



# Utility Board Workshop

## Water, Sewer, and Stormwater Utility Rate Update

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October 13, 2022





# Overview

- **FCS GROUP retained to complete a water, sewer, and stormwater rate update**
  - » Previously assisted the City in 2020
- **Focus of today's meeting**
  - » Overview of the rate setting process
  - » Present key data inputs and assumptions
  - » Summary of utility findings
- **Next steps**
- **Questions**

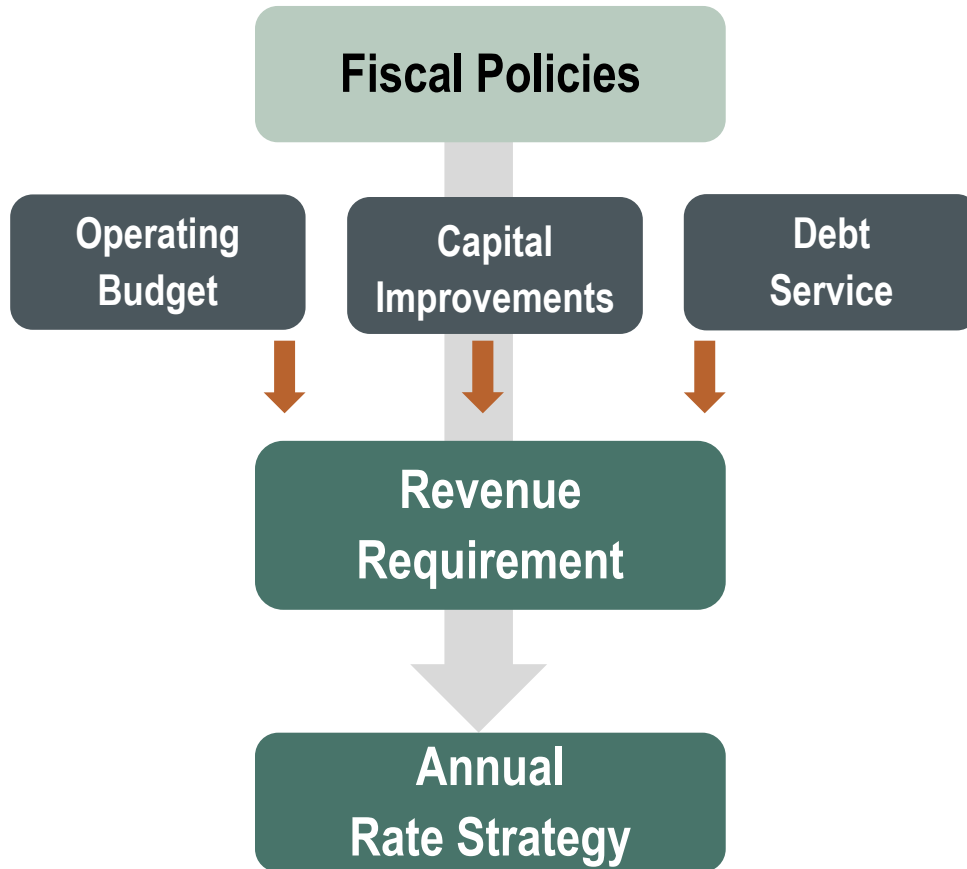


# Critical Capital Work Ahead

- **Total 2023-2024 CIP Preliminary Budget expenditures are \$67.1M**
  - » \$43.6M, or 65%, tied to the Utility Funds
- **Reinvestment in the City's aging water distribution system**
  - » Most of City's distribution system was constructed in the 1950's-1960's with an expected useful life of 50-75 years (dependent on material type).
  - » Replacements prioritized using a combination of factors.
  - » E.g., asbestos cement main replacements are prioritized due to material and age.
- **Sewer conveyance system faces similar challenges with aging infrastructure**
  - » SCADA System Replacement to come online in 2023.
  - » Pump Station rehabilitation and subsequent Lakeline work will follow.



# Rate Study Elements



- Evaluates sufficiency of current rates to meet all utility financial obligations on a stand-alone basis
- Develop rate plan to balance financial needs and minimize customer impacts
- Multi-year rate plan with rate focus on 2023-2024



# Financial Policies

Policy	Purpose	Target
Operating Reserve	To provide sufficient cash flow to meet daily operating expenses (short-term, annual revenue cycles)	Water: 90 days of O&M Sewer: 30 days of O&M Stormwater: 45 days of O&M
Capital Reserve	To provide a source of funding for emergency repairs, unanticipated capital, and project cost overruns.	1.0% of capital assets
Rate Funded System Reinvestment (RFSR)	To ensure ongoing system integrity through reinvestment in the system.	Based on previous study fiscal policies
Capital Funding Decisions	To provide a basis of determining how capital projects should be funded by the utility	Cash fund projects under \$2M Seek alternative funding methods for projects over \$2M to mitigate rate impacts
Debt Service Coverage	To ensure compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance.	Minimum Requirement 1.25 Target 2.0
Rate Equity	To establish rates and charges, which equitably recover the cost of service from each utility's customers.	Each utility meets all utility financial obligations on a stand-alone basis



