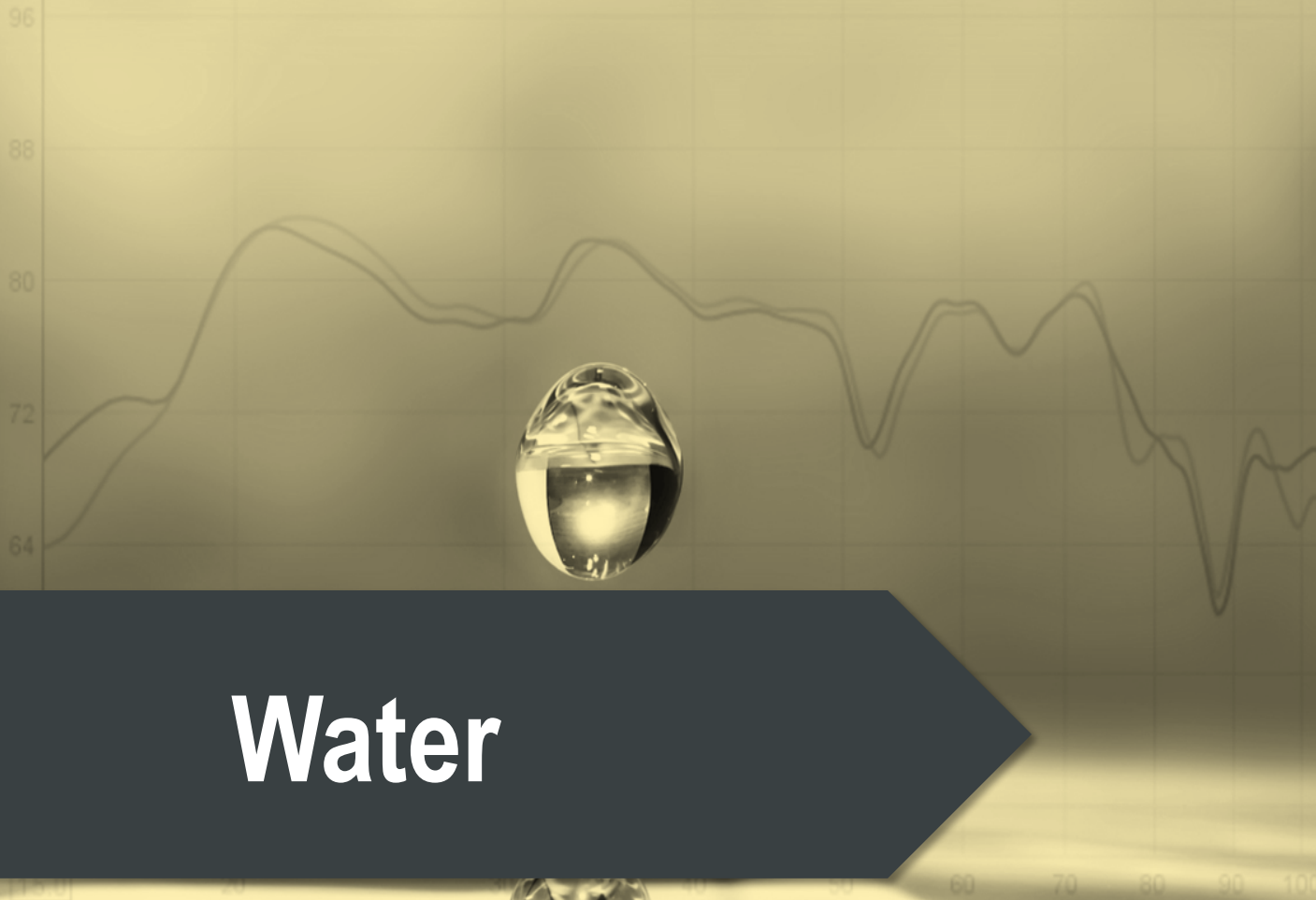


Electric Residential Rate Survey

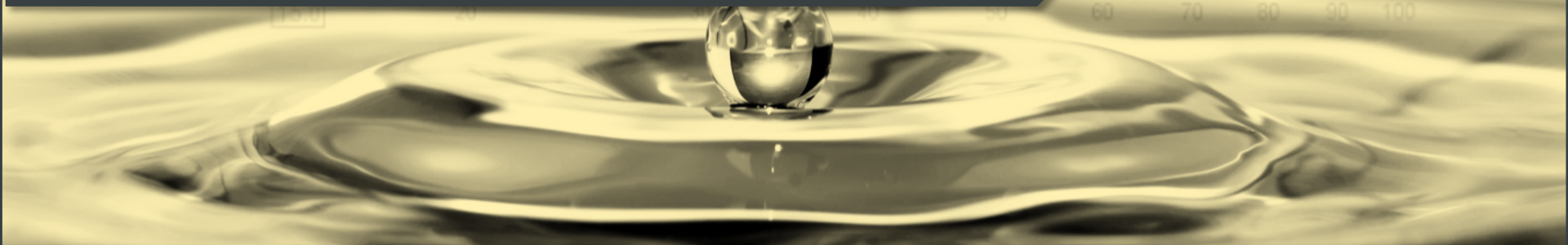


Notes:

