Letter of Interest

submittal

by the

City of Sandpoint

Idaho Department of Environmental Quality Clean Water Loan

Wastewater Treatment Plant Replacement Project

January 10, 2025

Jeremy Grimm, Mayor

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Section I. Project Information

Provide complete and accurate answers to receive the highest possible rating for your project. When possible, DEQ recommends working closely with your engineering consultant to complete this form. If you would like help completing this form, please contact DEQ at grants.loans@deq.idaho.gov to discuss technical assistance opportunities.

A. System Identification

System Name:	City of Sandpoint Wastewater Treatment Plant		
System Address:	1123 W. Lake St.		
City:	Sandpoint	State: ID	Zip: 83864
Is the system located wholly within incorporated city limits?			(●) Yes ( ) No
What City?	Sandpoint	County:	Bonner
System Phone:	208-263-3407	System Email:	
Population Served:	~9,000	Owner's Name:	City of Sandpoint
Owner's Phone:	208-263-3407	System Ownership:	( ) For Profit (●) Not-for-Profit
Name/Title of System Contact (if different from owner):			
Contact's Address:			
City:		State:	Zip:
Contact's Phone:		Contact's Email:	

Do you have a predesignated, licensed and designated responsible charge operator for your system as described in the "Wastewater Rules" (IDAPA 58.01.16.203.)? (●) Yes ( ) No

Name: Deven Hull License Number: WWT4-22122

Note: *If the facility has a National Pollutant Discharge Elimination System (NPDES) permit, Idaho Pollutant Discharge Elimination System (IPDES) permit, wastewater (WW) reuse permit, or a subsurface discharge permit, the permit number(s) must be provided.*

NPDES/IPDES Permit	WW Reuse Permit	Subsurface Permit
ID0020842		

B. Project Readiness		
Determine your community's readiness for Clean Water State Revolving Fund (SRF) funding by answering the following questions: **Select all that apply:**		
☑	1.	Your system is current with all payments of fines, state revolving fund loans, penalties, or fee assessments due to DEQ.
◉	2.	Your community has completed a DEQ-approved wastewater facility plan (with a final environmental determination) in the last five years. Date of approval: 1/1/2019 The City has a technically approved wastewater treatment facility plan dated 01/01/2019. Environmental determination and public outreach need to be completed for final approval. **OR** Your community is in the process of developing a new planning document and environmental determination that will be completed and submitted to DEQ for approval by December 31, 2024. **OR** You are proposing this loan to finance a planning document and environmental determination.
☐	3.	**For nonpoint source (NPS) applicants:** Your project is designed to address an NPS water pollution problem.
If you did not select questions 1 and either 2 or 3, do not complete or submit this form to DEQ. If you are interested in receiving a wastewater planning grant, fill out the Wastewater Planning Grant Letter of Interest (LOI) form.		
If you selected questions 1 and either 2 or 3, complete all applicable sections of this form.		
☑	4.	This LOI request is to address a budget shortfall or construction cost overrun for an existing project.
	5.	When will your project be ready to begin design? 7/1/2025
	6.	When will your project be ready to begin construction? 1/1/2026
		Provide a brief project timeline: The City has contracted with Keller Associates to develop the Preliminary Engineering Report (PER) for the Wastewater Treatment Plant Improvements project. The PER is anticipated to be submitted in March of 2025. The City plans on starting the environmental associated with the technical approved facility plan in March 2025. The City is planning to go out for a revenue bond in 2025. The City intends to begin some design efforts in 2025 extending into 2026 with construction beginning in 2026 through 2029.
☐	7.	The planning document was funded by the system or by an agency other than DEQ.
		If you selected question 7, the planning document may need modifications to meet SRF Program requirements. See the Outline and Checklist for Planning Document in The Grants and Loans Customer Handbook (www.deq.idaho.gov/SRF).
☐	8.	A final environmental determination has been issued. No environmental determination has been issued.
		If you selected question 8, provide the environmental document title (if separate from the planning document), date submitted to DEQ, and DEQ environmental determination date:
		Title:
		Submittal Date: / Determination Date:

C. Project Description	
1.	Describe the known or anticipated problems identified in your existing DEQ-approved wastewater facility plan for your wastewater system: The majority of the City's WWTP facilities are beyond their useful life and date back to being constructed prior to 1983. These facilities are frequently failing and temporary solutions are completed to keep the system functioning. The city struggles to find equipment replacement parts which require specific fabricated solutions for interim fixes. The existing treatment infrastructure that does not meet treatment capacity for existing conditions. High peak flow rates due to inflow/infiltration lead to excessive energy use and reduced level of water quality during peak flow events as the facilities are not designed to treat these high flows. The system also struggles to treat for high levels of phosphorus, TSS, BOD, and ammonia at the WWTP.
2.	Describe the alternative selected to correct the identified problem(s). Use the selected alternative in the facility plan for your wastewater system: The City intends to upgrade and replace virtually all aspects of the plant as indicated in the facility plan including headworks screening and grit removal, influent pumping, primary filters, conventional activated sludge, secondary clarifier, ultraviolet disinfection, solids handling, administration and lab facility, digestion facilities, backup power and SCADA controls.
3.	You intend to address emerging contaminants (e.g., PFAS, pharmaceuticals, etc.) in part or in whole with this project. **If you selected question 3,** contact DEQ's Grants and Loans Bureau at grants.loans@deq.idaho.gov to discuss additional funding opportunities prior to submitting this LOI.
D. Project Costs	
1.	Project Funding Requested from DEQ's SRF: $130000000 Project Funding from Other Sources: $_____ Estimated Total Project Cost: $_____
2.	Briefly describe or attach indicators or actions reflecting the community's interest or readiness to proceed on this project (e.g., minutes from public hearings): The City has developed a WWTP Facility Plan (adopted by City council in 2019), previously submitted a letter of interest for the WWTP improvements project in 2023, the city council approved a professional services contract with Keller Associates to develop the ongoing Preliminary Engineering Report for the WWTP improvements. The City also completed a rate study with a scheduled rate structure to cover the loan debt for a $61.5M loan. The City of Sandpoint was petitioned by Idaho Conservation League to advance the replacement of the WWTP in march 2024. The Idaho presented to Sandpoint City Council on March 20, 2024 to advance this replacement project. Support documents are attached.
3.	Does the system have the legal authority to incur the debt associated with the proposed project? **Select one:** (●) System does not yet have the legal authority to incur this debt ( ) Bond council or financial consultant retained ( ) Bond election scheduled. Indicate the date if applicable: _____ ( ) Legal instrument(s) in place (e.g., bond election, judicial confirmation) ( ) Homeowners Association (debt authority provided through bylaws) The City is working with a bond attorney and intends to go out for a revenue bond in the fall of 2025.

4.	What is the amount of debt that can be legally incurred? $0		
5.	What length of loan repayment is preferable? ○ 20 Years ◉ 30 Years		
6.	If you have already contacted an engineer about your project, indicate the status and provide contact information for the engineer (or firm): ○ Discussed with engineer ○ Obtained quote from engineer ◉ Signed contract with engineer		
	Engineer: Keller Associates - currently developing the Preliminary Engineering Report		
	Address: 601 E. Sherman Avenue		
	City: Sandpoint	State: Idaho	Zip: 83814
	Phone: 208-946-3312	Fax:	
	Email: kmeschko@kellerassociates.com		

Continue to Section II. Integrated Priority Rating System

Section II. Integrated Priority Rating System

"Rules for Administration of Wastewater and Drinking Water Loan Funds" (IDAPA 58.01.12.020.). Projects are identified for placement on priority lists by surveying eligible entities directly on an annual basis. Limited loan funds are awarded to projects based on priority ratings and readiness to proceed. Projects are rated by the Department on a standard priority rating form using public health, sustainability, the condition of the existing system and water quality criteria.

Answer the questions below and provide the requested documentation. Applicants or their consultants are encouraged to contact DEQ prior to the submittal deadline for assistance in answering the questions. **Rating will be determined by the answers and documentation provided.**

A. Public Health Emergency or Hazard – All Projects

IDAPA 58.01.12.020.02.a. Public health emergency or hazard certified by the Idaho Board of Environmental Quality, the Department, a District Health Department, or by a District Board of Health. Up to 150 points.

Note: *An emergency declaration must come from the DEQ Board or DEQ (i.e., director, water quality administrator, or regional administrators) or health department officials and must explicitly declare an emergency, not incidentally use the word. Emergency declarations dated more than 24 months prior to the LOI may be disqualified.*

☐	1.	An officially declared (as listed above) or designated public health hazard or emergency exists. *150 points*
		If you selected question 1, attach a copy of board documentation or certification. Label the attachment as Section II.A.1.

B. Regulatory Compliance Issues – Point Source Projects/Conventional Wastewater Projects

IDAPA 58.01.12.020.02.b. Regulatory compliance issues (e.g., noncompliance and resulting legal actions relating to infrastructure deficiencies at a wastewater facility). Up to 100 points.