# Key Data Inputs/Assumptions

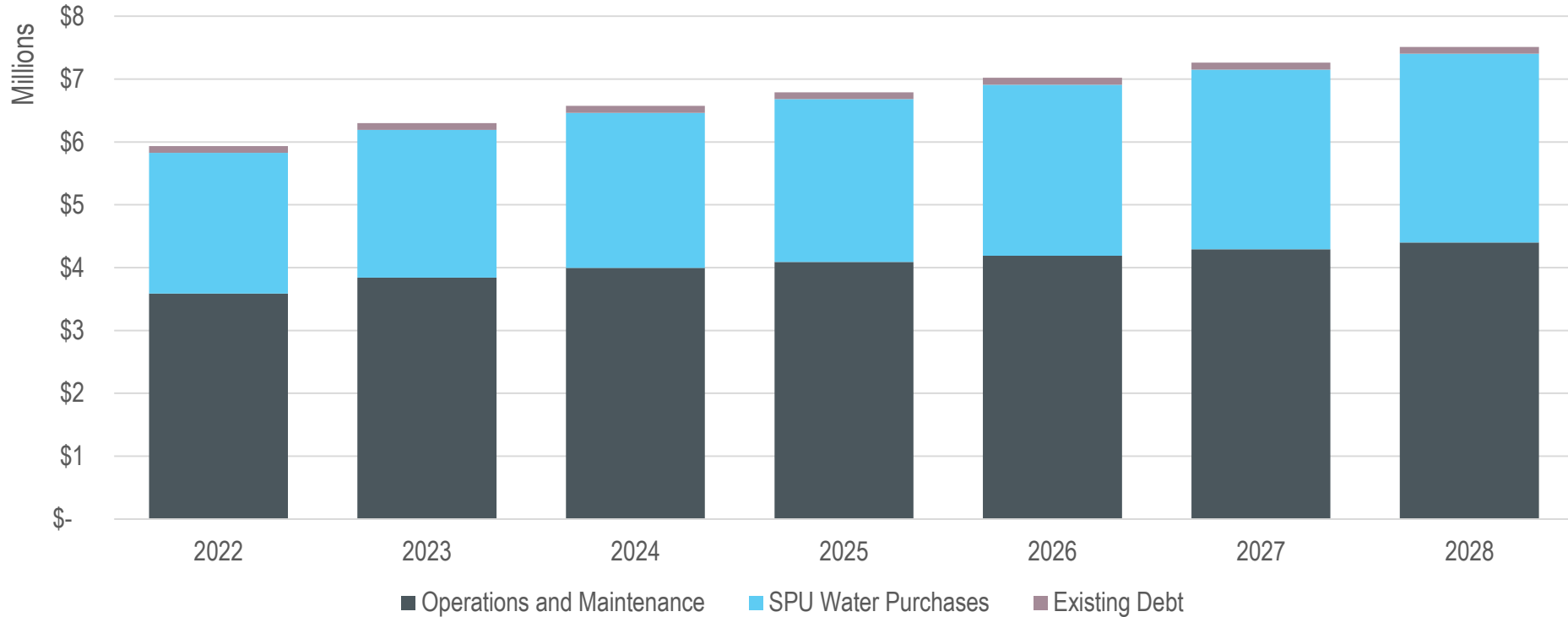
- **Study period: 2023-2028**
  - » Focus on 2023-2024 for rate-setting
- **Rate revenue**
  - » Water: 2022 year-end forecast
  - » Sewer and Stormwater: 2022 budget maintained as revenue is more stable
- **Operating expenses**
  - » Based largely on 2023 and 2024 preliminary budget figures
  - » SPU purchases and King County treatment cost forecasted independently
- **Incorporated City provided capital improvement plan**
  - » Focus is on prioritizing critical infrastructure



# **Water Revenue Requirement**



# Water: 2022-2028 Operational Forecast

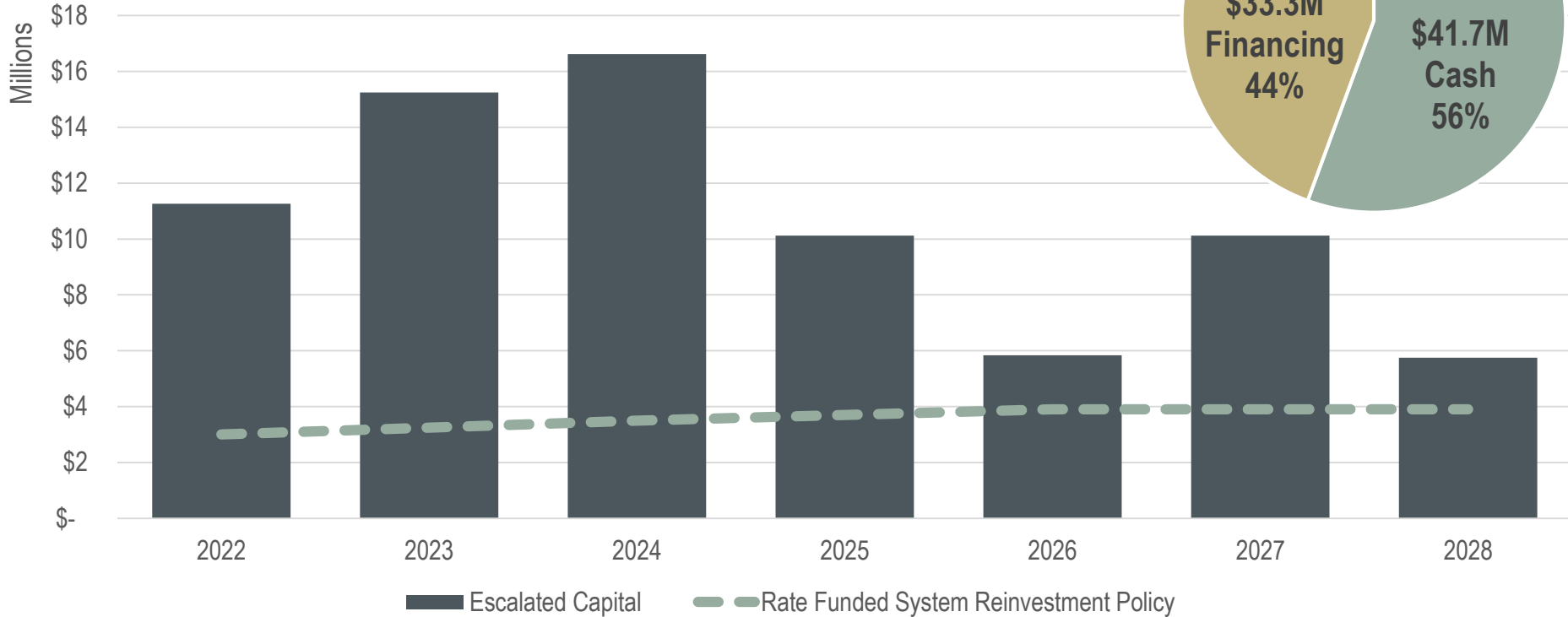


- **Total Operational Costs: \$5.9 to \$7.5M**
  - » Operations and Maintenance: \$3.6 to \$4.4M
  - » SPU Water Purchases: \$2.2 to \$3.0M
  - » Existing Annual Debt Service: \$110,000





