



# UTILITY BOARD STAFF REPORT

Item 4  
October 10, 2023  
Regular Business

## AGENDA ITEM INFORMATION

<b>TITLE:</b>	2024 Sewer Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Accept staff's recommendation to increase the Sewer Utility rate for FY 2024.	

<b>STAFF:</b>	Ben Schumacher, Financial Analyst Matt Mornick, Finance Director
<b>COUNCIL LIAISON:</b>	Jake Jacobson
<b>EXHIBITS:</b>	1. None

## SUMMARY

### Background

As part of the 2023-2024 mid-biennial budget process, staff seeks the Utility Board's recommendation regarding the Sewer Utility rate adjustment for the upcoming fiscal year. The 2023-2024 operating and capital budgets presented in this memo were adopted by the City Council on December 6, 2022, and include budget amendments through May 16, 2023.

### 2023-2024 Operating Budget

The operating budget for the Sewer Utility is presented in the table below.

Operating Expenditures (\$ in thousands)	2021	2022	2023	2024	Percent Change	
	Actual	Actual	Budget	Budget	22-23	23-24
Salary & Benefits	\$1,132	\$1,366	\$1,630	\$1,746	19.3%	7.1%
King County Sewer Treatment	4,928	5,217	5,518	5,836	5.8%	5.8%
Debt Service	1,037	1,036	1,034	1,032	-0.2%	-0.2%
Other Services and Charges	1,090	1,249	1,350	1,373	8.1%	1.6%
<b>TOTAL</b>	<b>\$8,187</b>	<b>\$8,868</b>	<b>\$9,533</b>	<b>\$9,986</b>	<b>1.0%</b>	<b>6.9%</b>

Table 1

Highlights from the Sewer Utility operating budget include:

- The combined total employee compensation costs in 2024 are increasing 7.1% as compared to 2023. The increase is a result of the current pace of inflation which has led to atypically high cost-of-living adjustments (COLA), per the City's collective bargaining agreements. The COLA in 2023 is 6.0%, per the current AFSCME bargaining contract cap, and is estimated at 6.0% again for 2024.
- The operating budget contains no new positions in 2024 compared to 2023.
- King County Sewage Treatment services are authorized to increase 5.75% in 2024. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.

- Existing debt service costs are related to debt repayments for the Sewer Lake Line project (2009) and include a Public Works Trust Fund Loan and LTGO bonds. The sewer rate model assumes no new debt will need to be issued for capital projects in the current biennium.
- Other Services and Charges include all other operating costs including supplies, contract services, insurance, and administrative costs. The latter includes the Sewer Fund’s share of administrative support provided by the City Attorney’s Office, City Manager’s Office, Finance, and Human Resources staff. An overhead cost allocation model is used to determine the Sewer Utility’s proportionate share of these internal service functions.

### Capital Reinvestment Project Summary

Planned capital reinvestment work in 2023 and 2024 is shown in Table 2 below. Capital investment costs are the primary driver of the proposed sewer rate increases in the upcoming year.

Sewer Utility Capital Program 2023-2024			
(\$ in thousands)			
Project ID	Description	2023	2024
SU0100	Emergency Sewer System Repairs	\$300	\$300
SU0103	Easement, Access, Codes, and Standards Review	150	150
SU0108	Comprehensive Pipeline R&R Program	1,765	1,000
SU0109	Sewer System Generator Replacement	245	200
SU0113	SCADA System Replacement (Sewer)	3,034	500
SU0114	Sewer System Components	50	50
SU0115	Sewer Pipe Replacements & Upsizing	600	
SU0117	Pump Station Rehabilitation & Replacement Assessment	300	300
SU0127	Backyard Sewer System Improvement Program	130	120
SU0128	Pump Station Rehabilitation & Replacement Improvements	150	950
<b>Sewer Utility CIP Total</b>		<b>\$6,723</b>	<b>\$3,570</b>

Table 2

### Sewer Rate Proposal

The 2023 rate proposal is based on the 2023-2024 operating budget, the 2023-2028 Capital Improvement Program (CIP), and the corresponding debt financing needs. Staff recommends a 4.5% increase to the sewer utility rates for 2024 as proposed in the smoothed rate model.