Describe what the level of non-compliance this project is addressing by selecting one of the following:

1.	○ a.		**Low-Level Noncompliance:** Includes minor or inconsequential permit violations that will be resolved by the proposed project. *10 points*
	○ b.		**Moderate-Level Noncompliance:** Includes a first state or U.S. Environmental Protection Agency (EPA) warning letter, notice of violation, or equivalent that will be resolved by the proposed project. *25 points*
	◉ c.		**High-Level Noncompliance:** Includes a second state or EPA warning letter, compliance agreement schedule, consent order, or equivalent that will be resolved by the proposed project. *50 points*
		☑ i.	**High-Level Noncompliance:** The system has avoided formal litigation actions, court filings, or civil or federal court orders by negotiating compliance actions described in B.1.c with DEQ and/or a federal agency to address violations that are directly related to the proposed project. *25 points*

		☑ ii.	**High-Level Noncompliance:** The system has satisfied all deadlines, milestones, and submittals to date associated with the compliance actions described in B.1.c. *25 points*
☐ 2.	The system has received a draft permit with new or more stringent limits and compliance will be achieved by the proposed project. *75 points*		

C. Watershed Restoration – All Projects

IDAPA 58.01.12.020.02.c. Watershed restoration (e.g., implementation of best management practices or initiation of construction at wastewater collection and treatment facilities as part of an approved total maximum daily load plan, implementation of nonpoint source management actions in protection of a threatened water or is part of a special water quality effort). Up to 100 points.

Select all that apply:

1.	Surface Water:		
	☑ a.	Project will reduce impacts to surface water. *10 points*	
		Describe current impacts and how the project will reduce impacts: Currently the plant discharges to the Pend Oreille River, which is a §303(d)-listed water body. The proposed project will reduce nutrient and organic loadings to the river with higher level of treatment as well as reduced chemical byproducts.	
	☑ b.	Existing facility discharges to or is believed to be impacting a §303(d) water body. *10 points* Water Body Name: Pend Oreille River	
		Note: *303(d) listed streams can be viewed at: https://mapcase.deq.idaho.gov/wq2020/default.html. Locate the discharging stream for your project and select status to view category. 303(d) listed streams are classified as category 4 or 5 on the map. Contact your regional DEQ office if you are within tribal boundaries to determine impaired status.*	
	☐ c.	Project is for a point source and is expected to reduce a pollutant concern in the §303(d)-listed water body. *10 points* List Pollutant: _____	
	☐ d.	Project is for a point source that is exceeding the waste load allocation (WLA) listed in the approved TMDL. *10 points* List TMDL Name and WLA: It should be noted that Lake Pend Oreille Nearshore TMDL for Phosphorus.	
	☐ e.	Project is for a nonpoint source (NPS) and is expected to reduce a pollutant of concern in the §303(d)-listed water body. *10 points* List Pollutant: _____	
2.	**Groundwater:** Project will reduce impacts to groundwater by:		
	☐ a.	Reducing pollutant concentrations in a designated sole-source aquifer (i.e., Eastern Snake River Plain, Spokane Valley Rathdrum Prairie, or Lewiston Basin). *10 points* (https://www.deq.idaho.gov/water-quality/ground-water/aquifers)	

	☐ b.	Reducing nitrate concentrations in a designated Nitrate Priority Area. *10 points* (https://www.deq.idaho.gov/water-quality/ground-water/ground-water-quality)
	☐ c.	Reducing nitrate concentrations in a critical groundwater area. *10 points* (https://www.idwr.idaho.gov/water-rights/critical-groundwater-areas/map/)
☑ 3.	Point source applicants: Your system owners would be willing and able to sponsor an NPS project. *10 points*	
	Note*: See https://www.deq.idaho.gov/water-quality/grants-and-loans/nonpoint-source-subgrants-in-idaho or contact the Grants and Loans Bureau for details. Sponsorships are structured so that there is no rate impact to system users.*	

Nonpoint Source Watershed Load Reduction: Points are awarded according to the expected effectiveness of the project and the transferability of the demonstrated technologies to other parts of Idaho. The proposed project will either restore designated or existing beneficial uses, reduce the severity of NPS impacts, or promote statewide nonpoint pollution reduction or remediation. Examples include: streambank stabilization, surface water restoration, wetland restoration, or agricultural best practices such as no-till. **Supporting calculations must be provided.**

☐ 4.	The proposed project will reduce the NPS impact on overall pollutant loading to the watershed *25 points*
	List 8-digit hydraulic unit code name and number: 17020324
	Provide description and supporting calculations:

D. Preventing Impacts To Beneficial Uses

IDAPA 58.01.12.020.02.d/e. Watershed protection from impacts (e.g., improvement of beneficial use(s) in a given water body, evidence of community support, or recognition of the special status of the affected water body). Preventing impacts to uses (all projects). Up to 100 points.

Select all that apply:

1.	Will your project be:	
	☑ a.	Implementing a new recycled water system or refurbishing an existing one. *50 points*
	☐ b.	Converting individual septic systems to centralized treatment? *25 points*
	☐ c.	Refurbishing an existing lagoon? *10 points*
	☐ d.	Removing and disposing of biosolids or seepage testing an existing lagoon? *10 points*

2.	Beneficial uses are designated by the "Water Quality Standards" (IDAPA 58.01.02.100.). To which of the following beneficial uses listed will the planning effort analyze reducing current or prevent future impacts? A sufficient description would describe each beneficial use designation as listed in 58.01.02, 110, 120, 130, 140, 150, and 160 and explain how the planning effort will address impacts or improve beneficial uses designations. **Failure to provide sufficient description(s) will result in no points awarded.**	
	✔ a.	**Aquatic life** *25 points* Designation (COLD, SS, SC, WARM, or MOD): COLD Describe impacts prevented or improved: The improvements are anticipated to improve water quality significantly from disinfection byproducts and reduced phosphorus loading. Additionally the existing treatment capacity of the plant does not accommodate peak inflows resulting in a lower water quality effluent which has the potential to harm aquatic life during these events.
	✔ b.	**Recreation** *15 points* Designation (PCR or SCR): PCR Describe impacts prevented or improved: Excess nutrients promote growth of nuisance aquatic plants and impede navigation. The proposed project will reduce phosphorus and ammonia that contribute to this growth on the Pend Oreille River. Additionally the existing treatment capacity of the plant does not accommodate peak inflows resulting in a lower water quality effluent. Improvements will also improve the water quality for individuals using the river to swim in and recreate in. Floating algae is observed in the river that may be contributed to excess nutrients from discharge.
	✔ c.	**Other** *10 points* Designation (DWS): DWS Describe impacts prevented or improved: Downstream water quality will be improved as Sandpoint effluent quality is improved. Multiple water systems pull water downstream on the Pend Oreille River and overall effluent quality will improve downstream consumers.
3.	State Priorities: Preference is given to projects based on recognition of the special status of waters or uses of those waters. *10 points*	
	☐ a.	Project will prevent impacts to or improve water body listed in Chapter 43, Title 67, Idaho Code
	☐ b.	Project will prevent direct impacts to or improve a designated wild and scenic river segment? (https://www.rivers.gov/idaho)

	☐ c.	Other: Describe and attach documentation of special status or uses that deem the project a state priority. **Failure to provide sufficient documentation will result in no points being awarded.**
		Description:
4.	Project will implement one or more of the following:	
	☐ a.	Removal of stormwater outlets. *5 points*
	☐ b.	Conversion of a combined sewer to separate stormwater system. *5 points*
	☐ c.	Or similar projects (contact DEQ first). *5 points* Indicate type of project(s): _____

E. Sustainability (Green) Infrastructure Efforts

IDAPA 58.01.12.020.02.f. Sustainability Efforts (e.g., prospective efforts at energy conservation, water conservation, extending the life capital assets, green building practices, and other environmentally innovative approaches to infrastructure repair, replacement, and improvement). Up to 50 points.

Answers to the following questions can improve your overall rating. If you earn Priority List points for your responses in this section, you or your project engineer will need to evaluate or complete each item under the terms of the loan agreement.

Although only 50 points can be awarded under Section II.E, DEQ will incorporate all sustainability items selected below into the scope of the loan agreement for inclusion in the construction loan. All the items selected shall be incorporated into the project design and completed during construction.

Select all that apply – 5 points each (unless otherwise noted), up to a maximum of 50 points.

1.	**Management-based/Innovative Efforts:** These efforts could include the following:	
	☑ a.	Project design will implement cyber informed engineering (CIE) analysis and incorporate recommended security measures into the project. The CIE analysis must be incorporated into the plan and specifications submitted to DEQ for review and approval. CIE resources can be found at: https://inl.gov/national-security/cce/ *20 points*
	◉ b.	An ongoing capital budget has been funded and supported by a capital improvement plan. **OR**
	○	Request assistance to develop a capital improvement plan using a third party technical assistance provider (DEQ will contact you regarding the opportunity).