# Water: 2022-2028 Capital Plan



- **\$75.0M in capital spending**

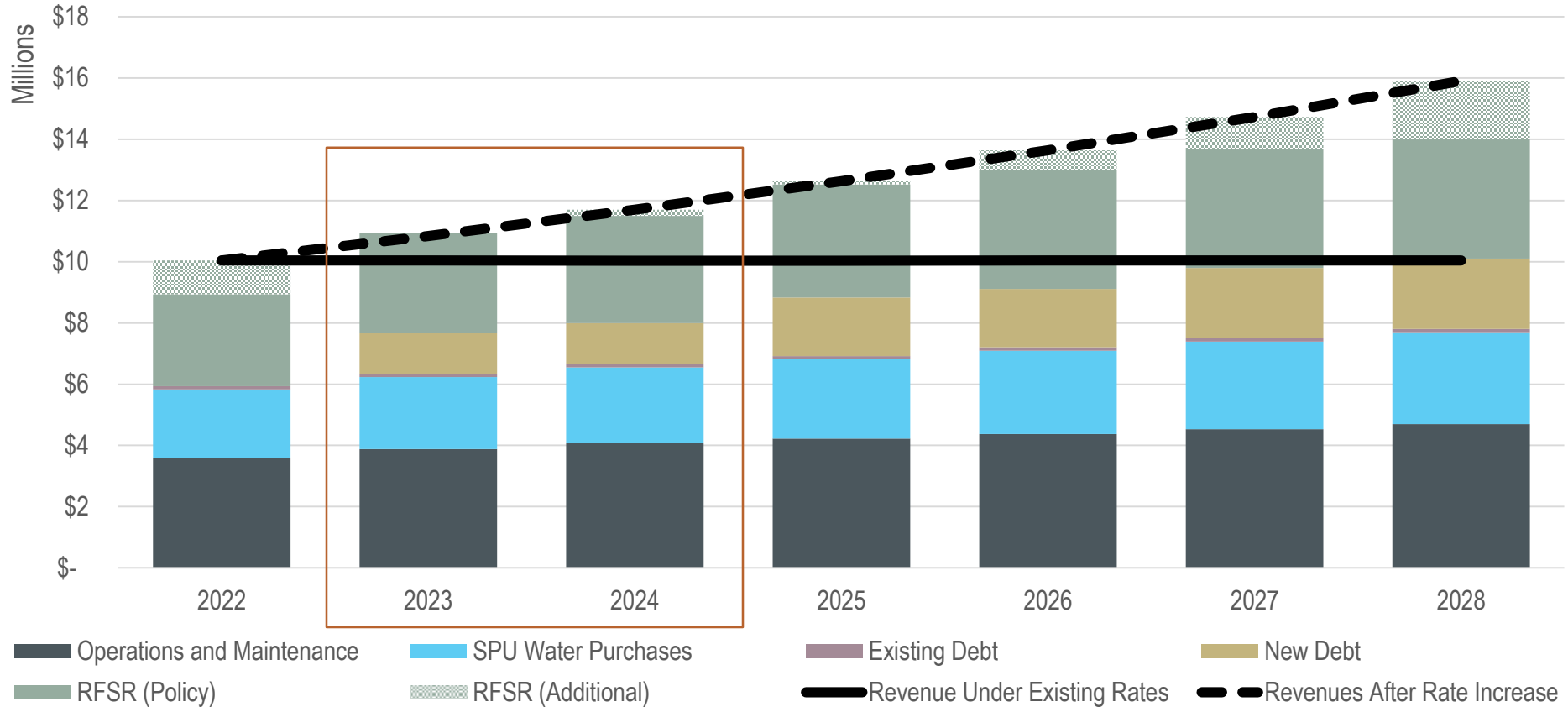
- » Annual AC Main Replacement: \$21.4M
- » Annual Main Replacement: \$14.6M
- » Pressure Reducing Valve Station: \$7.8M
- » AMI Meter Replacement: \$7.4M
- » Reservoir Improvements: \$6.0M

- **Funding sources**

- » \$41.7M cash funded
- » \$33.3M debt financed
  - \$19.1M in 2023
  - \$8.1M in 2025
  - \$6.1M in 2027
  - \$1.4 to \$2.6M new annual debt service



# Water: Revenue Requirement Summary



- Existing revenue is sufficient to cover all operational cost through 2027
- 8.0% annual rate increases driven by the RFSR policy and additional financing to execute the capital program



# Water: Sample Single Family Bill

Bimonthly	Existing 2022	2023	2024	2025	2026	2027	2028
Sample Bimonthly Bill	\$122.15	\$131.92	\$142.48	\$153.87	\$166.18	\$179.48	\$193.84
Bimonthly Increase		<b>\$9.77</b>	<b>\$10.55</b>	<b>\$11.40</b>	<b>\$12.31</b>	<b>\$13.29</b>	<b>\$14.36</b>
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Monthly	Existing 2022	2023	2024	2025	2026	2027	2028
Sample Monthly Bill	\$61.08	\$65.97	\$71.24	\$76.94	\$83.10	\$89.74	\$96.92
Monthly Increase		<b>\$4.89</b>	<b>\$5.27</b>	<b>\$5.70</b>	<b>\$6.16</b>	<b>\$6.64</b>	<b>\$7.18</b>
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