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



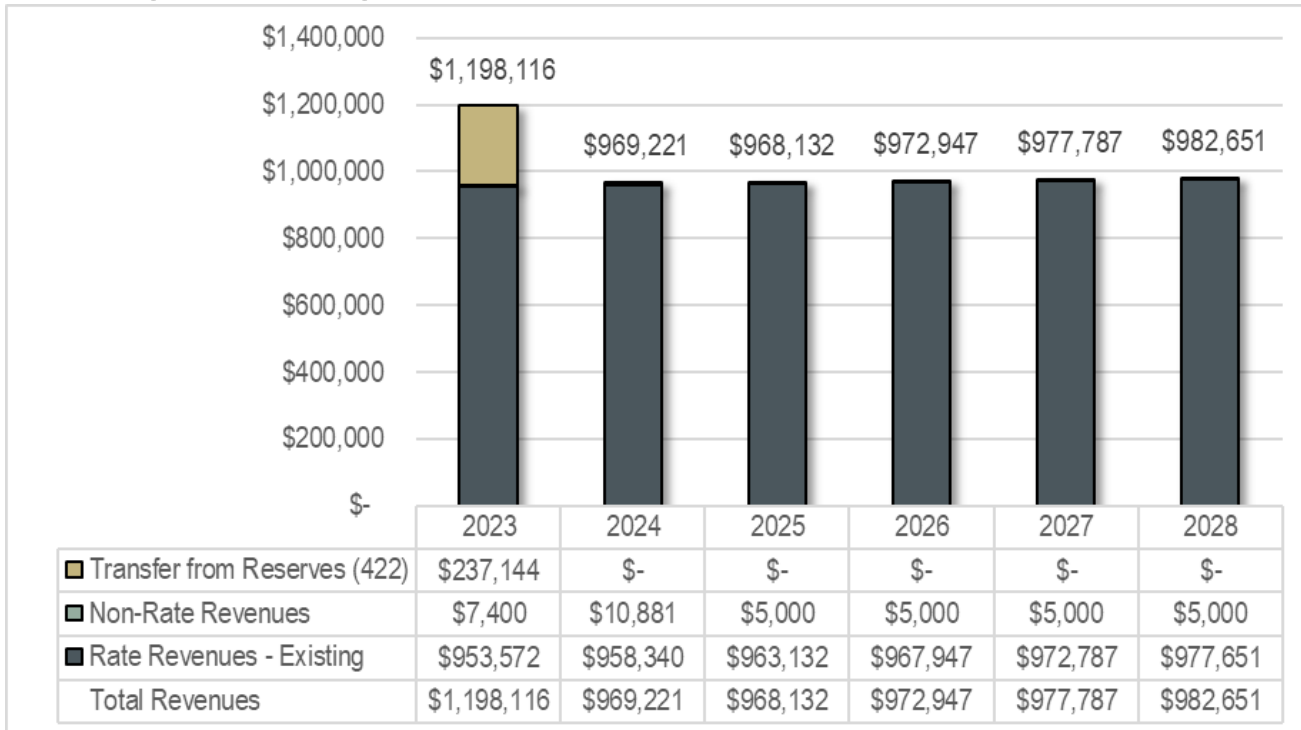
Water





Key Factors: Existing Revenue

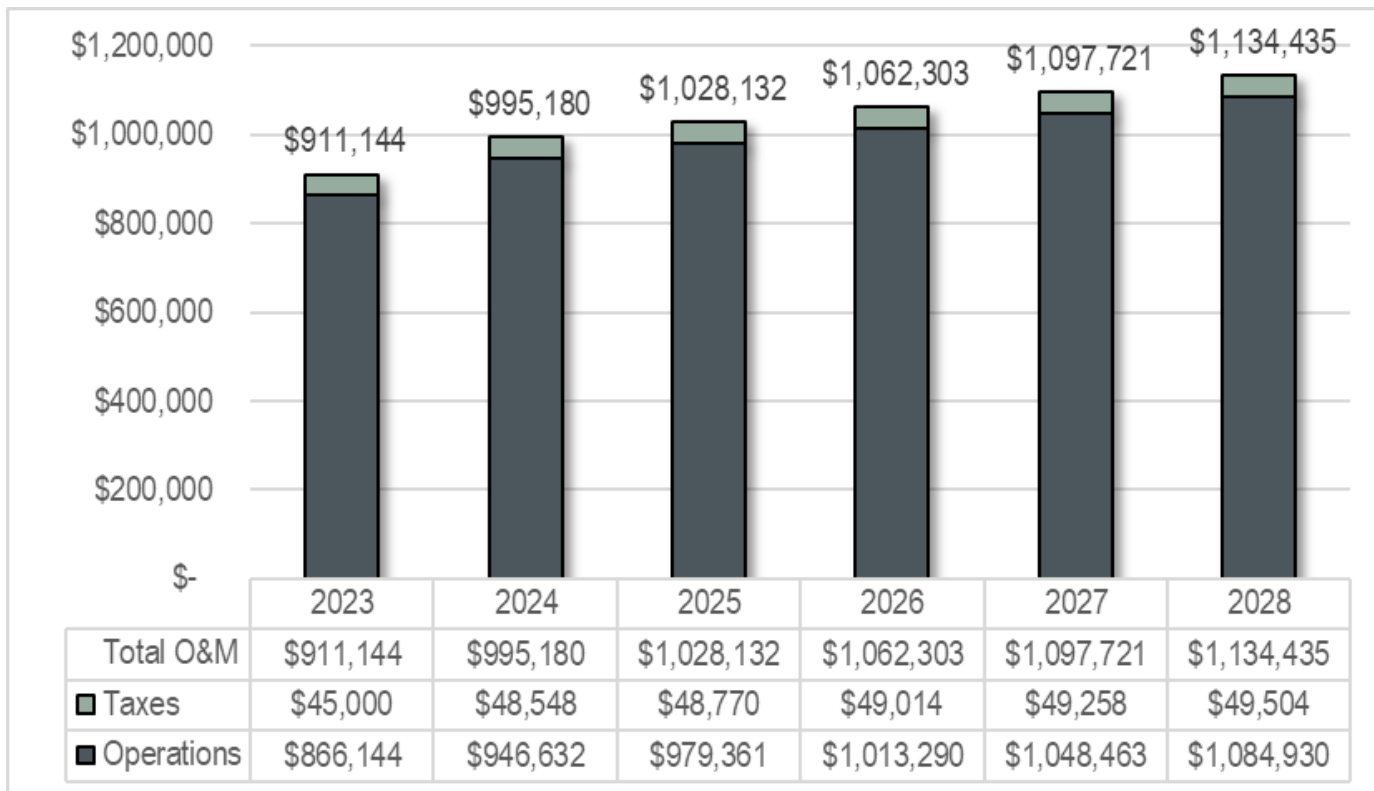
- **Focus period: 2023-2028**
 - » Rate revenue based on 2023 budget data plus 0.5% growth for each class
 - » Non rate revenue consists of investment interest and other water-related charges
 - 2023 includes one-time transfer from Fund 422 to Fund 405
- **Total existing operating revenue: \$1.2 million 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**

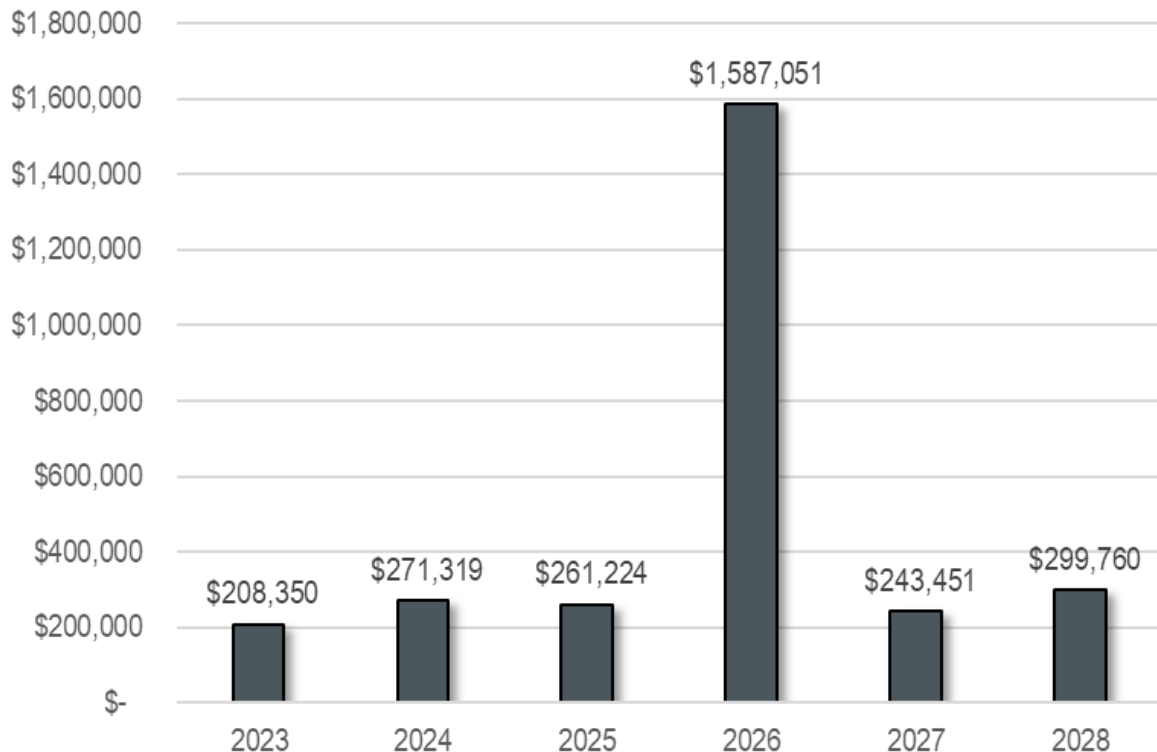




Key Factors: Capital

- Capital funded through existing reserves, connection fee revenue, and new debt
 - » \$1.4 million of new debt projected in 2026