	◉ c.	A rate study has been completed in the last five years and has been or will be updated as part of the proposed project. The rate study is based on consumption-based full-cost pricing for wastewater supported by a capital budget (submit documentation). This means that: 1) Utility rates must be based on the flow and strength of the wastewater treated and 2) Utility rates must generate revenue sufficient to cover both operating and capital costs. Identify the professional (or organization) preparing the rate study: FCS Group **OR** ○ Request assistance to develop a rate study using a third party technical assistance provider (DEQ will contact you regarding the opportunity).
	☑ d.	A formal asset management system has been or will be implemented and updated routinely.
		Provide a description of asset management tools and implementation methods: The City intends to utilize an asset management software tool to track and identify operations and maintenance items with all of the WWTP facilities. This tool will aid in the annual budgeting and planning replacement of assets. A technical memorandum evaluating softwares will be completed.
	○ e.	System is currently a EPA Green Power Partner (submit documentation). **OR** ◉ System will evaluate becoming a EPA Green Power Partner as part of the proposed project.
	☐ f.	System is consolidating with an existing system as part of the proposed project. This must be addressed in the facility plan environmental determination and subsequent public participation. Identify which system(s): _____
	☑ g.	System will implement the recommendations of a professional energy audit. Identify auditor: Avista
	☑ h.	Proposed project will aid in preparation for adaptation to the long-term effects of climate variation, extreme weather, or drought.
		Provide description: The proposed project is preparing for adaptation to long term effects of climate change by planning for improvements that replace aging infrastructure, upgrade facilities to industry standards with current technology and equipment. Improvements are planned to make the system more resilient to changing conditions and weather through backup power, redundancy and improvement system capacity. Additional growth in the area is anticipated due to climate change and larger impacts in other areas in the world.
	☐ i.	Project will recover phosphorus for beneficial reuse.
	☑ j.	Project will significantly reduce or eliminate the use of chemicals in treatment.
	☑ k.	Project will significantly reduce or minimize the volume or toxicity of residuals.
	☐ l.	Project will recharge groundwater by land application of effluent for where there are other cost-effective discharge alternatives.
***Budget estimate allocated to management based-innovative efforts:**		**$_____**

2.	**Green Efforts:** Attach documentation supporting the green efforts. Green efforts could include, but are not limited to, the following:	
	☐ a.	Projects that involve the wetlands to improve water quality and/or support sustainable infrastructure efforts. This includes constructed wetlands as integrated into wastewater treatment unit process.
	☐ b.	Establishment or restoration of permanent riparian buffers, floodplains, wetlands, and other natural features, including vegetated buffers or soft bioengineered streambanks.
	☐ c.	Downspout disconnection to remove stormwater from sanitary sewers and separate storm sewers.
	☐ d.	Fee simple purchase of land or easement on land that has a direct benefit to water quality, such as riparian and wetland protection or restoration.
***Budget estimate allocated to green efforts:**		**$**_____
3.	**Water Conservation Efforts:** Attach documentation supporting the water conservation efforts. Water conservation efforts could include, but are not limited to, the following:	
	☐ a.	New wastewater reuse when other alternatives have been considered in the facility planning process. Including reclaimed water distribution system (“purple pipe”).
	☐ b.	Nonpoint source project will utilize Natural Resources Conservation Service best management practices.
	☐ c.	Retrofit or replace existing irrigation systems with more efficient irrigation systems.
***Budget estimate allocated to water conservation efforts:**		**$**2000000
4.	**Energy Conservation Efforts:** Attach documentation supporting the energy conservation efforts. Energy conservation efforts could include the following:	
	☑ a.	Variable frequency drive (VFD) pumps.
	☑ b.	Energy-efficient motors that meet National Electrical Manufacturers Association (NEMA) premium specifications.
	☐ c.	Heat pumps that reclaim heat from treated effluent.
	☑ d.	High-efficiency lighting/lighting controls.
	☑ e.	On-site energy generation, such as methane clean combustion, fuel cells, solar, or wind.
	☐ f.	Efficient replacements for vacuum dewatering systems.
	☑ g.	Aeration improvements, such as fine bubble aeration, VFD blowers, or automated dissolved oxygen control.
	☐ h.	Tertiary filtration that reduces ultraviolet disinfection power requirements.
	☐ i.	Pressure transmission line replacement resulting in reduced pumping costs.
	☑ j.	Supervisory control and data acquisition system installation.
	☑ k.	Infrastructure improvements that significantly reduce infiltration/inflow or eliminate lift station(s).
	☑ l.	Collection system infiltration/inflow detection equipment.

***Budget estimate allocated to energy conservation efforts:**	$8000000
***Note:** *Points may not be awarded if an estimated budget allocation is not provided. Planning Level estimates are acceptable for this purpose. Contact DEQ if further guidance is needed.*	
Examples that have been accepted for Idaho projects are found in the Grants and Loans Program Customer Handbook: *https://www.deq.idaho.gov/SRF*.	

F. Affordability / Disadvantaged Status

IDAPA 58.01.12.020.02.q. Affordability. Points shall be given when current system user charges exceed state affordability guidelines. Up to 10 points.

Provide information for Section II.F. If you qualify as a disadvantaged community, you will receive 10 points.

1.	How many equivalent dwelling unit (EDU) connections does your system serve? 3652	
2.	What is the current average user rate? $/month/EDU 85 Type of rate structure: ☐ Flat Fee - Fee amount: _____ ☑ Consumptive Use - Description: 2,000 gallons monthly and greater than 2,000 gallons ☐ Other: _____	
3.	What is the most recent date that user rates have been increased: 2024	
4.	Expected change in operation and maintenance cost upon completion, not including debt service: $/month/EDU 20	
5.	Does the current average user rate include charges to retire the SRF debt for which you are applying? ○ Yes ◉ No	
	a.	**If YES,** how much of the rate is devoted to debt retirement? $/month/EDU _____
	b.	**If NO,** how much will rates be increased to cover debt retirement? Rates are planned to cover a $61.5M debt obligation loan by 2028. $/month/EDU 25.00
6.	**Disadvantaged Community Loans:**	
	This section is intended to assist lower-income communities. Principal forgiveness and other potential loan adjustments are available to communities that demonstrate that the user rates exceed 2% of the community median household income (MHI). Contact DEQ's Grants and Loans staff if you have any questions. Project funding request will result in an exceedance of 2% of the MHI to fund the needed improvements.	
	a.	Median household income calculation instructions:
		i. Go to https://censusreporter.org/locate/.
		ii. Select "Use your current location" or enter an address for any residence or location in your community and select the choice provided by the application.
		iii. Hover your cursor over each item in the list on the left of the screen and view the corresponding green area represented on the map.

		iv.	Click on the smallest and most representative area for your community either on the map or in the list for the data.
		v.	Scroll down to economics and enter the MHI: $60208 **If there was N/A for median income, choose the next largest area from the list.**
		vi.	Provide the data to DEQ. Either take a screenshot of the data (Label attached documents as "Section II.F, part number(s)") and include it with your application or provide the citation (scroll to the bottom of the page and copy/paste the information after "Citation") here: https://censusreporter.org/profiles/16000US1672100-sandpoint-id/
	b.	Does the income level generally reflect your community's average MHI?	
	◉	**Yes,** it is generally representative of the community.	
	○	**No,** contact the DEQ Grants and Loans Bureau (grants.loans@deq.idaho.gov) for other means to evaluate your community's MHI.	
	c.	If the annual residence user does not exceed 2% of the community's MHI, but exceeds 1.5% of the community's MHI, you can still qualify if the community's unemployment rate exceeds the statewide average and the community's population is decreasing.	
		i.	Provide evidence from the U.S. Census, Bureau of Labor Statistics or Idaho Department of Labor showing the area's unemployment rate and
		ii.	Provide evidence of a declining population, such as comparing current census data to previous census data or using the population percent change from the U.S. Census QuickFacts.
	Label attached documents as "Section II.F, part number(s)".		
	Note*: If the annual residential user rates do not exceed 2% of the community's MHI, but exceed 1.5% of the community's MHI, you can still qualify if the community's unemployment rate exceeds the statewide average and the community's population is decreasing.*		

Continue to Section III. Authorized Submitter

Section III. Authorized Submitter	
Are you willing to allow us to share your LOI with other federal funding agencies? ◉ Yes ○ No	
✔ **I understand that if awarded funding, costs incurred prior to the award are not eligible for reimbursement unless a written request and justification are submitted to and approved by DEQ.**	
I certify that, to the best of my knowledge, all information provided here is valid and correct:	
Submitter Name: Holly Ellis	Title: Public Works Director
Company: City of Sandpoint	Date: 1/10/2025
If the submitter is different from the system contact, does the submitter have the authority to submit this LOI on behalf of the system contact? ◉ N/A ○ Yes ○ No	

Return completed form by January 10, 2025, to:

Idaho Department of Environmental Quality
Attn: Garrett Deegear
1410 North Hilton St.
Boise, ID 83706
grants.loans@deq.idaho.gov
Phone: (208) 373-0134 Fax: (208) 373-0576

Letter from Mayor Grimm

SANDPOINT

January 10, 2025

Attn: Idaho Department of Environmental Quality
1410 North Hilton St.
Boise, ID 83706

Re: Clean Water Loan Letter of Interest and Rating Form FY2026

Dear SRF Funding Committee:

We are writing to express our strong support for the City of Sandpoint's request for funding to upgrade and replace the City's aging wastewater treatment plant (WWTP). The majority of the WWTP facilities were constructed prior to 1983 and are beyond their useful life expectancy. Replacement and upgrades have been deferred for decades and now pose a significant risk to both the local and regional environment and communities.