\*Assumes ¾" meter and 14 ccf bimonthly usage



# Water: Summary

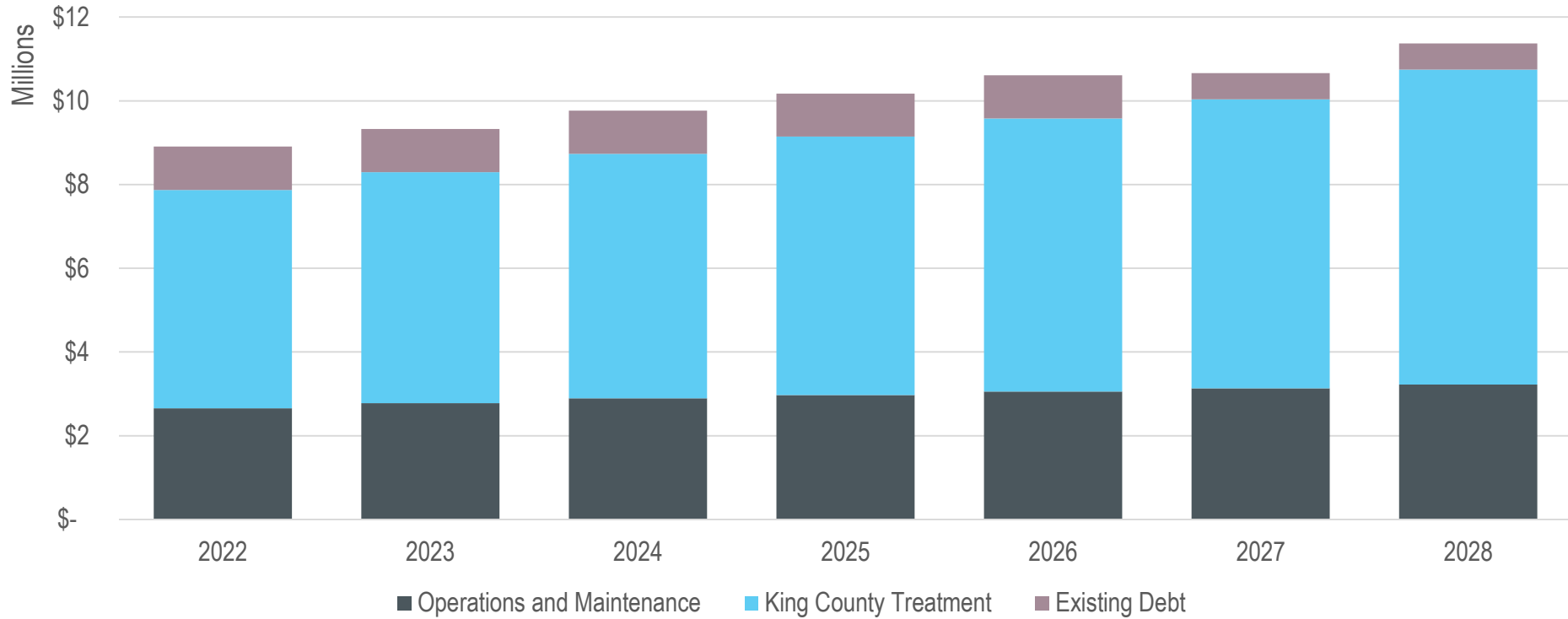
- **Rate increases needed in 2023 and 2024 of 8.0%**
  - » Average single-family bill impact: \$4.89 per month in 2023
  - » Mid-biennial review for 2024 rate adjustment
- **Key drivers:**
  - » Near term capital reinvestment needs
  - » Increased recent inflation
  - » Higher financing needs to fund capital program



# **Sewer Revenue Requirement**



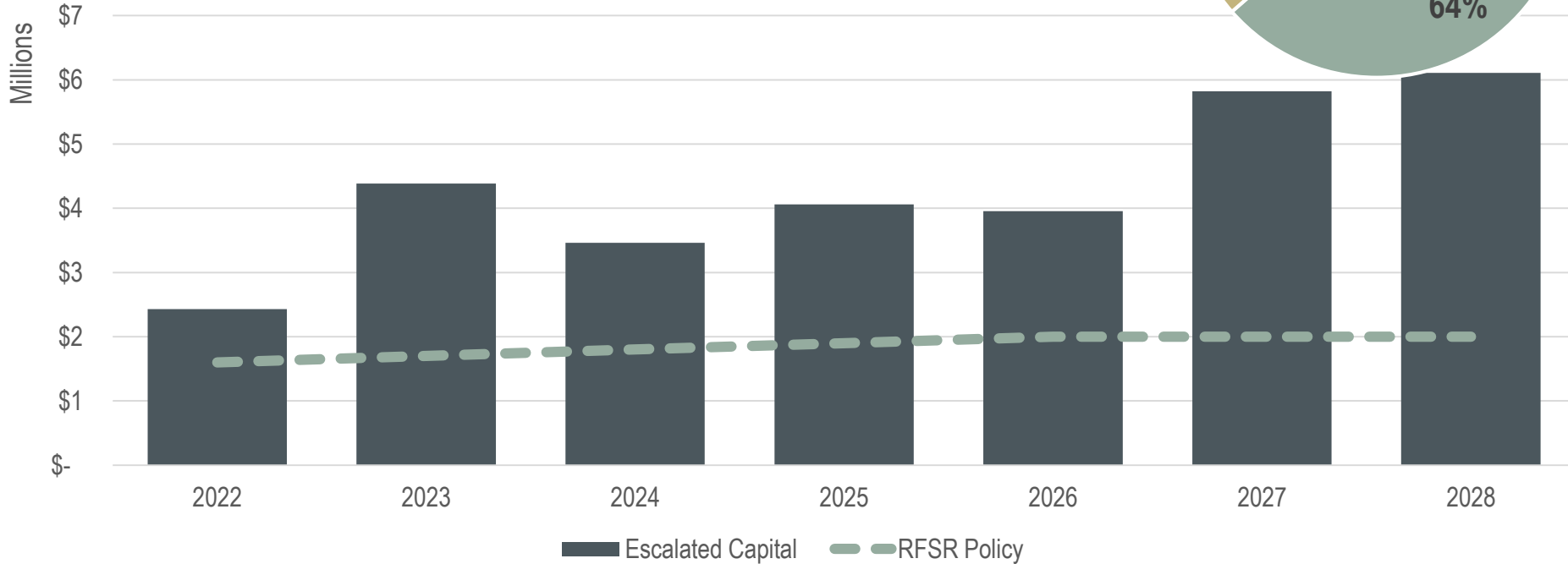
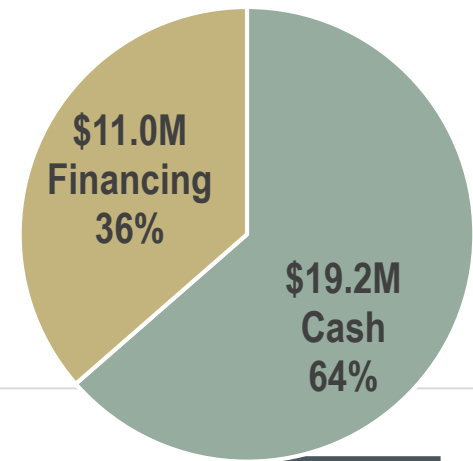
# Sewer: 2022-2028 Operational Forecast