This year-over-year smoothed rate model is predicated on leveraging outside funding beginning in 2025 for investments that cost more than \$2.5 M each and have a useful life greater than 20 years. Debt financing spreads costs incurred in a relatively short period over the useful life of updated infrastructure, thereby avoiding spikes in annual rate adjustments year-over-year while generations of rate payers who benefit from these investments help pay down the associated costs. No debt issuance is planned in the current biennium.

The proposed rate adjustment for FY 2024 is part of a multiyear effort to ensure the Sewer Utility Fund has adequate resources to complete the critical capital project work detailed below and into the future, as well as

meet long-established fiscal policy guidelines. These include funding an operating reserve target equal to 30 days of operating and maintenance costs, and a capital reserve target of 1.0% of capital assets. The 4.5% rate increase in FY 2024 enables the fund to achieve its target for both established guidelines, as detailed in Tables 3 & 4 below.

Revenue Requirement	2022	2023	2024	2025	2026	2027	2028
<b>Pre Rate Revenues</b>							
<b>Revenues</b>							
Rate Revenues Under Existing Rates	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500	\$ 5,665,500
Non-Rate Revenues	5,224,128	5,521,413	5,839,272	6,175,142	6,531,123	6,907,233	7,529,028
<b>Total Revenues</b>	<b>\$ 10,889,628</b>	<b>\$ 11,186,913</b>	<b>\$ 11,504,772</b>	<b>\$ 11,840,642</b>	<b>\$ 12,196,623</b>	<b>\$ 12,572,733</b>	<b>\$ 13,194,528</b>
<b>Expenses</b>							
Cash Operating Expenses	\$ 7,870,013	\$ 8,295,280	\$ 8,732,369	\$ 9,145,227	\$ 9,580,484	\$ 10,038,208	\$ 10,744,483
Existing Debt Service	1,035,856	1,034,242	1,031,829	1,028,615	1,029,601	623,618	626,625
New Debt Service	-	-	-	284,831	284,831	846,794	846,794
System Reinvestment Funding	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000	2,000,000	2,000,000
<b>Total Expenses</b>	<b>\$ 10,505,870</b>	<b>\$ 11,029,522</b>	<b>\$ 11,564,198</b>	<b>\$ 12,358,672</b>	<b>\$ 12,894,916</b>	<b>\$ 13,508,619</b>	<b>\$ 14,217,902</b>
<b>Net Surplus (Deficiency)</b>	<b>\$ 383,759</b>	<b>\$ 157,391</b>	<b>\$ (59,425)</b>	<b>\$ (518,030)</b>	<b>\$ (698,293)</b>	<b>\$ (935,887)</b>	<b>\$ (1,023,374)</b>
<b>Annual Rate Increase</b>		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
<b>Cumulative Rate Increase</b>		4.50%	9.20%	14.12%	19.25%	24.62%	30.23%
<b>Post Rate Revenues</b>							
Revenues After Rate Increases	\$ 5,665,500	\$ 5,920,448	\$ 6,186,868	\$ 6,465,277	\$ 6,756,214	\$ 7,060,244	\$ 7,377,955
Additional Taxes from Rate Increase	-	9,821	20,083	30,807	42,014	53,726	65,964
<b>Net Cash Flow After Rate Increase</b>	<b>\$ 383,759</b>	<b>\$ 402,518</b>	<b>\$ 441,859</b>	<b>\$ 250,939</b>	<b>\$ 350,407</b>	<b>\$ 405,132</b>	<b>\$ 623,117</b>
Sample Residential Bill (3/4" Meter, x 12 ccf)	\$ 161.21	\$169.71	\$178.66	\$188.08	\$198.02	\$208.48	\$223.73
Bi-Monthly Increase (\$)		\$8.50	\$8.95	\$9.42	\$9.94	\$10.46	\$15.25