The existing WWTP does not have the treatment capacity to handle current peak inflows associated with large inflow and infiltration events. During these events, the system is overwhelmed, leading to reduced treatment of wastewater prior to discharge. This exacerbates the risk of contamination and poses a significant threat to public health and the ecosystem. This has resulted in system failures and environmental hazards that threaten the health and well-being of our community and the Pend Oreille River. This poses a serious threat to the water quality and the overall ecosystem of the region.

In recent years, the City has faced several violations related to its wastewater discharge permit. The Environmental Protection Agency (EPA) has cited the City for failing to comply with its National Pollutant Discharge Elimination System (NPDES) permit at its wastewater treatment plant. These violations include effluent limit exceedances under 40% and over 40% for conventional pollutants. Such violations highlight the urgent need for infrastructure improvements to prevent further environmental damage and ensure compliance with regulatory standards.

Investing in the replacement and upgrade to modernize the WWTP is crucial for several reasons. Firstly, it will enable the City to comply with current environmental regulations and standards, thereby protecting our natural resources. Secondly, it will enhance the efficiency and reliability of the wastewater treatment process, reducing the risk of system failures and capacity exceedance.

Lastly, it will support the City's growth and development by providing a robust infrastructure that can accommodate future demands.

The proposed improvements include the replacement of outdated equipment, the expansion of treatment capacity, and the implementation of advanced technologies including UV disinfection to enhance the overall performance of the wastewater system. These upgrades will not only address the immediate concerns but also provide long-term benefits by ensuring the sustainability and resilience of the city's wastewater infrastructure.

The City is committed to moving forward with upgrades, but funding and grant monies are required for implementing the improvements. The funding request without grants would result in monthly rates that exceed more than 4% of the median household income. The current adopted rate schedule are set to accommodate a $61.5M loan to implement the project (2028), which equates to $95/EDU/month. The City is also actively developing the preliminary engineering report with the intent of beginning design in 2025.

We urge you to consider the City of Sandpoint's request for funding as a priority. The investment in wastewater improvements is essential for safeguarding the health of our community, protecting our environment, and supporting the city's future growth. Your support will make a significant difference in addressing the critical needs of our aging infrastructure and ensuring a cleaner, safer, and more sustainable future for Sandpoint.

Thank you for your attention to this important matter. We are confident that with your support, we can achieve the necessary improvements to our wastewater facilities and protect the well-being of our community and environment.

Sincerely,

Jeremy Grimm
Mayor
City of Sandpoint

Holly Ellis
Public Works Director
City of Sandpoint

Deven Hull
WWTP Supervisor
City of Sandpoint

Regulatory Compliance Issues

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
Region 10, 1200 Sixth Avenue, Seattle, Washington 98101
EXPEDITED SETTLEMENT AGREEMENT
Docket Number: CWA-10-2024-0085, NPDES No. ID0020842
Penalty Amount: $3,450, Inspection Date: May 1, 2024

The United States Environmental Protection Agency (EPA) and the City of Sandpoint ("Respondent"), a "person" within the meaning of Section 502(5) of the Clean Water Act, 33 U.S.C § 1362(5), and 40 C.F.R § 122.2, enter into this Expedited Settlement Agreement ("Agreement") to resolve Respondent's civil penalty liability for alleged violations of the National Pollutant Discharge Elimination System permit cited above ("Permit").

The EPA finds that Respondent failed to comply with the Permit, that the Permit was issued pursuant to section 402 of the Clean Water Act (Act), 33 U.S.C. § 1342, that Respondent is a "person" as defined in section 502(5) of the Act, 33 U.S.C. § 1362(5), and that Respondent is responsible for the violations specified in the attached Expedited Settlement Offer Worksheet Violations Form for Wastewater ("Violations Form"). The Violations Form is incorporated into this Agreement by reference.

The EPA also finds, and Respondent admits, that the EPA has jurisdiction over this matter pursuant to section 309(g) of the Act, 33 U.S.C. § 1319(g), and 40 C.F.R. part 22. Respondent neither admits nor denies the violations specified in the Violations Form.

Respondent agrees to pay a penalty of $3,450. Respondent waives the rights (1) to contest the statements in the Violations Form and (2) to appeal any final order that an EPA Regional Judicial Officer may issue to ratify this Agreement (Final Order).

Respondent certifies, subject to civil and criminal penalties for making a false statement to the United States Government, that any violations identified in the Violations Form have been corrected. No later than the date it signs this Agreement, Respondent shall submit an itemized list to the EPA detailing the specific actions taken to correct the violations cited in the Violations Form.

Respondent certifies that, within ten (10) days after receipt of the Final Order, Respondent will submit electronic payment via www.pay.gov or submit a bank, cashiers, or certified check, with case name and docket number noted, for the amount specified above, payable to the "Treasurer, United States of America," via certified mail, to:

Regional Hearing Clerk
U.S. EPA, Region 10
Fines and Penalties, Cincinnati Finance Center
In the Matter of: City of Sandpoint
Docket No.: CWA-10-2024-0085
P.O. Box 979078
St. Louis, MO 63197-9000

Respondent agrees that consistent with section 162(f)(1) of the Internal Revenue Code, 26 U.S.C. § 162(f)(1), it will not deduct the penalties paid under this Agreement for federal tax purposes.

This Agreement, upon incorporation into a Final Order and full satisfaction by the parties, shall be a complete and full resolution of Respondent's liability for federal civil penalties for the violations and facts alleged in the Violations Form. This Agreement does not affect the right of the EPA or the United States to pursue additional violations not specifically listed in the Violations Form or appropriate injunctive or other equitable relief or criminal sanctions for any violations of law. Nothing in this Agreement shall relieve Respondent of the duty to comply with the Act and any regulation, order, or permit issued pursuant to the Act.

Prior to requesting that an EPA Regional Judicial Officer issue the Final Order, EPA will provide a copy of the Agreement to the state of Idaho for the purposes of consultation with Idaho on the appropriateness of this Agreement. EPA will also provide public notice of this Agreement and a reasonable opportunity for public comment on it. EPA will address any comments on the Agreement in accordance with section 309(g)(4) of the Act, 33 U.S.C. § 1 3 19(g)(4), and 40 C.F.R. § 22.45.

This Agreement is binding on the parties signing below and becomes final 30 days from the date it signed is by the Regional Judicial Officer, unless a petition to set aside this Agreement is filed by a commenter pursuant to Section 309(g)(5) of the Act, 33 U.S.C. §1391(g)(5), following public notice of this Agreement.

APPROVED BY RESPONDENT:
Name
(print):_____

Title
(print): _____

Signature:_____ Date:_____

APPROVED BY EPA:

_____
Edward J. Kowalski, Director
Enforcement and Compliance Assurance Division

More than 40 days have elapsed since providing the Agreement to Idaho and the issuance of public notice pursuant to Section 309(g)(1) and (4)(A) of the Act, 33 U.S.C. § 1319(g)(1) and (4)(A), and EPA has received no comments concerning this matter.

_____
Nicolas Haddad, Case Officer
Enforcement and Compliance Assurance Division

Having determined that this Agreement is authorized by law,
IT IS SO ORDERED:

_____
Regional Judicial Officer
Region 10
U.S. Environmental Protection Agency

Expedited Settlement Offer Worksheet
Violations Form For Wastewater

REGION 10
SEATTLE, WA 98101

Version 1 (updated April 2019)

Consult instructions regarding eligibility criteria and procedures prior to use.

		LEGAL NAME AND MAILING ADDRESS OF RESPONSIBLE ENTITY	PDES Permit Number	
1		Mayor Jeremy Grimm 1123 Lake Street Sandpoint, Idaho 83864	ID0020842	
			Permit Effective Date:	12/1/17
			Permit Expiration Date:	11/30/22

		LOCATION AND ADDRESS OF FACILITY	EPA Contact Name:	Nicolas Haddad
2		City of Sandpoint 723 South Ella Avenue Sandpoint, ID 83864	EPA Contact Title:	Case Officer
			EPA Office:	Region 10

		FACILITY DESCRIPTION / CONTACT NAMES	
		Name of Facility Contact (ESO Worksheet recipient):	Deven Hull
		Name of Authorized Official (40 CFR 122.22):	Jeremy Grimm
		Are any findings a result of an inspection?	No
		Inspection Date(s) (if applicable):	N/A
3		**Name of Receiving Water Body (Indicate whether 303(d) listed):**	Pend Oreille River

		PRIVATE ENTITY ADJUSTMENT FACTOR				
4		Is the entity privately owned?	If yes, adjustment factor of 2.0 is applied.	No		1.0

		FLOW ADJUSTMENT FACTOR
5		Select the appropriate average volume of flow on a day of discharge in millions of gallons per day (MGD). If a facility discharges only on a periodic basis, do not include days with zero flow when calculating the average flow:

	A	<0.050 mgd (no adjustment is applied)	No adjustment factor is applied.			
	B	≥0.050 mgd and <0.250 mgd	Adjustment factor of 1.5 is applied.			
	C	≥0.250 mgd and <1 mgd	Adjustment factor of 3.0 is applied.			
	D	≥1 mgd and <5 mgd	Adjustment factor of 6.0 is applied.	X		6.0
	E	≥5 mgd and <10 mgd	Adjustment factor of 10.0 is applied.			
	F	≥10 mgd and <50 mgd	Adjustment factor of 15.0 is applied.			
	G	≥50 mgd	Adjustment factor of 20.0 is applied.			
		REPEAT VIOLATOR ADJUSTMENT FACTOR				
6	A	How many other state and federal formal enforcement actions has the responsible entity been subject to in the last three years? Include enforcement actions at this facility and any other facilities.	For each enforcement action, adjustment factor is increased 50%.	0		1.0
					TOTAL ADJUSTMENT FACTOR	6.00

Notes: * RCA = Requires Corrective Action

			Violation(s) / Corrective Action(s)	CWA / Permit Citation	RCA*	No. of Viol-actions	Dollar Amount w/ Adjust. Factor		Total
		MONITORING / REPORTING	**ESA eligible if violations occurred within the 24 months immediately prior to the ESA offer.**						
7		Failure to submit compliance schedule report:							
	A	Late but less than 30 days late					$300	=	
	B	Submitted more than 30 days late					$450	=	
	C	Not submitted					$900	=	
8		Failure to submit timely discharge monitoring report (DMR) and/or DMR submitted with failure to conduct self-monitoring:							
	A	DMR late but less than 30 days late					$300	=	
	B	DMR submitted more than 30 days late					$450	=	
	C	DMR not submitted or DMR submitted with a failure to sample pollutants - conventional pollutants					$450	=	
	D	DMR not submitted or DMR submitted with a failure to sample pollutants - toxic pollutants					$450	=	
9		Failure to conduct self-monitoring in accordance with permit requirements, including but no limited to required sample type, sample location, representative sampling, meeting 40 CFR 136 or other permit requirements (count each pollutant with one or more failures)					$150	=	
10		Failure to submit any other required report or notice (e.g., biosolids report, pretreatment report, industrial user notification, planned changes, anticipated noncompliance, anticipated bypass, etc.):	I.D.Table 3: Permittee must analyze for each of the 209 individual congeners. Requirements, including when monitoring may end, are described. Schedule date was 7/20/22. Report was received 10/21/22.	I.D.Table 3					
	A	Late but less than 30 days late					$300	=	
	B	Submitted more than 30 days late			Yes	1	$450	=	$450
	C	Not submitted					$900	=	

11		24-Hour Noncompliance Notice								
	A	Failure to provide notice of noncompliance					$450	=		
	B	Noncompliance notice late					$300	=		
12		5-Day Written Noncompliance Follow-up Report:								
	A	Failure to provide report					$450	=		
	B	Report provided late and/or incomplete					$300	=		
13		Noncompliance Not Required Within 24 Hours:								
	A	Failure to provide report with DMR					$150	=		
	B	Report provided late and/or incomplete					$60	=		
								Subtotal Monitoring / Reporting Violations		$450

		OPERATIONS AND MAINTENANCE	ESA eligible if violations occurred within the 24 months immediately prior to the ESA offer.						
14		Failure to conduct and document self-inspections of facility (count each month with one or more missed and/or undocumented inspection)					$240	=	
15		Failure to document all required information in self-inspections or conduct a complete inspection (count each month with one or more partially documented/completed inspection unless the month is accounted for in #15)					$120	=	
16		Failure to identify and document corrective actions					$120	=	
17		Failure to meet operation and maintenance requirement of the permit					$600	=	
18		Failure to manage removed substances in accordance with the permit					$1,500	=	
						Subtotal Operations and Maintenance Violations			$0

		EFFLUENT LIMITATIONS	ESA eligible if violations occurred within the 12 months immediately prior to the ESA offer.						
19		Failure to meet effluent limitations:	I.B.1: The permittee must limit and monitor discharges from outfall 001 as specified in Table 1. The permittee must comply with the effluent limits in the tables at all times unless otherwise indicated, regardless of the frequency of monitoring or reporting required by other provisions of this permit.						
	A	Months with effluent exceedance less than 40% above the limit - conventional pollutants		I.B.1	Yes	4	$300	=	$1,200
	B	Months with effluent exceedance 40% or more above the limit - conventional pollutants		I.B.1	Yes	4	$450	=	$1,800
	C	Months with effluent exceedance less than 20% above the limit - toxic pollutants					$600	=	

	E	Months with effluent exceedance 20% or more above the limit - toxic pollutants	The permittee exceeded the effluent limits for the following conventional pollutants in the last 12 months. June 2023 - e.coli; 149% exceedance December 2023 - total suspended solids; 7% and 16% exceedance December 2023 - e.coli; 149% exceedance December 2023 - BOD, percent removal; 73% exceedance January 2024 - e.coli - 149% exceedance February 2024 - e. coli, 35% exceedance February 2024 - BOD, percent removal, 20% exceedance March 2024 - BOD, percent removal, 33% exceedance				$1,200	=	
						Subtotal Effluent Limitations Violations			$3,000
		RECORDS	**ESA eligible if violations occurred within the 24 months immediately prior to the ESA offer.**						
20		Failure to create/maintain sampling and/or analysis records (count each month with one or more failure)					$240	=	
21		Failure to maintain other records required by the permit (count each month with one or more failure excluding records not maintained in #22)					$150	=	
						Subtotal Records Violations			$0
		INDUSTRIAL WASTE	**ESA eligible if violations occurred within the 60 months immediately prior to the ESA offer.**						
22		Failure to meet industrial waste management/pretreatment requirement for POTWs without approved pretreatment programs (excluding failure to provide notice counted in #11)					$600	=	
		ECONOMIC BENEFIT ESTIMATE	**ESA eligible if estimated economic benefit of noncompliance is less than total ESA offer.**						
23		Enter total estimate economic benefit calculated rounded up to the nearest $50		$ 575		**ESA eligible**			
						Total Expedited Settlement			**$3,450**

REGION 10
SEATTLE, WA 98101

RETURN RECEIPT REQUESTED

The Honorable Jeremy Grimm
Mayor
City of Sandpoint
1123 Lake Street
Sandpoint, Idaho 83864

Re: Expedited Settlement Agreement (ESA) for City of Sandpoint Wastewater Treatment Plant in Sandpoint, Idaho

Dear Mayor Grimm:

The U.S. Environmental Protection Agency (EPA) conducted a desk audit for the City of Sandpoint Wastewater Treatment Plant ("Facility") located at 723 South Ella Avenue, Sandpoint, Idaho on May 1, 2024 for compliance with its National Pollutant Discharge Elimination System (NPDES) permit and the Clean Water Act (CWA). The desk audit reviewed the Facility's compliance through EPA's national database, the Integrated Compliance Information System, which contains information regarding discharge monitoring reports (DMRs) and other reports required to be submitted by the Permit. The desk audit and subsequent administrative records review indicated that the City of Sandpoint violated the December 1, 2017, National Pollutant Discharge Elimination System (NPDES) permit number ID0020842 ("Permit").

EPA has authority under section 309 of the CWA, 33 U.S.C. § 1319, to take enforcement actions, including seeking civil penalties, for the alleged violations specified in the enclosed Expedited Settlement Offer Worksheet Violation Form ("Violations Form"). At this time, rather than undertake a more traditional enforcement action for civil penalties, EPA is offering the Respondent the opportunity to enter into the enclosed Expedited Settlement Agreement (ESA), provided the Respondent (1) has corrected the deficiencies cited in the Violations Form and (2) agrees to pay the administrative civil penalty in the Violations Form.

EPA encourages the expedited settlement of easily verifiable and correctable violations, such as those identified in the Violations Form. You may therefore choose to resolve the violations identified on this Violations Form quickly, without protracted litigation, by correcting the violations and signing and returning the attached ESA, in which you agree to submit payment for the reduced quick settlement penalty of **$3,450**. The ESA is issued in accordance with the Consolidated Rules of Practice Governing the Administrative Assessment of Civil Penalties, and the Revocation, Termination or Suspension of Permits at 40 C.F.R. Part 22.

In order to avail yourself of the ESA option, you must take the following steps within 30 days of your receipt of this letter:

1. Agree to correct all the violations identified in the Violations Form within 30 days of your receipt of this letter or an alternative time frame approved by EPA in writing. Please work with the Compliance Officer listed below to provide documentation of these corrections;

2. Return a digital copy of the signed Expedited Settlement Agreement by email to:

   Nicolas Haddad, Compliance Enforcement Officer
   haddad.nicolas@epa.gov

If you are unable to email these items, then return the signed original ESA by certified mail to:

Nicolas Haddad
U.S. Environmental Protection Agency, Region 10
1200 6th Avenue, Suite 155, 20-C04
Seattle, Washington 98101

EPA will provide an opportunity for public comment on the ESA for 30 days. Assuming no public comments warrant a change to the ESA, EPA would then ask the Regional Judicial Officer to issue a Final Order approving the ESA. Within 10 days of your receipt of the Final Order, you must submit penalty payment in accordance with the instructions in the attached ESA and proof of payment to the Compliance Officer identified above.