- **Total Operational Costs: \$8.9 to \$11.4M**
  - » Operations and Maintenance: \$2.6 to \$3.2M
  - » King County Treatment Costs: \$5.2 to \$7.5M
  - » Existing Annual Debt Service: \$1.0M reducing to \$600,000 in 2027



# Sewer: 2022-2028 Capital Plan

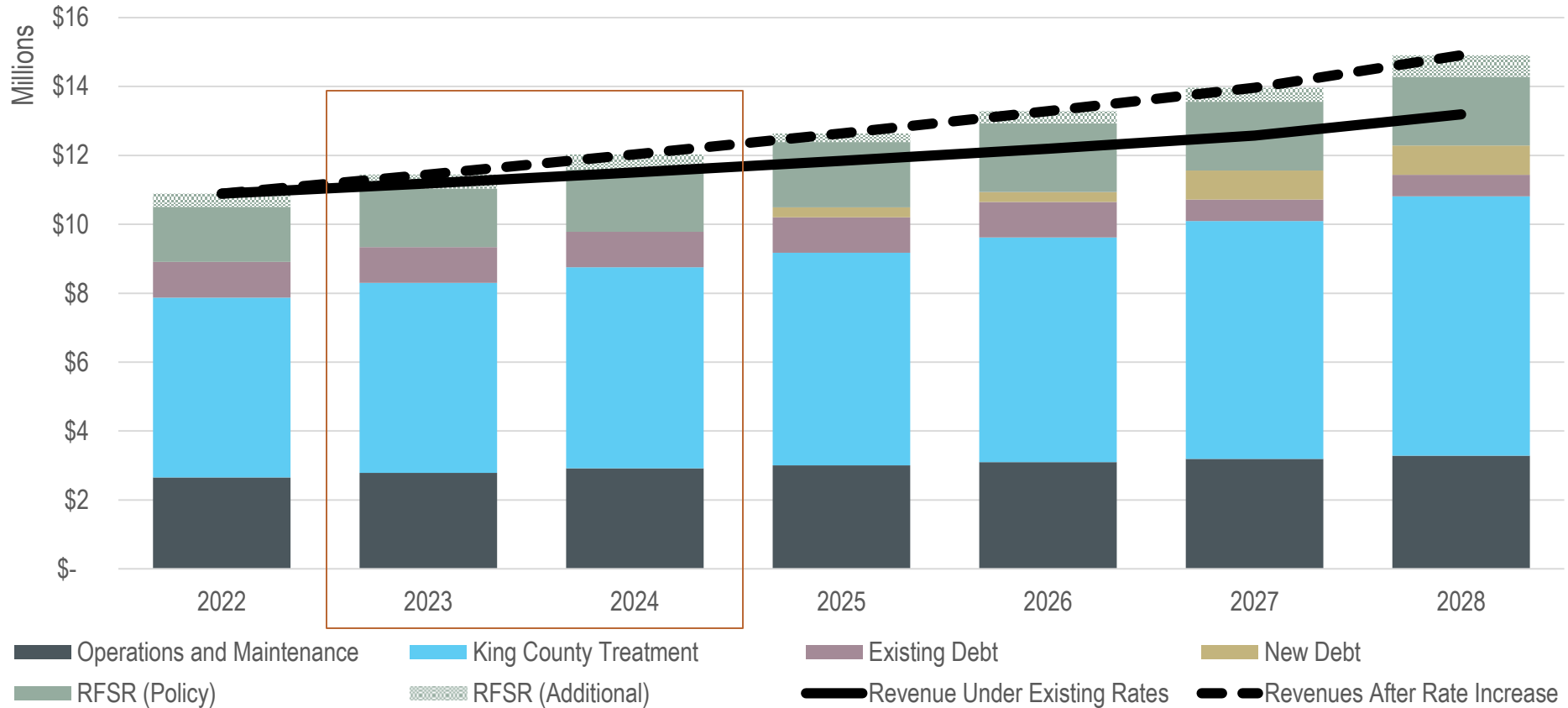


- **\$30.2M in capital spending**
  - » Pump Station R&R: \$5.0M
  - » Lake Line Projects: \$4.6M
  - » Comprehensive Pipeline R&R: \$3.8M

- **Funding sources**
  - » \$19.2M cash funded
  - » \$11M debt financed
    - \$3.7M in 2025
    - \$7.3M in 2027
    - \$300 to \$850k new annual debt service