Table 3

Fund Balance	2022	2023	2024	2025	2026	2027	2028
<b>Operating Reserve</b>							
Beginning Balance	\$ 2,676,392	\$ 646,850	\$ 681,804	\$ 718,536	\$ 753,313	\$ 789,969	\$ 828,511
plus: Net Cash Flow after Rate Increase	383,759	402,518	441,859	250,939	350,407	405,132	623,117
less: Transfer of Surplus to Capital Fund	(2,413,301)	(367,564)	(405,127)	(216,162)	(313,751)	(366,589)	(564,104)
<b>Ending Balance</b>	<b>\$ 646,850</b>	<b>\$ 681,804</b>	<b>\$ 718,536</b>	<b>\$ 753,313</b>	<b>\$ 789,969</b>	<b>\$ 828,511</b>	<b>\$ 887,524</b>
<i>Actual Days of O&amp;M</i>	<i>30 days</i>	<i>30 days</i>	<i>30 days</i>	<i>30 days</i>	<i>30 days</i>	<i>30 days</i>	<i>30 days</i>
<b>Capital Reserve</b>							
Beginning Balance	\$ 2,596,515	\$ 4,186,086	\$ 1,888,522	\$ 642,008	\$ 2,399,513	\$ 771,771	\$ 4,619,409
plus: System Reinvestment Funding	1,600,000	1,700,000	1,800,000	1,900,000	2,000,000	2,000,000	2,000,000
plus: Transfers from Operating Fund	2,413,301	367,564	405,127	216,162	313,751	366,589	564,104
plus: LTGO Proceeds	-	-	-	3,700,000	-	7,300,000	-
plus: Interest Earnings	6,491	20,930	9,443	3,210	11,998	3,859	23,097
<b>Total Funding Sources</b>	<b>\$ 6,616,307</b>	<b>\$ 6,274,580</b>	<b>\$ 4,103,091</b>	<b>\$ 6,461,380</b>	<b>\$ 4,725,261</b>	<b>\$ 10,442,220</b>	<b>\$ 7,206,610</b>
less: Capital Expenditures	(2,430,221)	(4,386,059)	(3,461,083)	(4,061,868)	(3,953,490)	(5,822,811)	(6,108,555)
<b>Ending Capital Fund Balance</b>	<b>\$ 4,186,086</b>	<b>\$ 1,888,522</b>	<b>\$ 642,008</b>	<b>\$ 2,399,513</b>	<b>\$ 771,771</b>	<b>\$ 4,619,409</b>	<b>\$ 1,098,055</b>
<i>Minimum Target Balance</i>	<i>\$ 534,889</i>	<i>\$ 578,749</i>	<i>\$ 613,360</i>	<i>\$ 653,979</i>	<i>\$ 693,514</i>	<i>\$ 751,742</i>	<i>\$ 812,827</i>
<b>Combined Beginning Balance</b>	<b>\$ 5,272,907</b>	<b>\$ 4,832,936</b>	<b>\$ 2,570,326</b>	<b>\$ 1,360,544</b>	<b>\$ 3,152,826</b>	<b>\$ 1,561,741</b>	<b>\$ 5,447,920</b>
<b>Combined Ending Balance</b>	<b>\$ 4,832,936</b>	<b>\$ 2,570,326</b>	<b>\$ 1,360,544</b>	<b>\$ 3,152,826</b>	<b>\$ 1,561,741</b>	<b>\$ 5,447,920</b>	<b>\$ 1,985,579</b>

Table 4

A summary table comparing the proposed rates from the most recent sewer rate model update (2022-2024) as compared to the current rate recommendation is presented below.

Description	2021	2022	2023	2024	2025	2026	2027	2028
2020 Rate Update	7.70%	7.70%	7.70%	7.70%				
2021-2022 Rate Update	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%		
2023-2024 Rate Proposal			4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

Table 5

**Conclusion**

Staff will be available at the Utility Board meeting to answer questions regarding the proposed 2024 Sewer Utility rate increases.

The 2024 Sewer Utility rate resolution is on the City Council planning schedule for review and adoption on November 21, 2023. Staff will return during the 2025-2026 biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2025 and beyond.

**RECOMMENDED ACTION**

Accept staff’s recommendation to increase the Sewer Utility rate for FY 2024.