We look forward to hearing from you.

Sincerely,

EDWARD KOWALSKI
Digitally signed by EDWARD KOWALSKI
Date: 2024.05.30 12:10:55 -07'00'

Edward J. Kowalski
Director
Enforcement and Compliance Assurance Division

Enclosures
1. Expedited Settlement Agreement
2. Expedited Settlement Offer Worksheet Violations Form

cc: Deven Hull
Operator

Mary Anne Nelson
IDEQ Surface and Wastewater Division Administrator

Troy Smith
IDEQ Compliance and Enforcement Supervisor

Project of Cost

City of Sandpoint - WWTP Improvements PER Opinion of Costs		
Item	**Estimated Cost**	**Estimated Green Energy Costs**
Site Work	$ 2,200,000	$ -
Yard Piping	$ 2,290,000	$ -
Bypass Pumping/Power	$ 600,000	$ -
Generator	$ 750,000	$ -
Headworks	$ 2,932,000	$ -
Primary Filters and Pump Station	$ 11,556,000	$ 675,000
Process Basins	$ 12,055,000	$ 500,000
Secondary Clarifiers	$ 13,114,000	$ -
UV Disinfection	$ 1,175,000	$ 25,000
Aanerobic Digesters	$ 9,181,000	$ 750,000
Sludge Thickening	$ 1,646,000	$ 25,000
Administration Building	$ 1,878,000	$ 25,000
Optional Demolition Work	$ 510,000	$ -
SCADA Integration	$ 1,000,000	
Subtotal	**$ 60,887,000**	**$ 2,000,000**
General Conditions (10%)	$ 6,089,000	
Subtotal	**$ 66,976,000**	
Contingency (40%)	$ 26,791,000	
Subtotal	**$ 93,767,000**	
Contractor OH&P (15%)	$ 14,066,000	
Subtotal	**$ 107,833,000**	
Professional Services (20%)	$ 21,600,000	
Total Estimated Project Cost	**$ 129,433,000**	

Project Readiness

- **M**eeting Minutes from January 8, 2025 City Council Meeting (2 pages)
- Resolution 25-003 Letter of Interest to DEQ for WWTP (1 page)
- Resolution 24-057 WWTP Preliminary Engineering Report Development (1 page)
- Resolution 22-079 WWTP Funding (3 pages)
- Resolution 18-49 WWTP Facility Plan (1 page)
- Resolution 18-45 WWTP Alternative Selection (1 page)
- Utility Rate Study (45 pages)

CITY COUNCIL SPECIAL MEETING MINUTES

January 08, 2025 at 5:30 PM

Council Chambers at City Hall - 1123 W. Lake St. Sandpoint, Idaho

Call to Order

The special meeting of the Sandpoint City Council was called to order by Mayor Jeremy Grimm at 5:30 p.m. on Wednesday, January 8, 2025, in Council chambers at City Hall, 1123 W. Lake St., Sandpoint, Idaho.

Roll Call

PRESENT
Mayor Jeremy Grimm
Councilor Deb Ruehle, Council President
Councilor Joel Aispuro*
Councilor Justin Dick
Councilor Kyle Schreiber
Councilor Pam Duquette
Councilor Rick Howarth

*Councilor Aispuro was absent at roll call, arriving at 6:07 p.m.

Under the City's adopted Code of Ethics and Civility, Mayor Grimm identified Cpl. Mike Hutter as law enforcement personnel in the room serving as sergeant-at-arms for the meeting.

Pledge of Allegiance

Mayor Grimm led all present in the Pledge of Allegiance.

Public Comments

Mayor Grimm recited the rules and procedure for public comment, followed by an opportunity for comments from the public regarding the Consent Calendar, Old/New Business items on the agenda, and other topics relevant to the business of the City of Sandpoint. Information only; no Council action.

Consent Calendar

Central Services Director Cheryl Hughes fielded Council questions, followed by a motion to approve the Consent Calendar.

Motion made by Councilor Dick, Seconded by Councilor Schreiber.
Voting Yea: Councilor Ruehle, Councilor Dick, Councilor Schreiber, Councilor Duquette, Councilor Howarth

Absent: Councilor Aispuro

1. The minutes from Council's December 18, 2024, Regular Meeting were approved as presented.
2. **Resolution 25-001** Approving PO #25-1443 to Owen Equipment Company / Ben-Ko-Matic Co for Purchase of Vactor Truck Mounted Single Engine Combination Sewer Cleaner
3. **Resolution 25-002** Memorandum of Understanding for Amendment to the 2024-2027 Article 17 Collective Bargaining Agreement with the International Association of Firefighters Local 2319

New Business

4. **Resolution 25-003** Directing Submission of a Letter of Interest (LOI) to Idaho Department of Environmental Quality for Future Funding of Wastewater Treatment Plant (WWTP) Replacement

   Public Works Director Holly Ellis introduced this item and, along with representatives from the City's consultant, Keller Associates - Vice President Jim Mullen and Engineer/Coeur d'Alene Office Manager Kyle Meschko, who provided a brief presentation - fielded questions from the Council members.

   Councilor Schreiber moved to amend the proposed LOI to indicate that the City would be willing to participate in the Environmental Protection Agency's (EPA) Green Power Partnership, a voluntary program designed to reduce the environmental impact of conventional electricity generation by encouraging organizations to purchase electricity generated from renewable sources like solar, wind, and geothermal power, thereby minimizing air pollution and greenhouse gas emissions associated with traditional energy sources. Councilor Duquette seconded the motion, and all Council members concurred.

   Motion to approve the Resolution Directing Submission of a Letter of Interest (LOI) to Idaho Department of Environmental Quality for Future Funding of Wastewater Treatment Plant Replacement.

   Motion made by Councilor Ruehle, Seconded by Councilor Duquette.
   Voting Yea: Councilor Ruehle, Councilor Aispuro, Councilor Dick, Councilor Schreiber, Councilor Duquette, Councilor Howarth

   Following approval of the Resolution, Mr. Meschko provided a general update on the wastewater treatment plant project.

Executive Session

5. Motion to convene in executive session pursuant to Idaho Code § 74-206(1)(c) to acquire an interest in real property not owned by a public agency and Idaho Code § 74-206(1)(f) to communicate with legal counsel for the public agency to discuss the legal ramifications of and legal options for pending litigation, or controversies not yet being litigated but imminently likely to be litigated.

   Motion made by Councilor Ruehle, Seconded by Councilor Aispuro.
   Voting Yea: Councilor Ruehle, Councilor Aispuro, Councilor Dick, Councilor Schreiber, Councilor Duquette, Councilor Howarth

Mayor Grimm asked those not participating in the executive session to please exit the room and announced that the meeting recording and remote online attendance would end.

6. The executive session was held. No final action was taken, and no final decisions were made during the session.

Reconvene and Adjourn

Following conclusion of the executive session, the meeting was reconvened and then immediately adjourned at 8:07 p.m.

I presided over this meeting and can confirm that the foregoing minutes, prepared by the City Clerk, were approved by City Council during their regular meeting held on _____, 2025.

Jeremy Grimm, Mayor

Attest: Melissa Ward, City Clerk

No: 25-003
Date: January 8, 2025

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: DIRECTING SUBMISSION OF A LETTER OF INTEREST (LOI) TO IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY FOR FUTURE FUNDING OF WWTP REPLACEMENT

WHEREAS: The City of Sandpoint owns and operates one wastewater treatment plant, which discharges into the Pend Oreille River;

WHEREAS: Portions of this plant date back to the 1940s, with many components now obsolete, deteriorated, or undersized, making operations difficult, where, although operators generally maintain treated water quality that meets discharge requirements, potential component failures could lead to excess pollutant discharge;

WHEREAS: Reconstructing this plant is a high priority for the City;

WHEREAS: In 2019, the City adopted a Wastewater Facility Plan, outlining the need for a new facility with a capacity of approximately 10.7 million gallons per day (mgd), estimated to cost over $60 million, where this Plan, along with the 2023 Wastewater Collection Evaluation Plan, comprehensively assessed the performance of the existing collection system and informed the revenue requirements for the utility rate study;

WHEREAS: To finance this project, the City plans to leverage multiple funding sources, including a recent increase in wastewater utility rates, which marked an initial step toward securing funds, as well as a mix of additional funding sources, such as loans and bonds, and actively pursuing grant funding to minimize the burden on ratepayers;

WHEREAS: One potential funding source is the State Revolving Loan Fund (SRF), administered by the Idaho Department of Environmental Quality (DEQ), offering 20-year loans at below-market rates, potentially covering 100% of drinking water and wastewater facility improvement project costs, to include planning, design, and construction; and

WHEREAS: DEQ opens the opportunity to submit a Letter of Interest (LOI) for this funding at the beginning of each year, with this year's deadline for LOI submission set for January 10, 2025.

NOW, THEREFORE, BE IT RESOLVED THAT: City staff is hereby directed, on or before the prescribed deadline, to submit a Letter of Interest to the Idaho Department of Environmental Quality for funding from the State Revolving Loan Fund for the purpose of funding improvements to the City's wastewater treatment plant.