# Sewer: Revenue Requirement Summary



- Existing rates are sufficient to cover all operational cost through the forecast
- 4.5% annual local rate increases driven by the RFSR policy and additional financing to execute the capital program





# Sewer: Sample Single Family Bill

Monthly	Existing 2022	2023	2024	2025	2026	2027	2028
Sample Monthly <b>Local</b> Bill	\$31.34	\$32.75	\$34.22	\$35.76	\$37.37	\$39.05	\$40.81
Monthly Increase		<b>\$1.41</b>	<b>\$1.47</b>	<b>\$1.54</b>	<b>\$1.61</b>	<b>\$1.68</b>	<b>\$1.76</b>
Percent Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Monthly <b>Treatment</b> Bill	\$ 49.27	\$52.11	\$55.11	\$58.28	\$61.64	\$65.19	\$71.06
Monthly Increase		<b>\$2.84</b>	<b>\$3.00</b>	<b>\$3.17</b>	<b>\$3.36</b>	<b>\$3.55</b>	<b>\$5.87</b>
Percent Increase		5.75%	5.75%	5.75%	5.75%	5.75%	9.00%
Sample Monthly Bill ( <b>Total</b> )	\$ 80.61	\$84.86	\$89.33	\$94.04	\$99.01	\$104.24	\$111.87
Monthly Increase		<b>\$4.25</b>	<b>\$4.47</b>	<b>\$4.71</b>	<b>\$4.97</b>	<b>\$5.23</b>	<b>\$7.63</b>
Percent Increase		5.27%	5.27%	5.27%	5.28%	5.28%	7.32%

\*Bimonthly bill details can be found in the appendix



# Sewer: Summary

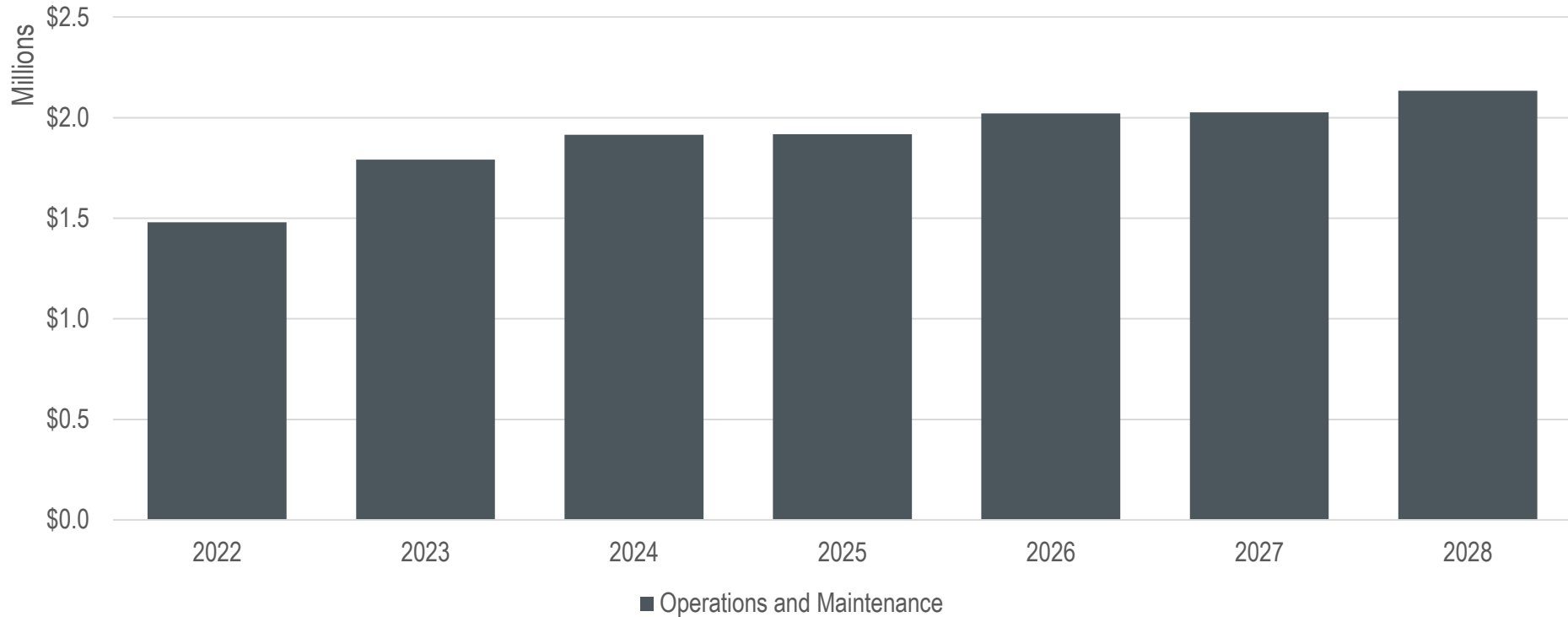
- **Local rate increases needed in 2023 and 2024 of 4.5%**
  - » Average single-family bill impact: \$1.41 per month in 2023
- **King County Treatment increases forecasted at 5.75% in 2023 and 2024**
  - » Average single-family monthly bill impact: \$2.84 in 2023
- **Mid-biennial review for 2024 local rate adjustment**
- **Key drivers:**
  - » System capital reinvestment needs
  - » Increased recent inflation
  - » Higher financing needs to fund capital program