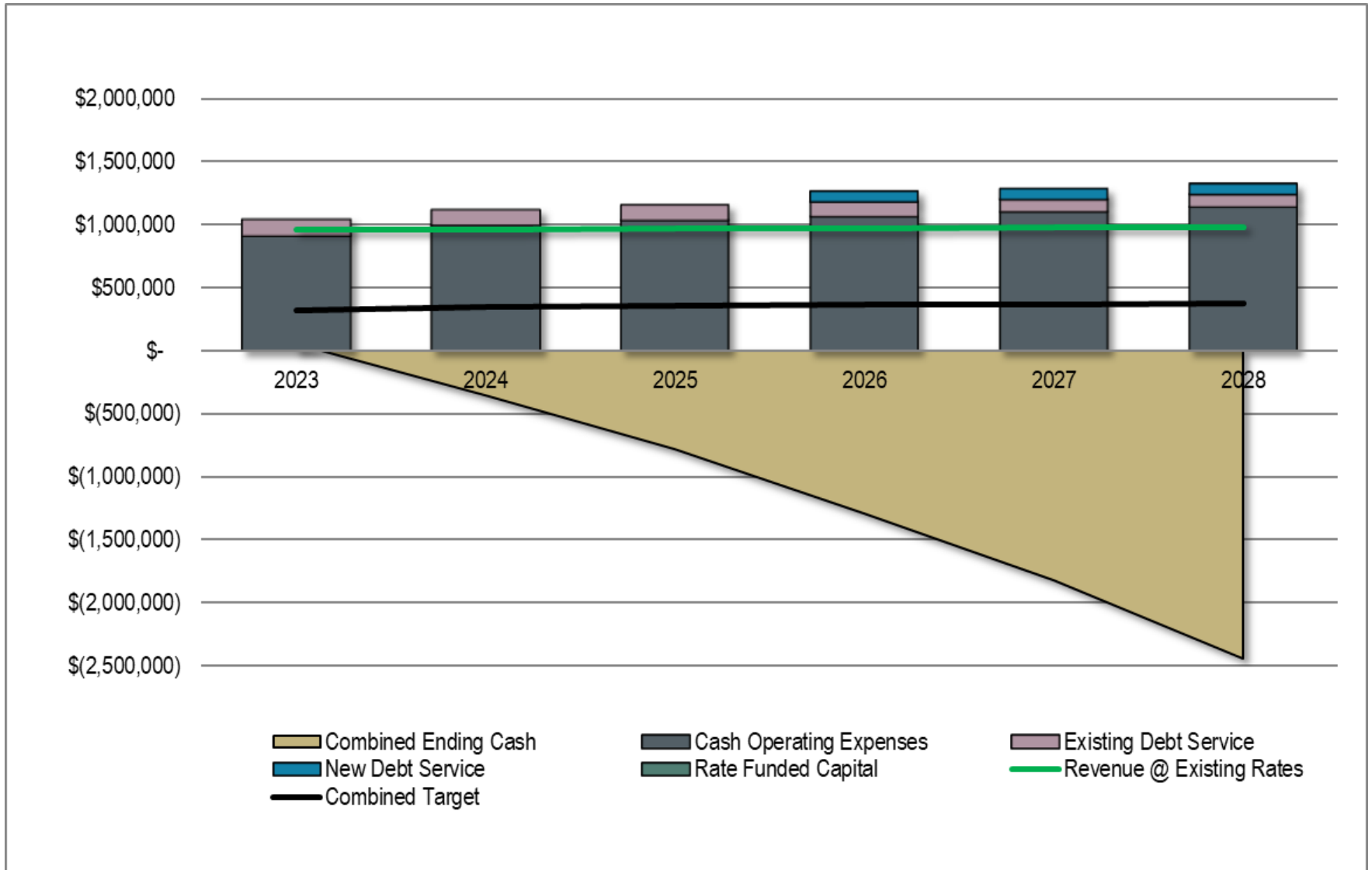
Annual CIP (Escalated)



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

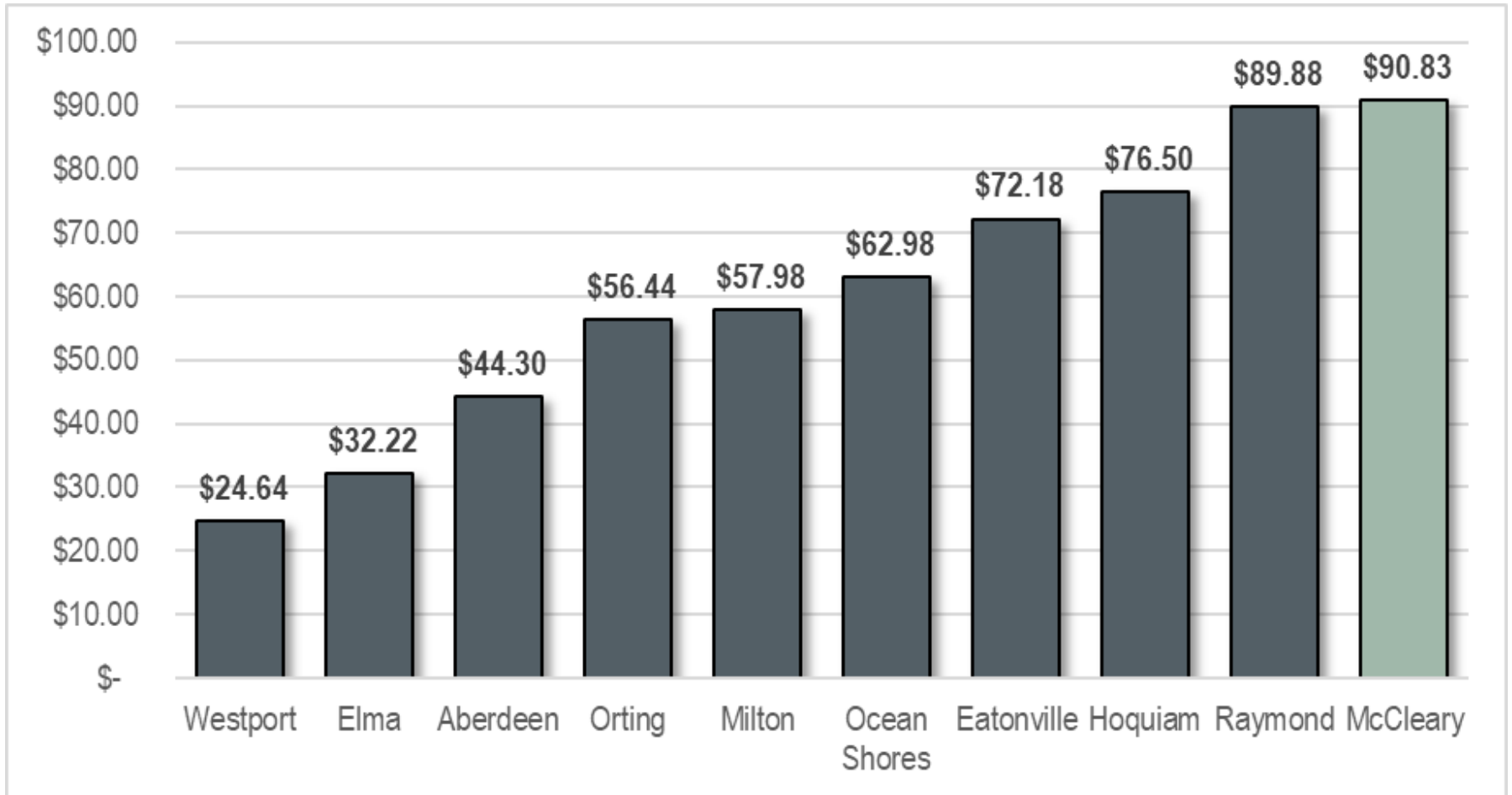
- **Existing rates are not sufficient to keep up with ongoing obligations**
 - » Cannot meet debt obligations starting in 2023
 - » At existing rate levels, reserves would be depleted and go negative in 2024
- **Scenario for consideration**
 - » S1: Fund CIP with revenue bonds and release 50% of Fund 422 in 2023
 - » S2: Fund CIP with low interest loans and release 50% of Fund 422 in 2023

Description	Existing	2024	2025	2026	2027	2028
Annual Increase						
S1: Revenue Bonds & Reserve Draw		28.00%	17.25%	17.25%	3.75%	3.75%
S2: Low Interest Loans & Reserve Draw		28.00%	16.25%	16.25%	3.00%	3.00%
Average Residential Monthly Bill (3/4" Meter, x 8 ccf)						
S1: Revenue Bonds & Reserve Draw	\$ 90.83	\$ 116.26	\$ 136.32	\$ 159.83	\$ 165.83	\$ 172.04
\$ per Mo. Difference		\$ 25.43	\$ 20.06	\$ 23.51	\$ 5.99	\$ 6.22
S2: Low Interest Loans & Reserve Draw	\$ 90.83	\$ 116.26	\$ 135.16	\$ 157.12	\$ 161.83	\$ 166.69
\$ per Mo. Difference		\$ 25.43	\$ 18.89	\$ 21.96	\$ 4.71	\$ 4.85

Notes: S2 is the staff recommended option



Water Residential Rate Survey



Notes:

