



UTILITY BOARD STAFF REPORT

Item 4
September 10, 2024
Regular Business

AGENDA ITEM INFORMATION

TITLE:	Sewer Rate Discussion/Recommendation	<input type="checkbox"/> Discussion Only
RECOMMENDED ACTION:	Accept the proposed Sewer Utility rate for FY 2025.	<input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution

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

SUMMARY

BACKGROUND

As part of the 2025-2026 biennial budget process, staff seeks a recommendation from the Utility Board regarding the Sewer Utility rate adjustment for the upcoming fiscal year. Staff recommends a 4.5% increase to the Sewer Utility rates for 2025 as proposed in the smoothed rate model.

The operating and capital budgets presented in this memo will be released to the Public and City Council on September 24, 2024 and figures from the current biennium include budget amendments through May 21, 2024. The Utility Board’s recommended Sewer rate adjustment will directly inform the final 2025-2026 biennial budget, scheduled for City Council adoption on December 3, 2024.

2025-2026 OPERATING BUDGET

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

Operating Expenditures <i>(\$ in thousands)</i>	2023	2024	2025	2026	Percent Change	
	Actual	Budget	Budget	Budget	24-25	25-26
Salary & Benefits	\$1,653	\$1,746	\$1,915	\$2,021	9.7%	5.5%
King County Sewer Treatment	5,432	5,836	6,172	6,604	5.8%	7.0%
Debt Service	1,021	1,032	1,029	1,030	-0.3%	0.1%
Other Services and Charges	1,747	1,985	1,776	1,867	-10.5%	5.1%
TOTAL	\$9,853	\$10,599	\$10,892	\$11,522	1.0%	6.9%

Table 1

Highlights from the Sewer Utility operating budget include:

- The combined total employee compensation costs in 2025 are increasing 9.7% as compared to 2024. The increase is a result of two factors, one being 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 applied in 2024 was 6.0%, per the current AFSCME bargaining contract cap, and is estimated at 4.2% for 2025. Second, in June 2024, the City Council adopted a new Compensation Plan (see [AB 6491](#)) with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce (99 of 207 employees).

- The operating budget contains a portion of one additional support position in 2025 currently proposed as a Support Services Technician.
- King County Sewage Treatment services are increasing service rates 5.75% in 2025. Increases are passed through to sewer customers and are identified separately on a customer's utility bill.
- Existing debt service is related to the Sewer Lake Line project (2009) and a Public Works Trust Fund (PWTF) Loan. Final repayment for the PWTF loan is anticipated in July 2026.
- The sewer rate model assumes no new debt will need to be issued for capital projects in the current biennium, with a tentative bond issuance scheduled in 2027 and 2030. The debt issuance needed to maintain the model's smoothed rate structure at 4.5% is anticipated to be \$16 M in 2027 and \$8.5 M in 2030, pending further analysis.
- 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.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see [AB 6475](#)) was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Sewer Utility.

CAPITAL REINVESTMENT PROJECT SUMMARY

Planned capital reinvestment work in 2025 and 2026 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 2025-2026			
<i>(\$ in thousands)</i>			
Project ID	Description	2025	2026
90.30.0001	Emergency Sewer System Repairs	\$50	\$52
90.30.0002	Backyard Sewer System Improvements Program	130	124
90.30.0003	Sewer System Components	50	52
90.30.0004	Pump Station Access Improvements	30	31
90.30.0005	Pump Station Rehabilitation	2,635	2,732
90.30.0006	Wet Well Cleaning & Restoration	380	384
90.30.0007	Lake Line Reach 1 Capacity Improvements	350	674
90.30.0008	Sewer Pipe Replacements & Upsizing		250
90.30.0009	Comp Hydraulic Model Development	250	
90.30.0010	Comprehensive Inflow and Infiltration (I/I) Evaluation	100	104
90.30.0012	Sewer Easements and Right-Of-Way	150	156
90.30.0013	General Sewer Plan Update		135
Sewer Utility CIP Total		\$4,125	\$4,693

Table 2

SEWER RATE PROPOSAL

The 2025 rate proposal is based on the 2025-2026 operating budget, the 2025-2030 Capital Improvement Program (CIP), and the corresponding debt financing needs. Staff recommends a 4.5% increase to the Sewer Utility rates for 2025 as proposed in the smoothed rate model.

This year-over-year smoothed rate model is predicated on leveraging outside funding beginning in 2027 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 for the Sewer Utility.

The proposed rate adjustment for FY 2025 is part of a multiyear effort to ensure the Sewer Utility Fund has adequate resources to complete 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 2025 enables the fund to achieve its target for both established guidelines, as detailed in Tables 3 & 4 below.