# **Stormwater Revenue Requirement**



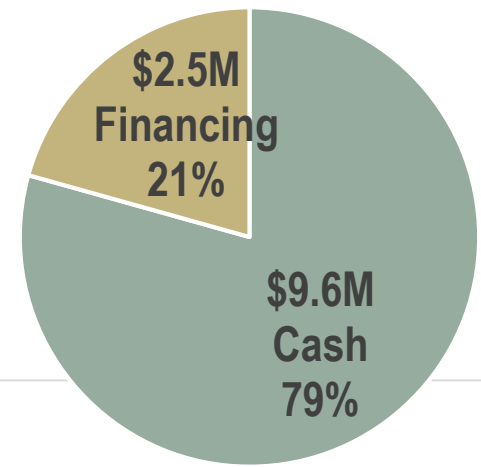
# Storm: 2022-2028 Operational Forecast



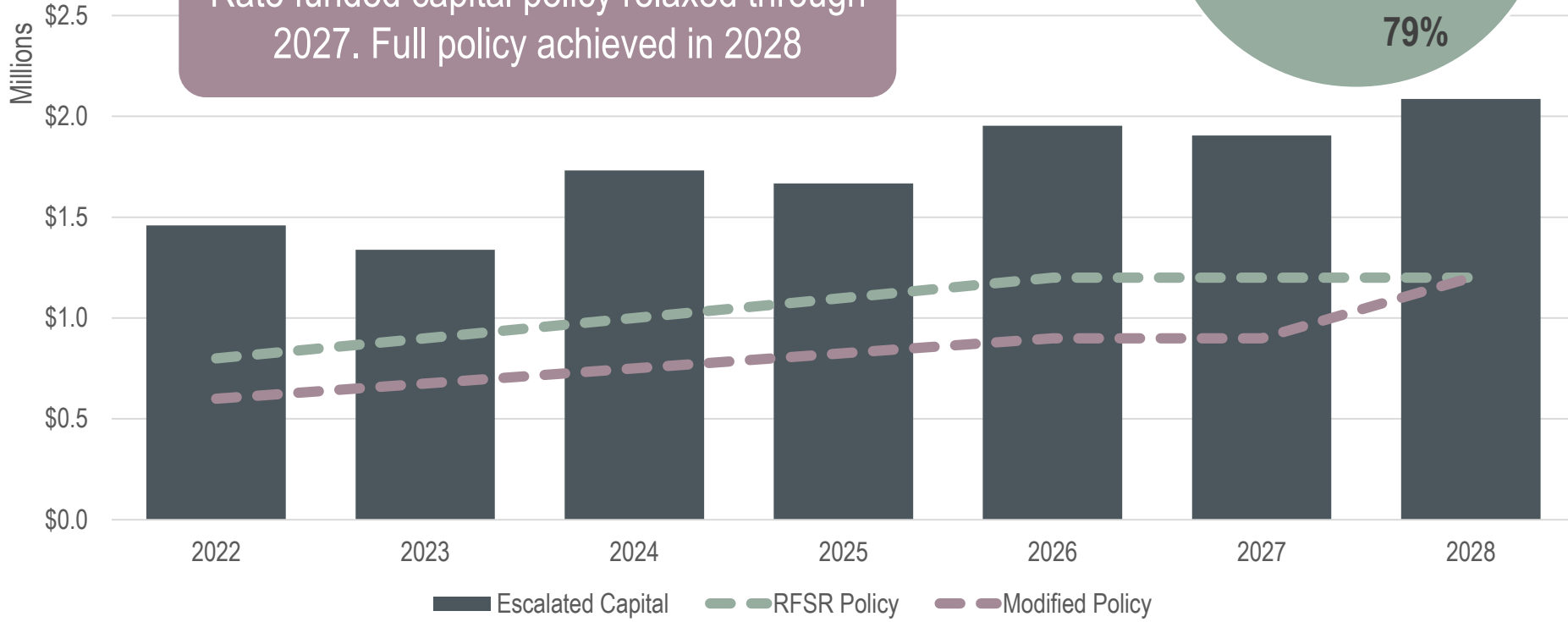
- **Operations and Maintenance: \$1.5 to \$2.1M**
  - » Additional staff beginning in 2023 to complete needed maintenance.



# Storm: 2022-2028 Capital Plan



Rate funded capital policy relaxed through 2027. Full policy achieved in 2028



- **\$12.1M in capital spending**

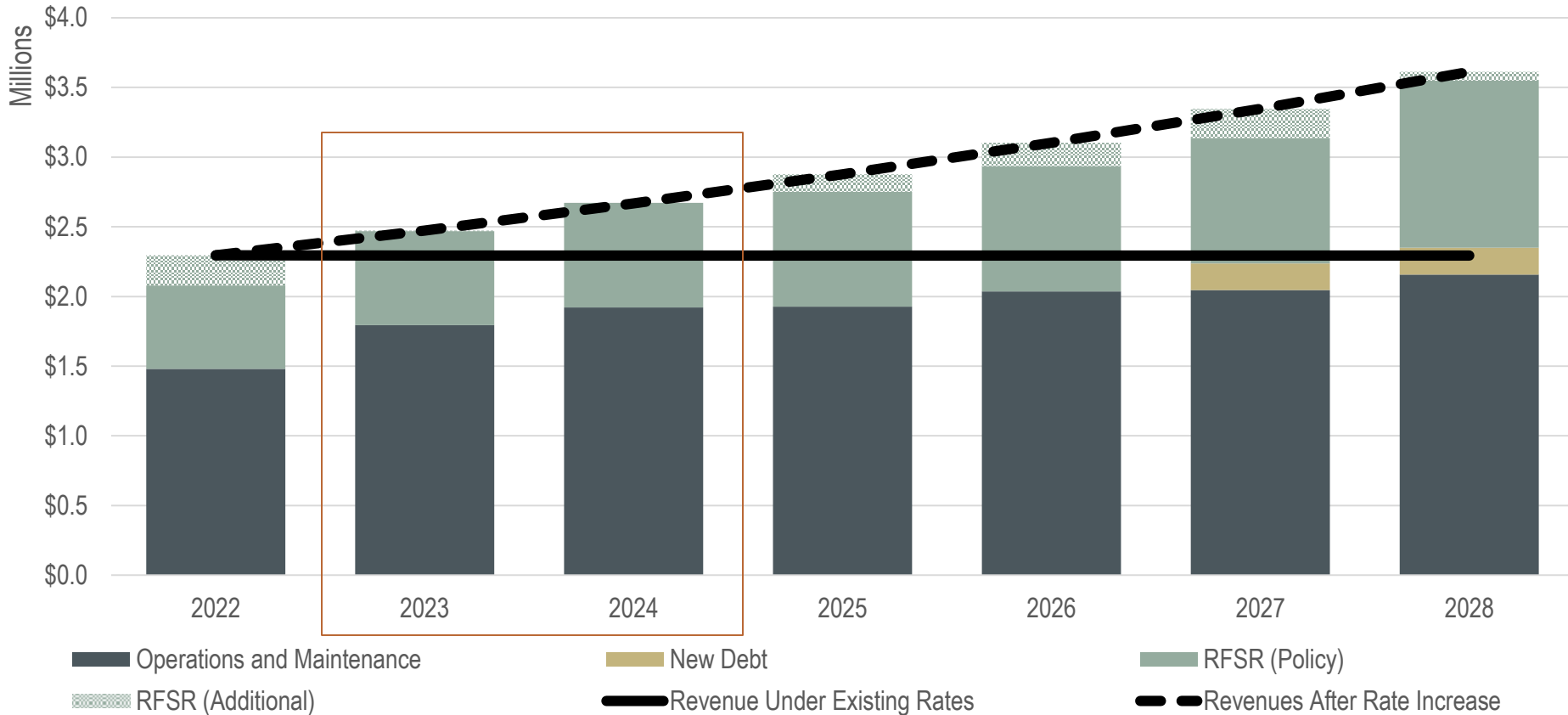
- » Conveyance System: \$2.75M
- » Watercourse Stabilization: \$2.6M
- » Trunkline Condition Assessment: \$1.45M