1. Based on 8 ccf and 3/4" meter
2. Raymond includes booster pump fee

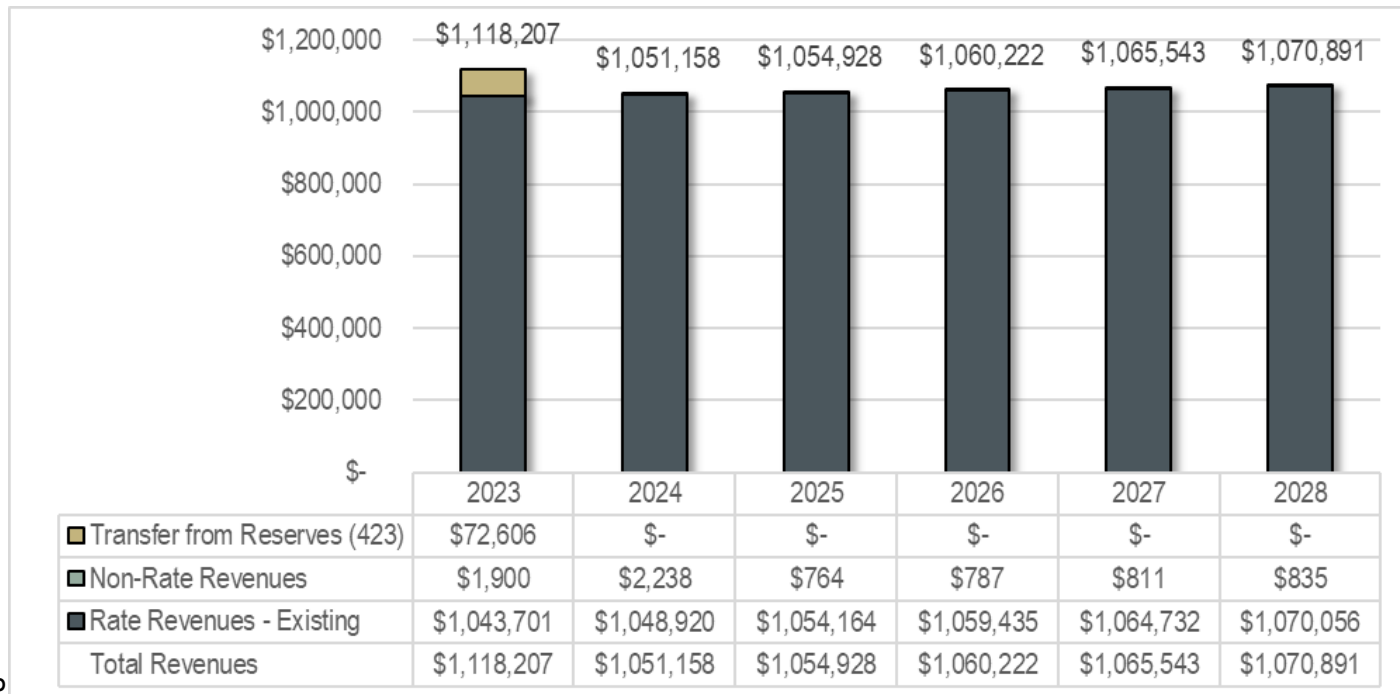
A close-up photograph of a circular sewer manhole cover. The cover has a textured, grid-like pattern with a central square opening. A dark grey arrow-shaped graphic is overlaid on the right side of the cover, pointing towards the right edge of the frame. The background is a blurred, light-colored surface.

Sewer



Key Factors: Existing Revenue

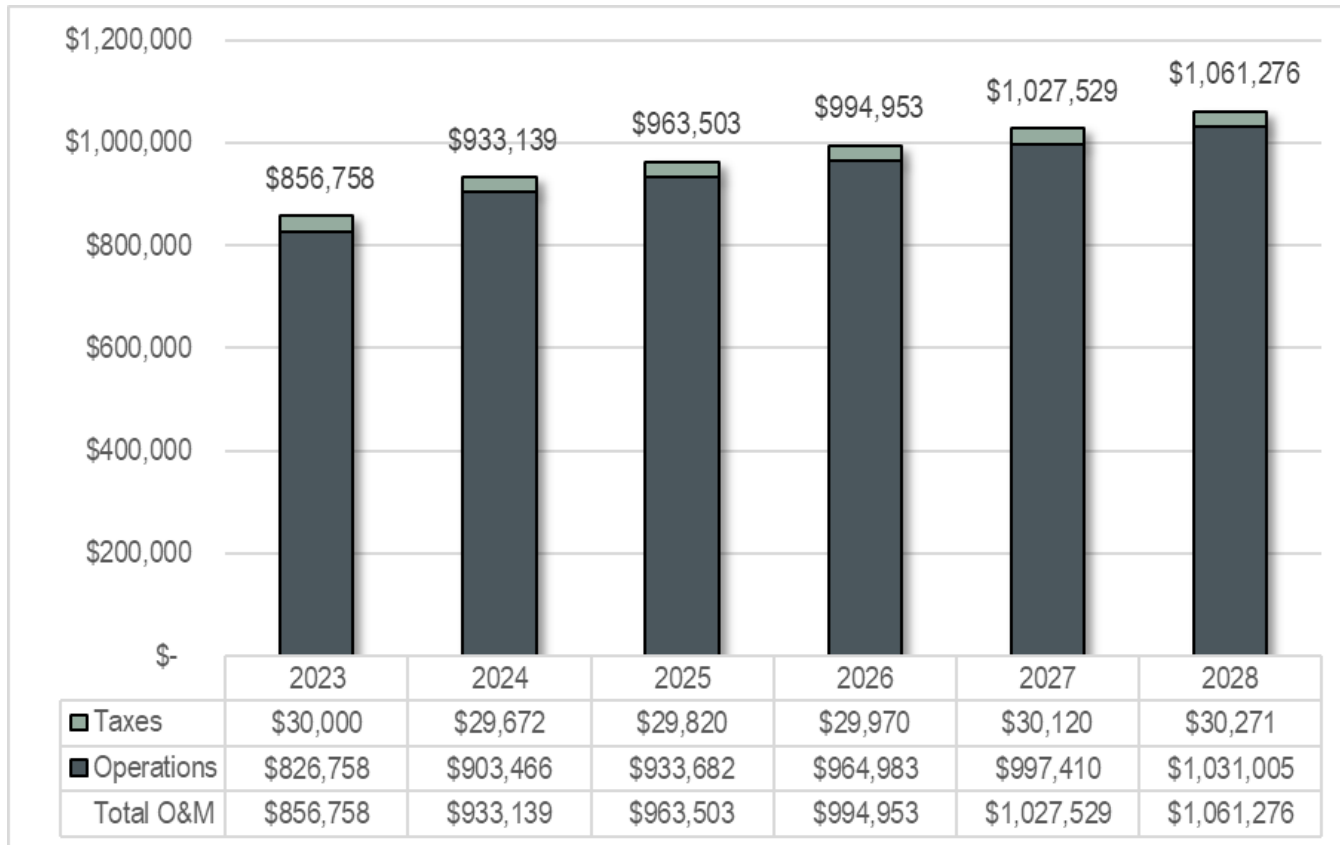
- **Focus period: 2023-2028**
 - » Rate revenue based on 2023 budget data plus 0.5% growth for each class
 - » Non rate revenue consists of investment interest, sale of scrap metal, and other sewer-related charges
 - 2023 includes one-time transfer from Fund 423 to Fund 407
- **Total existing operating revenue: \$1.1 million per year**