Jeremy Grimm, Mayor

ATTEST:

Melissa Ward, City Clerk

No: 24-057
Date: August 7, 2024

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: PROFESSIONAL SERVICES AGREEMENT WITH KELLER ASSOCIATES FOR WASTEWATER TREATMENT PLANT PRELIMINARY ENGINEERING REPORT (CITY AGREEMENT #A24-3257-1)

WHEREAS: The City of Sandpoint owns and operates one wastewater treatment plant, which discharges into the Pend Oreille River;

WHEREAS: Portions of this plant date back to the 1940s, with many components now obsolete, deteriorated, or undersized, making operations difficult, where, although operators generally maintain treated water quality that meets discharge requirements, potential component failures could lead to excess pollutant discharge;

WHEREAS: Reconstructing the wastewater treatment plant is a high priority for the City;

WHEREAS: In 2019, the City adopted a Wastewater Facility Plan, outlining the need for a new facility with a capacity of approximately 10.7 million gallons per day (mgd), estimated to cost over $60 million, with this Plan, along with the 2023 Wastewater Collection Evaluation Plan, comprehensively assessing the performance of the existing collection system and informing the revenue requirements for the 2022 rate study;

WHEREAS: To finance this project, the City plans to leverage multiple funding sources, including a recent increase in wastewater utility rates, which marked an initial step towards securing funds, as well as a mix of additional funding sources, such as loans and bonds, and actively pursuing grant funding to minimize the burden on ratepayers;

WHEREAS: One potential funding source is the State Revolving Loan Fund (SRF), administered by the Idaho Department of Environmental Quality (DEQ), with the process to submit Letters of Interest (LOI) for funding opened by DEQ at the beginning of each year;

WHEREAS: On May 16, 2024, the City issued a Request for Qualifications to procure a qualified professional engineering services to evaluate the feasibility of replacing the wastewater treatment plant and develop a Preliminary Engineering Report (PER) in accordance with IDAPA-58, building upon on the 2019 Wastewater Facility Plan to support a LOI submission for Clean Water SRF consideration by January 2025, as well as other funding opportunities; and

WHEREAS: In response to the RFQ, the City received three (3) Statements of Qualifications (SOQ), which were evaluated based on the scoring criteria established and published within the RFQ, with staff interviewing the top two (2) scoring firms and ultimately negotiating a preliminary design contract with Keller Associates.

NOW, THEREFORE, BE IT RESOLVED THAT: The Professional Services Agreement with Keller Associates for the Wastewater Treatment Plant Preliminary Engineering Report (City Agreement #A24-3257-1), a copy of which is attached hereto and made a part hereof as if fully incorporated herein, is hereby approved.

BE IT FURTHER RESOLVED THAT: As set forth in the Procurement Process and Signature Authority Policy for Goods, Services, and Construction and further outlined in the City of Sandpoint Procurement Policy, on behalf of the City, the Mayor or his designee, as applicable, is authorized to execute this agreement.

Jeremy Grimm, Mayor

ATTEST:

Melissa Ward, City Clerk

No: 22-079
Date: December 21, 2022

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: WASTEWATER TREATMENT PLANT FUNDING

WHEREAS: Portions of the City's wastewater treatment plant date back to the 1940s, with a number of components now obsolete, deteriorated, or undersized;

WHEREAS: Operation of the plant is difficult, and although operators generally have been able to maintain treated water quality that satisfies requirements for discharge to the Pend Oreille River, potential failures of components beyond the operators' control would result in the discharge of excess pollutants;

WHEREAS: Reconstruction of the City's wastewater treatment plant is a high priority for the City of Sandpoint;

WHEREAS: A facility plan prepared in 2019 focused on treatment needs, alternative treatment options and siting, with an estimated cost for one option over $60,000,000, and discussions throughout the planning period having considered costs nearing $100,000,000 for different treatment options and greater capacity;

WHEREAS: Given the estimated cost, availability of funding, and complexity of design, including reconstruction on the existing site, it is anticipated the approach to this project will need to be flexible and strategically phased to maximize funding opportunities, where, for instance, City Council has already initiated the process of enacting a wastewater utility rate increase of 19%, while anticipating similar increases over the next two years;

WHEREAS: In addition to the rate increase, a portfolio of multiple funding sources, such as loans, bonds and grants, are being considered, with grant funding aggressively pursued in order to reduce the burden on rate payers;

WHEREAS: One such source of funds is the State Revolving Loan Fund (SRF), where, each year, the State of Idaho Department of Environmental Quality (DEQ) opens a process for interested parties to submit a Letter of Interest (LOI) to be considered for funding;

WHEREAS: The next upcoming deadline for LOI submission is January 13, 2023, with a preliminary list of qualifying applicants expected in March 2023; and

WHEREAS: City staff has prepared a proposed LOI for submission to DEQ, seeking funding for reconstruction of the City's wastewater treatment plant.

NOW THEREFORE BE IT RESOLVED THAT: The Mayor or his designee, on behalf of the City, is authorized to sign the Idaho Department of Environmental Quality Clean Water Loan Letter of Interest for Fiscal Year 2024, a copy of which is attached hereto and made a part hereof as if fully incorporated herein.

BE IT FURTHER RESOLVED THAT: City staff is directed to submit the LOI to DEQ in time to meet the January 13, 2023, deadline.

Shelby Rognstad, Mayor

ATTEST:

Melissa Ward, City Clerk

SANDPOINT

January 13, 2023

LaDonn Kaylor
Idaho Department of Environmental Quality
1410 N. Hilton
Boise, ID 83706
Grants.loans@deq.idaho.gov

The City of Sandpoint is pleased to submit this Letter of Interest for the construction of a new wastewater treatment plant under the Idaho Department of Quality Clean Water Loan program.

This application has been a long time coming and is the result of years of community planning efforts, a robust facility master planning process and bridge improvements at the plant as well as significant capital improvements to reduce inflow and infiltration into the plant. Last fall, the Sandpoint City Council adopted updated wastewater rates to support the plant replacement, but this is also contingent upon a successful application and award of SRF funds and some loan forgiveness consideration to make the project affordable to our small community.

The existing wastewater treatment plant discharges to the Pend Oreille River which is classified as a §303(d)-listed water body. The treatment plant is at the end of its useful life with components dating back to World War 2. We are further challenged with high levels of inflow and infiltration that exceed the capacity of the plant and result in periodic permit violations.

Despite this, Sandpoint is committed to meeting very high water quality standards as evidenced through the recommendations made by the community during the facility planning process where they recommended much higher levels of treatment than required by the City's NPDES permit. Treatment plant operators also share this commitment by operating the treatment plant with very few permit violations despite age, condition, and high flows.

Without significant upgrades, the existing facility will not be able to maintain water quality over the long term so the City needs IDEQ assistance in funding a new wastewater treatment facility with an estimated cost of $65 million.

This Letter of Interest reflects the City's commitment to water quality, sustainability, and the watershed health by focusing plant improvements around preserving the surrounding watershed, including voluntarily focused efforts on phosphorus removal, flow reduction for aggressive I/I removal, and a willingness to continue pursuing regionalization opportunities to improve overall sustainability and the Pend Oreille watershed and plant operations.

Grant funding for the proposed treatment plant upgrades is essential since Sandpoint already has some of the highest rates in the region. The recent rate study increased household rates by 19% and recommended increases of 19% annually for the next three years to support this project. Despite these large increases, the rates will only provide one-half of the funding for the required improvements.

We respectfully submit the attached IDEQ Clean Water Loan Letter of Interest. With any questions, please contact our Utilities Director, Greg Lanning, at 208.946.2702 or our City Administrator, Jennifer Stapleton, at 208.265.1483.

Sincerely,

Shelby Rognstad, Mayor
City of Sandpoint

No: 18-49
Date: October 17, 2018

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: WASTEWATER TREATMENT PLANT FACILITY PLAN

WHEREAS: The Idaho Department of Environmental Quality (IDEQ) requires all new and existing municipal wastewater treatment facilities to have a current facility plan when in the process of modification or expansion to their facility;

WHEREAS: On August 1, 2018, Sandpoint City Council adopted Resolution No. 18-45, by choosing Alternative 2 with phased improvements plus new technology at the new site;

WHEREAS: A Citizens Advisory Committee was engaged in the development of the draft facility plan since December 2017;

WHEREAS: The estimated capital costs with Alternative 2 are estimated at $59.6 million to $74.2 million;

WHEREAS: Alternative 2 will be three-phased starting with Phase I which are facility improvements to repair and replace components that have the highest risk until Phase 2 when a new 6.0 MGD treatment plant will be constructed by the end of 2024 and Phase 3, if necessary after assessing the effectiveness of infill and infiltration (I&I) reduction over the next seven to ten years, is construction of additional treatment capacity, and;

WHEREAS: City staff recommends City Council approve the final draft of the Wastewater Treatment Plant Facility Plan for submittal to the IDEQ for review and approval.

WHEREAS: The IDEQ approved plan will be incorporated into a comprehensive rate study and serve as a planning tool for future budgeting and project development.

NOW, THEREFORE, BE IT RESOLVED THAT: City Council approves the Wastewater Treatment Plant Facility Plan, a copy of which is attached hereto and made a part hereto as if fully incorporated herein.