- **Funding sources**

- » \$9.6M cash funded
- » \$2.5M debt financed in 2027
  - \$190k new annual debt service



# Storm: Revenue Requirement Summary



- Existing rates are sufficient to cover all operational cost through 2027
- 8.0% annual rate increases driven by the RFSR policy achievement



# Storm: Sample Single Family Bill

Bimonthly	Existing 2022	2023	2024	2025	2026	2027	2028
Sample Bimonthly Bill	\$ 39.81	\$42.99	\$46.43	\$50.15	\$54.16	\$58.49	\$63.17
Bimonthly Increase		<b>\$3.18</b>	<b>\$3.44</b>	<b>\$3.71</b>	<b>\$4.01</b>	<b>\$4.33</b>	<b>\$4.68</b>
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

Monthly	Existing 2022	2023	2024	2025	2026	2027	2028
Sample Monthly Bill	\$19.91	\$21.50	\$23.22	\$25.08	\$27.09	\$29.25	\$31.59
Monthly Increase		<b>\$1.59</b>	<b>\$1.72</b>	<b>\$1.86</b>	<b>\$2.01</b>	<b>\$2.16</b>	<b>\$2.34</b>
Percent Increase		8.00%	8.00%	8.00%	8.00%	8.00%	8.00%



# Storm: Summary

- **Rate increases needed in 2023 and 2024 of 8.0%**
  - » Average single-family bill impact: \$1.59 per month in 2023
  - » Mid-biennial review for 2024 rate adjustment
- **Key drivers:**
  - » Additional staffing needs
  - » Additional capital costs identified
  - » Increased recent inflation





# Summary



# Summary of Findings

- **Water**
  - » Average residential monthly increase of \$4.89 in 2023
- **Sewer:**
  - » Residential \$4.25 monthly increase in 2023
    - Local rate average single-family bill impact: \$1.41 per month
- **Storm**
  - » Residential monthly increase of \$1.59 in 2023
- **Mid-biennial review for 2024 rate adjustment**



## Next Steps

- **Utility Board come to consensus on rate adjustment recommendations**
- **Present Utility Board recommendation to City Council Nov 15, 2022**
- **Council final 2023-2024 Biennial Budget Adoption Dec 6, 2022**
  - » Rates effective January 1, 2023

# Thank you!

## Questions?

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# Historical Rate Increases

Utility	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Water	9.50%	12.35%	4.30%	8.0%	12.80%	10.90%	6.00%	5.30%	6.50%	6.50%	5.25%	5.25%
Sewer (local)	9.30%	9.30%	4.00%	8.50%	8.30%	7.00%	7.00%	7.80%	7.70%	7.70%	4.00%	4.00%
Storm	3.30%	0.00%	1.20%	1.20%	2.70%	1.30%	4.00%	1.50%	3.20%	3.20%	5.50%	5.50%



# Sewer: Bimonthly Sample Single Family Bill

Bimonthly	Existing 2022	2023	2024	2025	2026	2027	2028
Sample Bimonthly <b>Local</b> Bill	\$ 62.67	\$65.49	\$68.44	\$71.52	\$74.74	\$78.10	\$81.61
Bimonthly Increase		<b>\$2.82</b>	<b>\$2.95</b>	<b>\$3.08</b>	<b>\$3.22</b>	<b>\$3.36</b>	<b>\$3.51</b>
Percent Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Sample Bimonthly <b>Treatment</b> Bill	\$ 98.54	\$104.22	\$110.22	\$116.56	\$123.28	\$130.38	\$142.12
Bimonthly Increase		<b>\$5.68</b>	<b>\$6.00</b>	<b>\$6.34</b>	<b>\$6.72</b>	<b>\$7.10</b>	<b>\$11.74</b>
Percent Increase		5.75%	5.75%	5.75%	5.75%	5.75%	9.00%
Sample Bimonthly Bill ( <b>Total</b> )	\$161.21	\$169.71	\$178.66	\$188.08	\$198.02	\$208.48	\$223.73
Bimonthly Increase		<b>\$8.50</b>	<b>\$8.95</b>	<b>\$9.42</b>	<b>\$9.94</b>	<b>\$10.46</b>	<b>\$15.25</b>
Percent Increase		5.27%	5.27%	5.27%	5.28%	5.28%	7.32%