Key Factors: Operating Expenses

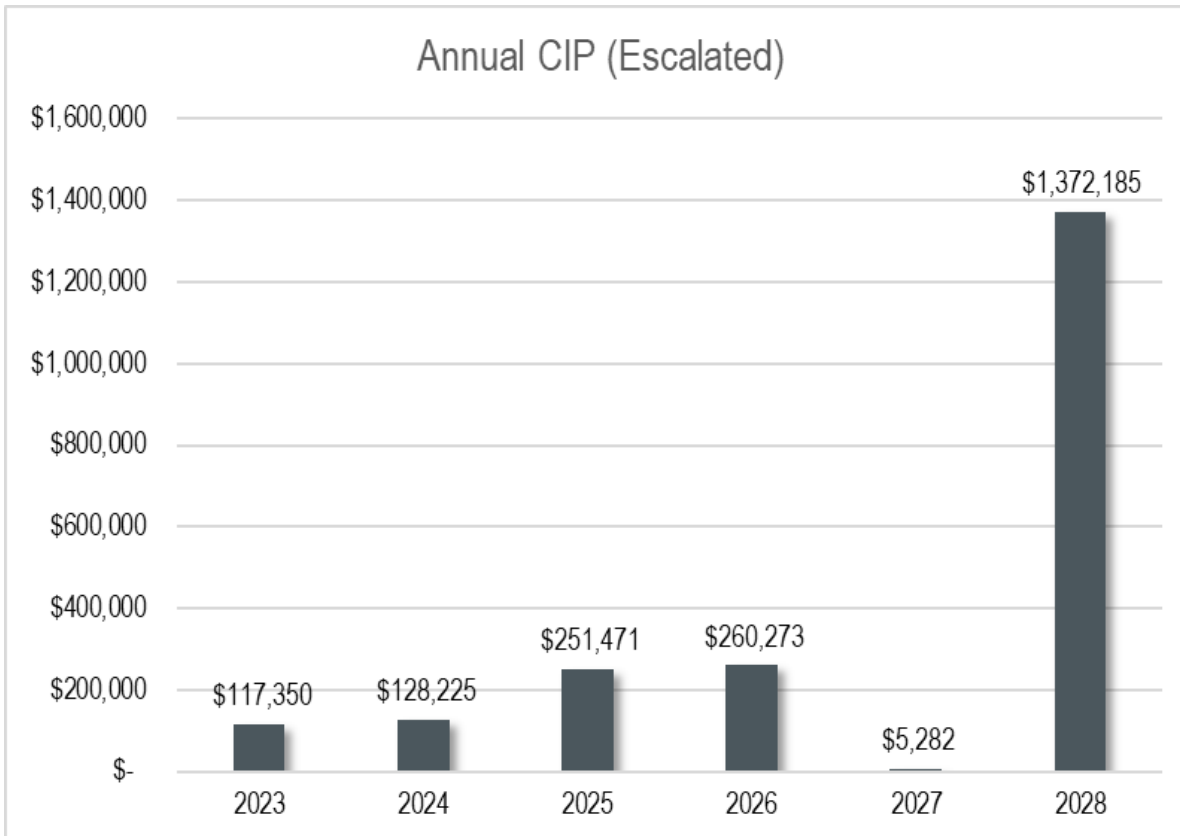
- **Forecast based on 2023 budget**
 - » Costs inflated between 6.0% - 3.0% per year
 - Average inflation (net of taxes) of 4.5%
- **Total O&M expenses: \$0.9 million to \$1.1 million**





Key Factors: Capital

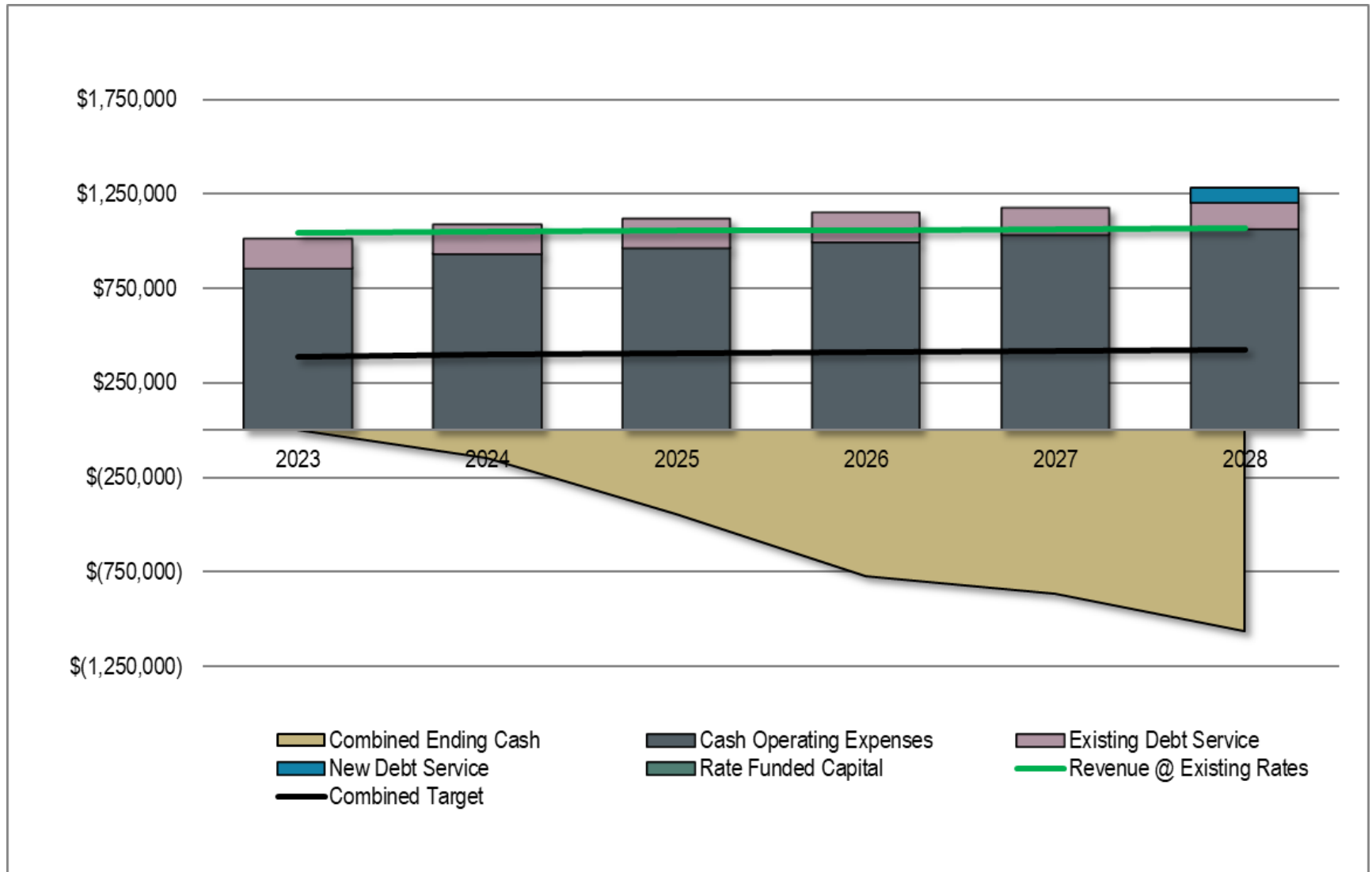
- Capital funded through existing reserves and new debt
 - » \$1.4 million of new debt projected in 2028