Revenue Requirement	2024	2025	2026	2027	2028	2029	2030
Pre Rate Revenues							
Revenues							
Rate Revenues Under Existing Rates	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868	\$ 6,186,868
Non-Rate Revenues	5,962,583	6,193,355	6,619,422	7,074,787	7,583,722	8,209,035	8,885,289
Total Revenues	\$ 12,149,451	\$ 12,380,223	\$ 12,806,290	\$ 13,261,655	\$ 13,770,590	\$ 14,395,903	\$ 15,072,157
Expenses							
Cash Operating Expenses	\$ 8,843,318	\$ 9,624,740	\$ 10,243,329	\$ 10,843,636	\$ 11,482,642	\$ 12,258,629	\$ 13,092,107
Existing Debt Service	1,031,829	1,028,615	1,029,601	623,618	626,625	623,725	-
New Debt Service	-	-	-	1,284,684	1,284,684	1,284,684	1,967,173
Total Expenses	\$ 9,875,147	\$ 10,653,355	\$ 11,272,931	\$ 12,751,938	\$ 13,393,951	\$ 14,167,038	\$ 15,059,280
Net Surplus (Deficiency)	\$ 2,274,304	\$ 1,726,868	\$ 1,533,359	\$ 509,717	\$ 376,639	\$ 228,864	\$ (470,110)
Annual Rate Increase		4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Cumulative Rate Increase		4.50%	9.20%	14.12%	19.25%	24.62%	30.23%
Post Rate Revenues							
Revenues After Rate Increases	\$ 6,186,868	\$ 6,465,277	\$ 6,756,215	\$ 7,060,244	\$ 7,377,955	\$ 7,709,963	\$ 8,056,911
Additional Taxes from Rate Increase	-	8,589	17,565	26,945	36,747	46,991	57,695
Net Cash Flow After Rate Increase	\$ 2,274,304	\$ 1,996,688	\$ 2,085,140	\$ 1,356,148	\$ 1,530,979	\$ 1,704,969	\$ 1,825,226
Sample Monthly Residential Bill 6 ccf	\$ 89.32	\$94.03	\$99.72	\$105.77	\$112.20	\$119.94	\$128.24
Monthly Increase (\$)		\$4.71	\$5.69	\$6.05	\$6.44	\$7.74	\$8.30

Table 3

Fund Balance	2024	2025	2026	2027	2028	2029	2030
Operating Reserve							
Beginning Balance	\$ 3,167,997	\$ 726,848	\$ 791,075	\$ 842,623	\$ 892,701	\$ 945,993	\$ 1,010,579
plus: Net Cash Flow after Rate Increase	2,274,304	1,996,688	2,085,140	1,356,148	1,530,979	1,704,969	1,825,226
less: Transfer of Surplus to Capital Fund	(4,715,453)	(1,932,461)	(2,033,591)	(1,306,070)	(1,477,687)	(1,640,383)	(1,755,879)
Ending Balance	\$ 726,848	\$ 791,075	\$ 842,623	\$ 892,701	\$ 945,993	\$ 1,010,579	\$ 1,079,926
<i>Actual Days of O&M</i>	30 days	30 days	30 days	30 days	30 days	30 days	30 days
Capital Reserve							
Beginning Balance	\$ 6,731,204	\$ 5,326,998	\$ 3,262,587	\$ 598,097	\$ 10,410,224	\$ 5,040,665	\$ 880,620
plus: Transfers from Operating Fund	4,715,453	1,932,461	2,033,591	1,306,070	1,477,687	1,640,383	1,755,879
plus: Revenue Bond Proceeds	-	-	-	16,000,000	-	-	8,500,000
plus: Interest Earnings	269,248	159,810	65,252	5,981	104,102	50,407	8,806
Total Funding Sources	\$ 11,715,905	\$ 7,419,269	\$ 5,361,430	\$ 17,910,148	\$ 11,992,014	\$ 6,731,455	\$ 11,145,306
less: Capital Expenditures	(6,388,908)	(4,156,682)	(4,763,333)	(7,499,924)	(6,951,348)	(5,850,835)	(10,106,371)
Ending Capital Fund Balance	\$ 5,326,998	\$ 3,262,587	\$ 598,097	\$ 10,410,224	\$ 5,040,665	\$ 880,620	\$ 1,038,934
<i>Minimum Target Balance</i>	\$ 501,174	\$ 542,741	\$ 590,375	\$ 665,374	\$ 734,887	\$ 793,396	\$ 894,459
Combined Beginning Balance	\$ 9,899,201	\$ 6,053,846	\$ 4,053,662	\$ 1,440,721	\$ 11,302,926	\$ 5,986,659	\$ 1,891,199
Combined Ending Balance	\$ 6,053,846	\$ 4,053,662	\$ 1,440,721	\$ 11,302,926	\$ 5,986,659	\$ 1,891,199	\$ 2,118,860

Table 4

Table 5 provides a summary comparing proposed rates from the most recent rate model updates (2020-2023) as compared to the current rate recommendation that is presented in the bottom row.

Description	2023	2024	2025	2026	2027	2028	2029	2030
2020 Rate Update	7.70%	7.70%						
2021-2022 Rate Update	4.00%	4.00%	4.00%	4.00%				
2023-2024 Rate Update	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%		
2025-2026 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 2025 Sewer Utility rate increases.

The 2025 Sewer Utility rate adjustment is on the City Council planning schedule for review and adoption on December 3, 2024 as part of the City’s annual Master Fee Schedule update. Staff will return during the 2025-2026 mid-biennial budget process with new information to inform potential annual rate adjustments for fiscal year 2026 and beyond.

RECOMMENDED ACTION

Accept the proposed Sewer Utility rate for FY 2025.