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





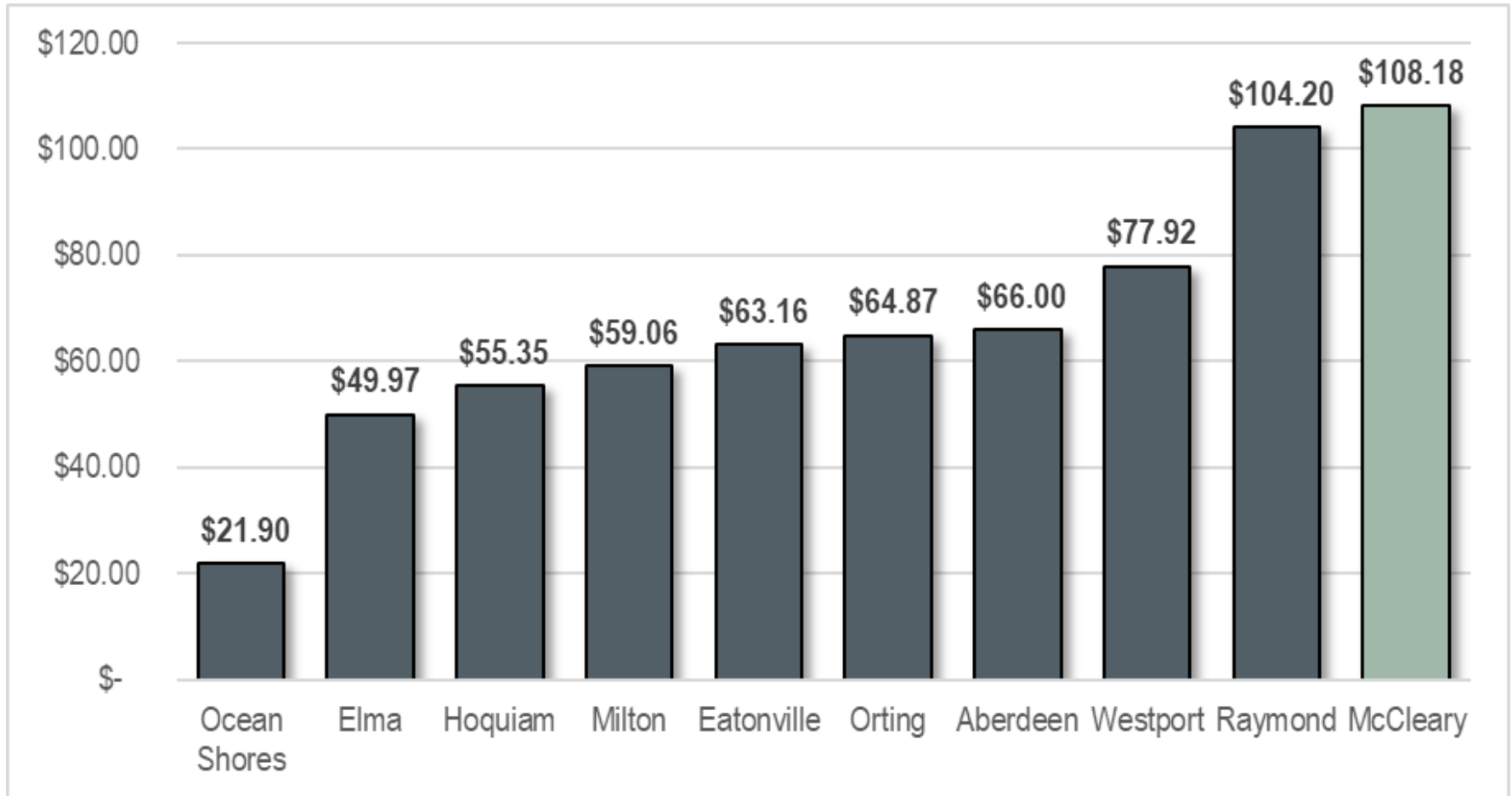
Summary & Scenarios for Consideration

- **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

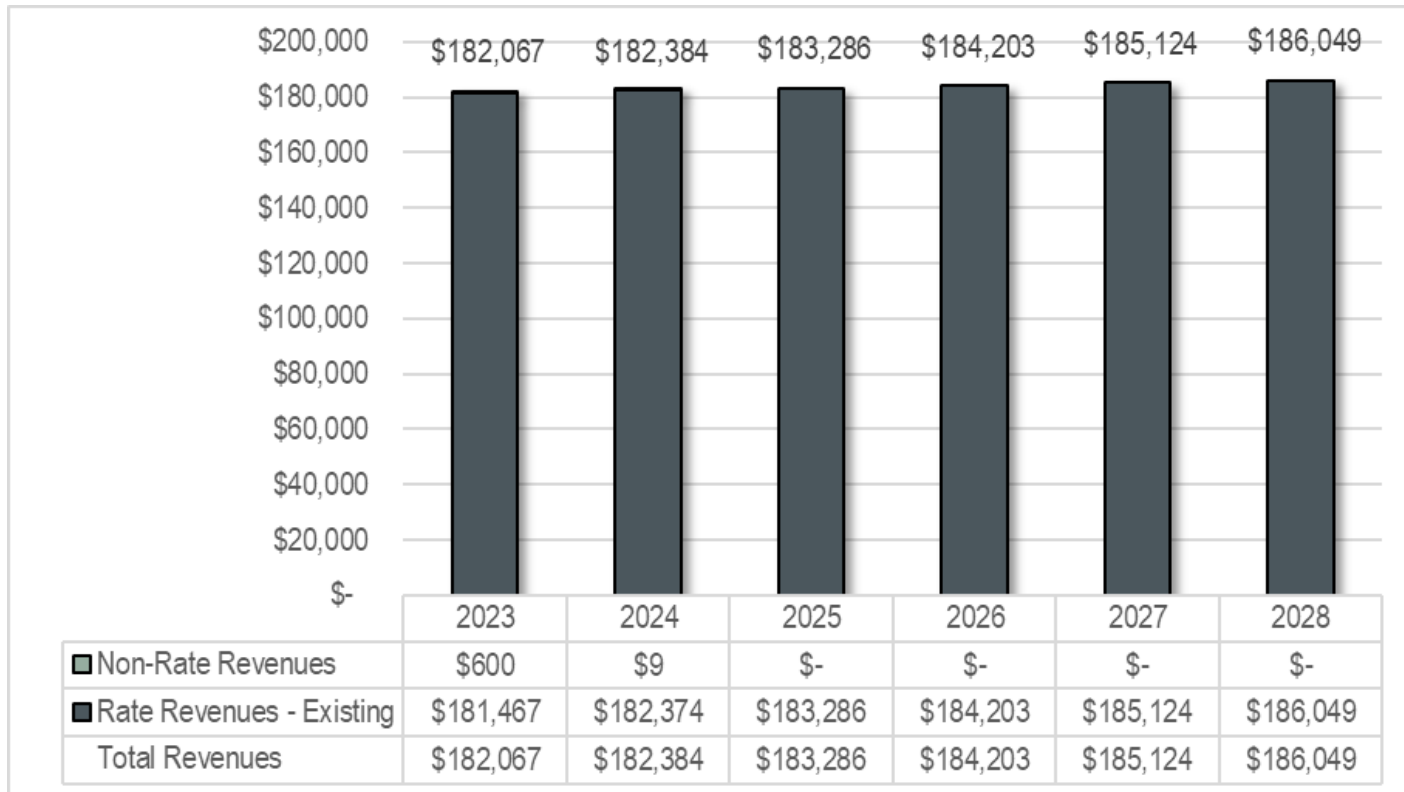


Stormwater



Key Factors: Existing Revenue

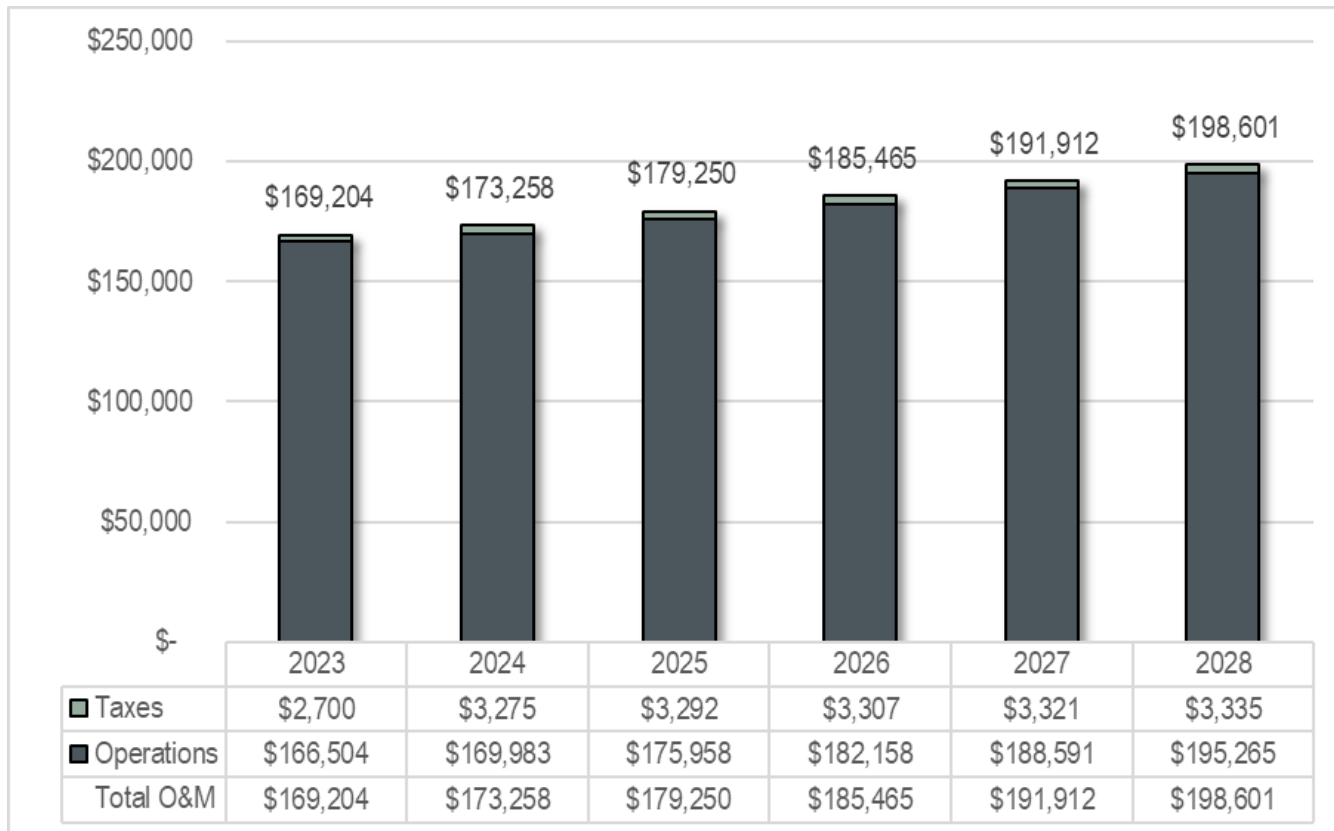
- **Focus period: 2023-2028**
 - » Rate revenue based on 2023 budget data plus 0.5% growth for each class
 - » Non rate revenue consists of investment interest.
- **Total existing operating revenue: \$180,000 per year**





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

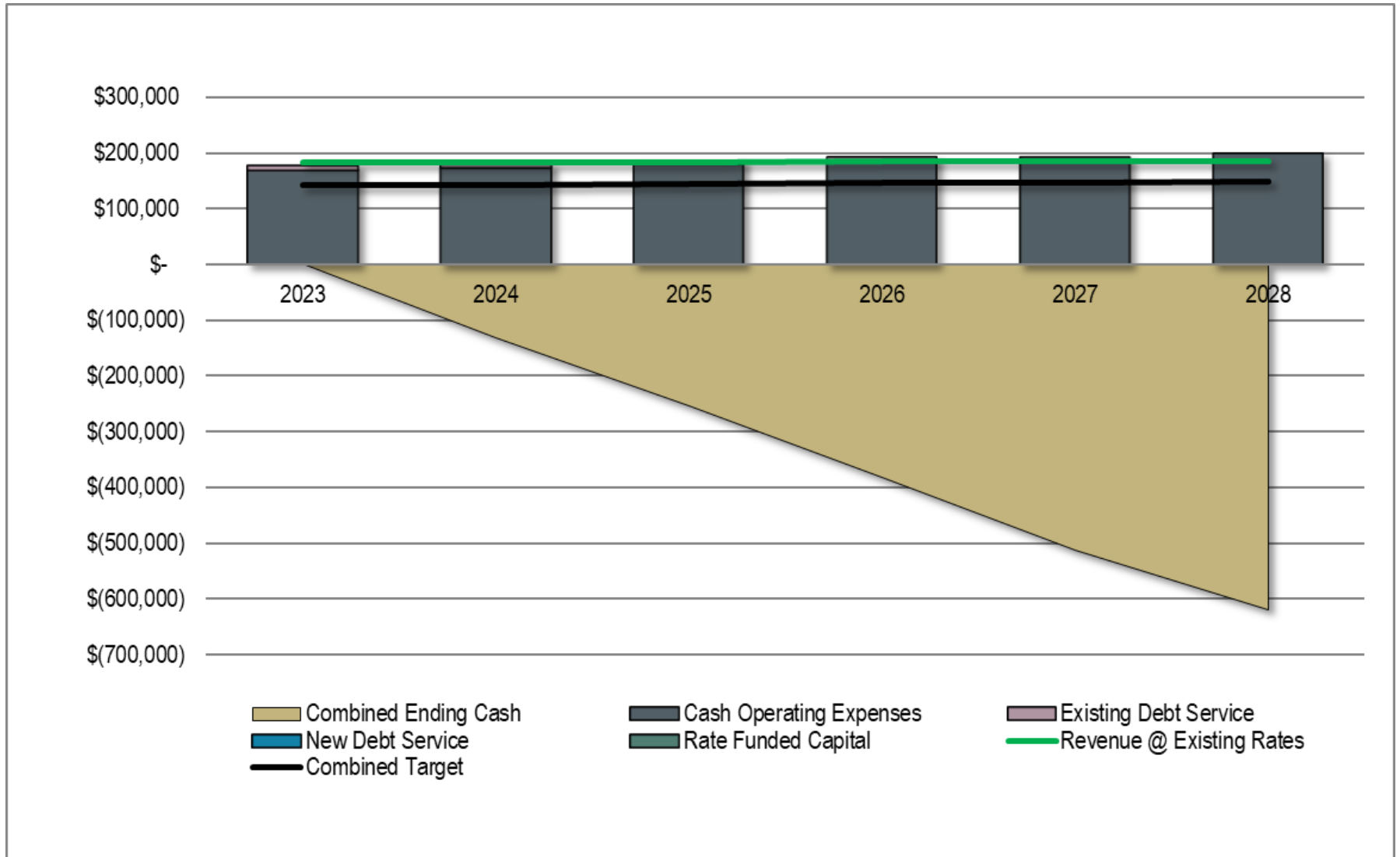
- **Capital funded through existing reserves and connection fee revenue**
 - » No new debt anticipated in 2024-2028 rate setting period
 - Debt projected in 2029 of \$2.9 million



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

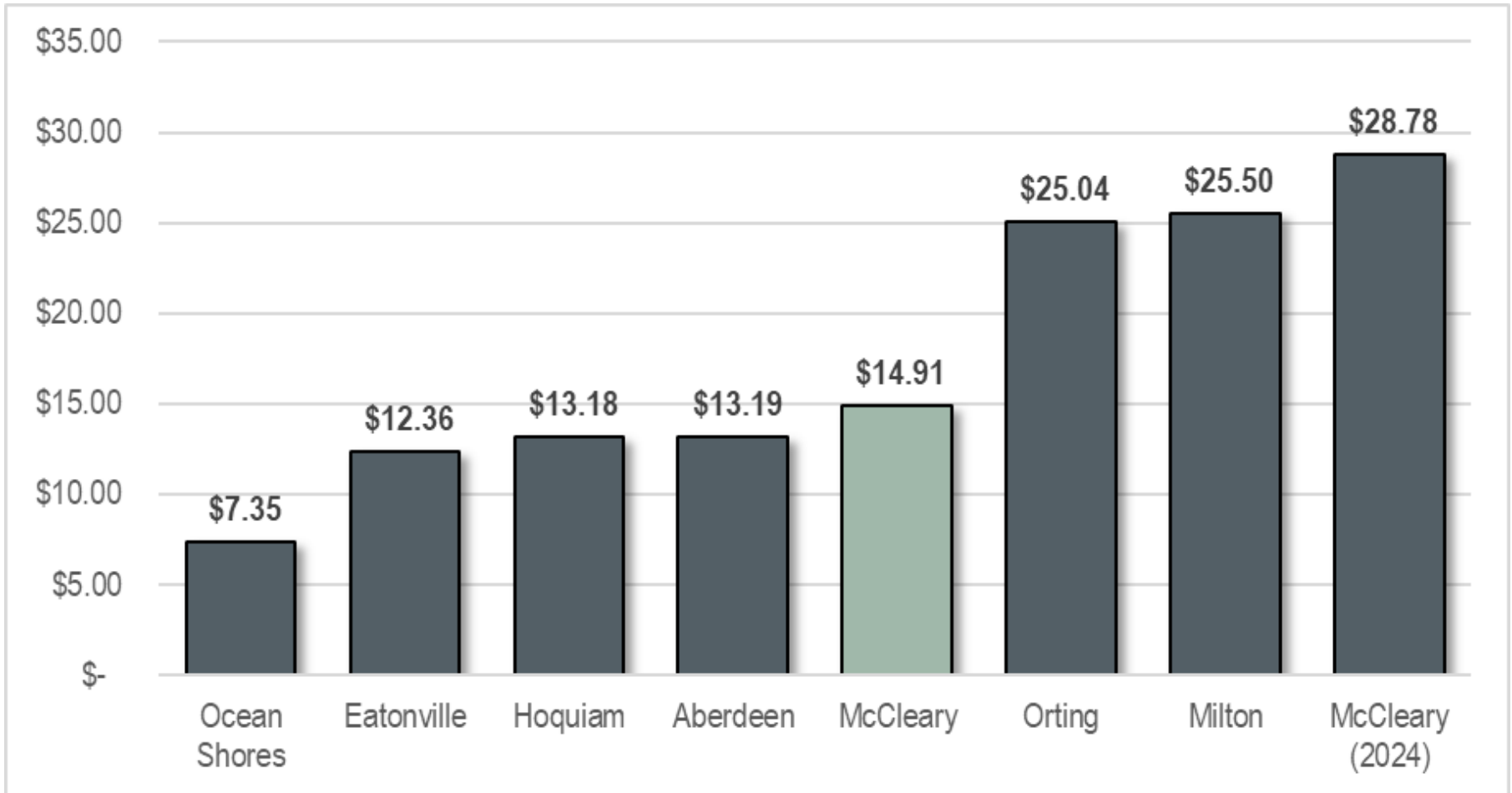
- **Existing rates are not sufficient to keep up with ongoing obligations**
 - » Cannot meet debt obligations beginning in 2025
 - » At existing rate levels, reserves would be depleted and go negative in 2024
- **Scenario for consideration**
 - » S1: Fund CIP with revenue bonds
 - » S2: Fund CIP with low interest loans

Description	Existing	2024	2025	2026	2027	2028
Annual Increase						
S1: Revenue Bonds		93.00%	8.00%	8.00%	8.00%	8.00%
S2: Low Interest Loans		93.00%	5.50%	5.50%	5.50%	5.50%
Average Residential Monthly Bill (1 ERU)						
S1: Revenue Bonds	\$ 14.91	\$ 28.78	\$ 31.08	\$ 33.56	\$ 36.25	\$ 39.15
\$ per Mo. Difference		\$ 13.87	\$ 2.30	\$ 2.49	\$ 2.69	\$ 2.90
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

Notes: S2 is the staff recommended option



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**

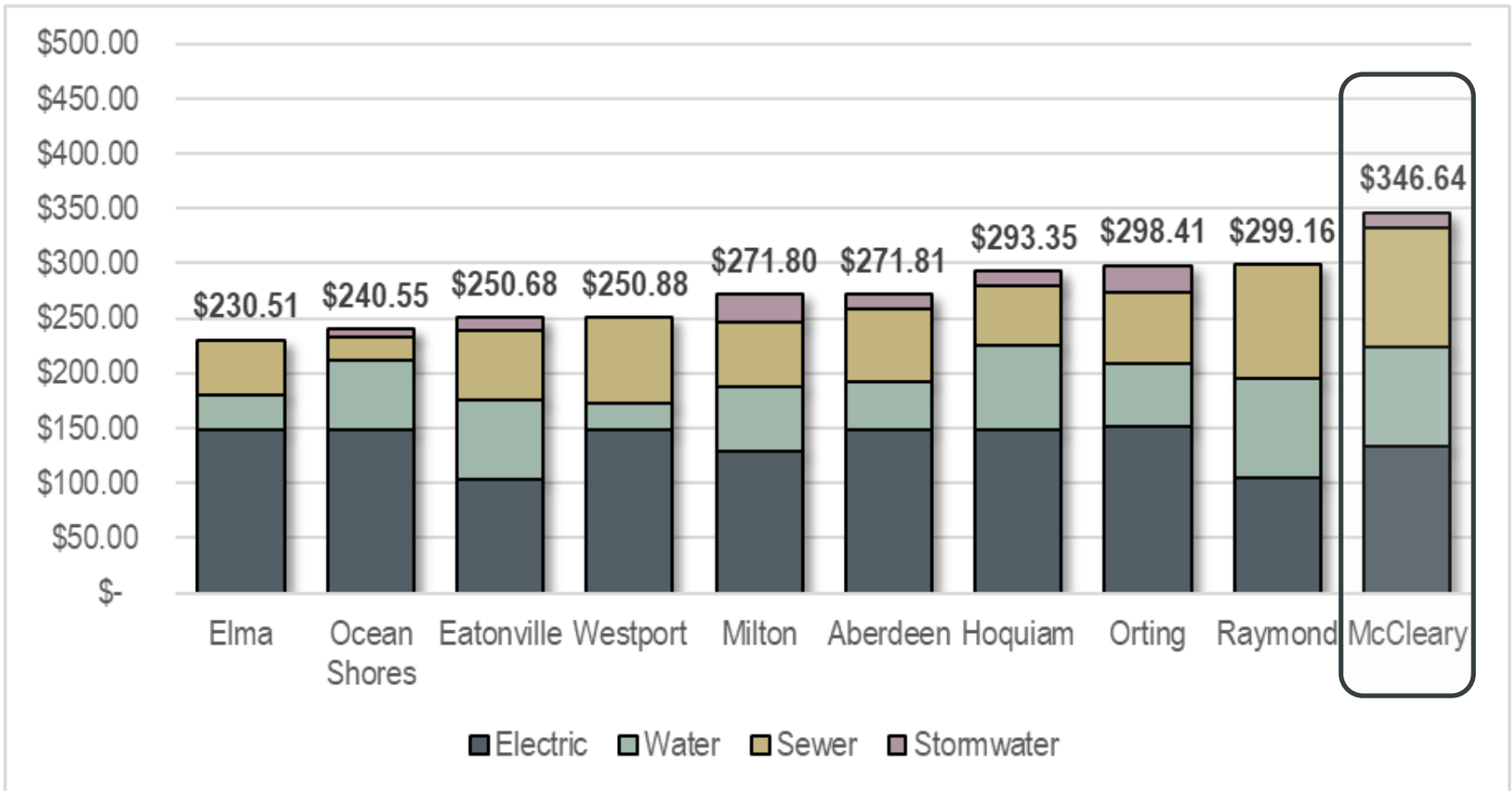


Scenario Rate Projections

Average Residential Bills	Existing	2024	2025	2026	2027	2028
Electric						
<i>S1: Reserve Draw</i>		8.75%	8.75%	8.75%	8.75%	0.00%
<i>Average Residential (1,200 kWh)</i>	\$ 132.72	\$ 144.33	\$ 156.96	\$ 170.70	\$ 185.63	\$ 185.63
<i>\$ per Mo. Difference</i>		\$ 11.61	\$ 12.63	\$ 13.73	\$ 14.94	\$ -
Water						
<i>S1: Revenue Bonds & Reserve Draw</i>		28.00%	17.25%	17.25%	3.75%	3.75%
<i>Average Residential Bill (8 ccf)</i>	\$ 90.83	\$ 116.26	\$ 136.32	\$ 159.83	\$ 165.83	\$ 172.04
<i>\$ per Mo. Difference</i>		\$ 25.43	\$ 20.06	\$ 23.51	\$ 5.99	\$ 6.22
<i>S2: Low Interest Loans & Reserve Draw</i>		28.00%	16.25%	16.25%	3.00%	3.00%
<i>Average Residential Bill (8 ccf)</i>	\$ 90.83	\$ 116.26	\$ 135.16	\$ 157.12	\$ 161.83	\$ 166.69
<i>\$ per Mo. Difference</i>		\$ 25.43	\$ 18.89	\$ 21.96	\$ 4.71	\$ 4.85
Sewer						
<i>S1: Revenue Bonds & Reserve Draw</i>		16.00%	12.25%	8.50%	3.00%	3.00%
<i>Average Residential Bill (1 ERU)</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
Stormwater						
<i>S1: Revenue Bonds</i>		93.00%	8.00%	8.00%	8.00%	8.00%
<i>Average Residential Bill (1 ERU)</i>	\$ 14.91	\$ 28.78	\$ 31.08	\$ 33.56	\$ 36.25	\$ 39.15
<i>\$ per Mo. Difference</i>		\$ 13.87	\$ 2.30	\$ 2.49	\$ 2.69	\$ 2.90
<i>S2: Low Interest Loans</i>		93.00%	5.50%	5.50%	5.50%	5.50%
<i>Average Residential Bill (1 ERU)</i>	\$ 14.91	\$ 28.78	\$ 30.36	\$ 32.03	\$ 33.79	\$ 35.65
<i>\$ per Mo. Difference</i>		\$ 13.87	\$ 1.58	\$ 1.67	\$ 1.76	\$ 1.86



Combined Residential Rate Survey



Notes:

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



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>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%

Notes: S2 is the staff recommended option for water/stormwater

- **Next Steps**

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

- **Questions?**

Thank you!

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