Shelby Rognstad, Mayor

ATTEST:

Maree Peck, City Clerk

City Council Members:

			YES	NO	ABSTAIN	ABSENT
1.	Eddy					X
2.	Aitken	Second	X			
3.	Williamson		X			
4.	Ruehle	Motion	X			
5.	Aispuro					X
6.	Darling		X			

No: 18-45
Date: August 1, 2018

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: WASTEWATER TREATMENT PLANT FACILITY PLAN ALTERNATIVE SELECTION

WHEREAS: On May 3, 2017, Sandpoint City Council adopted Resolution No. 17-37, to enter into a Professional Services Agreement with J-U-B Engineers, Inc. to develop a Wastewater Treatment Facility Plan for a 20-year period;

WHEREAS: A Citizens Advisory Committee and Technical Advisory Committee were formed to support the planning process and have been engaged in the process since August 2017;

WHEREAS: City Council was provided an update on the Wastewater Treatment Plant process during their regularly scheduled meeting held on February 21, 2018 and were presented with three alternatives during the City Council workshop held on July 5, 2018; No. 1 – retain treatment at existing site with new technology; No.2 – retain treatment at existing site with phased improvements plus new technology and No. 3 – upgrade existing facility until new facility at the Baldy Mountain site is constructed and utilize current site to convey influent to new site and return treated affluent to the existing site for discharge; and

WHEREAS: City staff and the Citizens Advisory Committee recommend Council choose preferred Alternative No. 2 – Phased Improvements plus new technology at the existing site with completion of the draft facility plan to be implemented after City Council decision.

NOW, THEREFORE, BE IT RESOLVED THAT: City Council approves preferred Alternative No. 2 with phased improvements plus new technology at the existing site.

Shelby Rognstad, Mayor

ATTEST:

Maree Peck, City Clerk

City Council Members:

			YES	NO	ABSTAIN	ABSENT
1.	Eddy	Second	X			
2.	Aitken		X			
3.	Williamson	Motion	X			
4.	Ruehle					X
5.	Aispuro		X			
6.	Darling		X			

CITY OF SANDPOINT
AGENDA REPORT

DATE: May 10, 2023

TO: MAYOR AND CITY COUNCIL

FROM: Greg Lanning, Utilities Director

SUBJECT: Utility Rate Report Acceptance

DESCRIPTION/BACKGROUND:

In January, 2022, FCS Group, the city's rate consultant, presented to council, the process and elements of a water and sewer utility rate study to be conducted to update and replace the existing 2010 rate study.

Subsequent key dates of the water and sewer rate study included:

June 8, 2022 - Council Workshop w/ FCS Group and staff on revenue requirements and user facility fees,
July 20, 2022 – Presentation and adoption of the recommended revenue adjustments,
February 15, 2023 – Presentation; Water cost of service and rate design,
March 1, 2023 – Presentation; Sewer cost of service and rate design,
April 5, 2023 – Public Hearing, presentation, and adoption of recommended utility fee schedule.

FCS Group, has prepared and submitted the final report on the rate study entitled Water and Wastewater Utility Rate & New User Facility Fee Study, dated May 2023. Also submitted is a separate memo describing the Wholesale Rate Development, May 2023.

The report captures and describes the study process over the last year with a chapter on Rate Study Methodology and individual chapters on the Water Utility and Wastewater Utility.

STAFF RECOMMENDATION:

Staff recommends acceptance of the final water and sewer rate study report and wholesale rate memo.

ACTION:

Accepting for the record the rate study report entitled Water and Wastewater Utility Rate & New user Facility Fee Study and companion memo describing Wholesale Rate Development.

WILL THERE BE ANY FINANCIAL IMPACT? NO
HAS THIS ITEM BEEN BUDGETED? YES

ATTACHMENTS:

Water and Wastewater Utility Rate & New User Facility Fee Study, May 2023
Memo dated May, 2023, from FCS Group on Wholesale Rate Development

No: 23-
Date: May 17, 2023

RESOLUTION
OF THE CITY COUNCIL
CITY OF SANDPOINT

TITLE: ACCEPTANCE OF FINAL WATER AND SEWER RATE STUDY REPORT AND WHOLESALE RATE MEMO

WHEREAS: In January 2022, FCS Group, the City's rate consultant, presented to Council the process and elements of a water and sewer utility rate study to be conducted for the purposes of updating and replacing the existing 2010 rate study;

WHEREAS: Subsequent key dates of the water and sewer rate study included:

June 8, 2022 – Council workshop w/FCS Group and staff on revenue requirements and user facility fees
July 20, 2022 – Presentation and adoption of the recommended revenue adjustments
February 15, 2023 – Presentation re: water cost of service and rate design
March 1, 2023 – Presentation re: sewer cost of service and rate design
April 5, 2023 – Public hearing, presentation, and adoption of recommended utility fee schedule

and

WHEREAS: FCS Group has prepared and submitted the final report on the rate study, titled *Water and Wastewater Utility Rate & New User Facility Fee Study*, dated May 2023, as well as a separate memo dated May 2023, which describes the Wholesale Rate Development, with the report capturing and describing the study process over the past year, including a chapter on Rate Study Methodology and individual chapters on the Water Utility and Wastewater Utility.

NOW, THEREFORE, BE IT RESOLVED THAT: City Council hereby accepts the rate study report, Water and Wastewater Utility Rate & New User Facility Fee Study, and the companion memo describing Wholesale Rate Development, copies of which are attached hereto and made a part hereof as if fully incorporated herein.

_____
Shelby Rognstad, Mayor

ATTEST:

_____
Melissa Ward, City Clerk

City of Sandpoint

WATER AND WASTEWATER UTILITY RATE & NEW USER FACILITY FEE STUDY

FINAL REPORT
May 2023

Washington
7525 166th Avenue NE, Ste. D215
Redmond, WA 98052
425.867.1802

Oregon
5335 Meadows Road, Ste 330
Lake Oswego, OR 97035
503.841.6543

Colorado
1320 Pearl St, Ste 120
Boulder, CO 80302
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www.fcsgroup.com

FCS GROUP
Solutions-Oriented Consulting

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Section I. INTRODUCTION

Purpose

FCS GROUP was engaged by the City of Sandpoint ("City") to conduct a rate study update for both the water and wastewater utilities. The purpose of the study was to provide a rate forecast and financial plan targeting stability, revenue sufficiency and rate equity for the FY 2023 – FY 2028 rate setting period. In addition to updated rate forecasts, the City also wished to update their New User Facility Fees (NUFFs), reflecting the most recent asset listings, to ensure ongoing equity between existing and new customers. Finances are projected for a twenty-year period with the primary focus on the near-term rate setting timeframe.

Approach

The methods used to complete the study are based on analytical principles and practices that are generally accepted and widely followed throughout the industry – The ultimate goal is cost-based utility fees and charges that generate sufficient revenue to maintain self-supporting and financially viable utilities. Guiding principles for the water study were based on the American Water Works Association M1 Principles of Water Rates, Fees and Charges, while the sewer study looked to the Water Environment Federation's Financing and Charges for Wastewater Systems for guidance on rate setting and cost allocation methodologies.

Throughout the study, we worked with the City to arrive at rate conclusions that meet forecasted utility financial obligations, achieve City goals and policies, comply with legal requirements, and adhere to industry best practices. Meetings were held with City staff to validate input parameters, review interim findings and receive policy direction.

Scope

The scope of the project included the following data driven elements for each utility:

- Develop the forecast of operating revenues and expenses to reflect the most recent approved budgets. Incorporate the most recent capital plans identifying the capital projects required to maintain each system in good repair. Develop a capital funding analysis that balances available funding from rate revenue, reserve funds, contributions and additional debt, if needed.

- Evaluate cash flow needs to meet existing and anticipated new annual debt service requirements and debt coverage requirements. Test the sufficiency of each system's current revenues in meeting all annual system obligations. Identify any projected shortfalls over the forecast period.

- Design a rate implementation strategy that meets each system's financial obligations over the multi-year planning horizon and provides smooth and moderated impacts to ratepayers.

- Perform a cost-of-service analysis (COSA) establishing a defensible basis for assigning "cost shares" and determining "equity" for system customers based on industry accepted methodologies that are tailored to the City's unique systems and customer characteristics. Identify the cost to serve each customer class within the water and wastewater systems.

- Evaluate existing rate structures for alignment with the City's current and/or recommended fiscal policies, generate sufficient revenue to meet the revenue requirement forecast, and to resolve any identified COSA differences. Begin transitioning rates towards cost-based unit costs.
- Develop a cost basis for water and wastewater new user facility fees that will provide equity between existing and new customers intended to recover a proportional share of the value of facilities required to provide service.

The methodology, key factors, conclusions, and recommendations for each of the key task areas of the study are summarized in this executive level report. Additional information can be found in the detailed rate models provided to the City.

Section II. RATE STUDY METHODOLOGY

RATE SETTING PRINCIPLES AND METHODOLOGY

The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that equitably recover costs from each class of customer by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to equitably collect those revenues.

The primary tasks of the rate study are listed below:

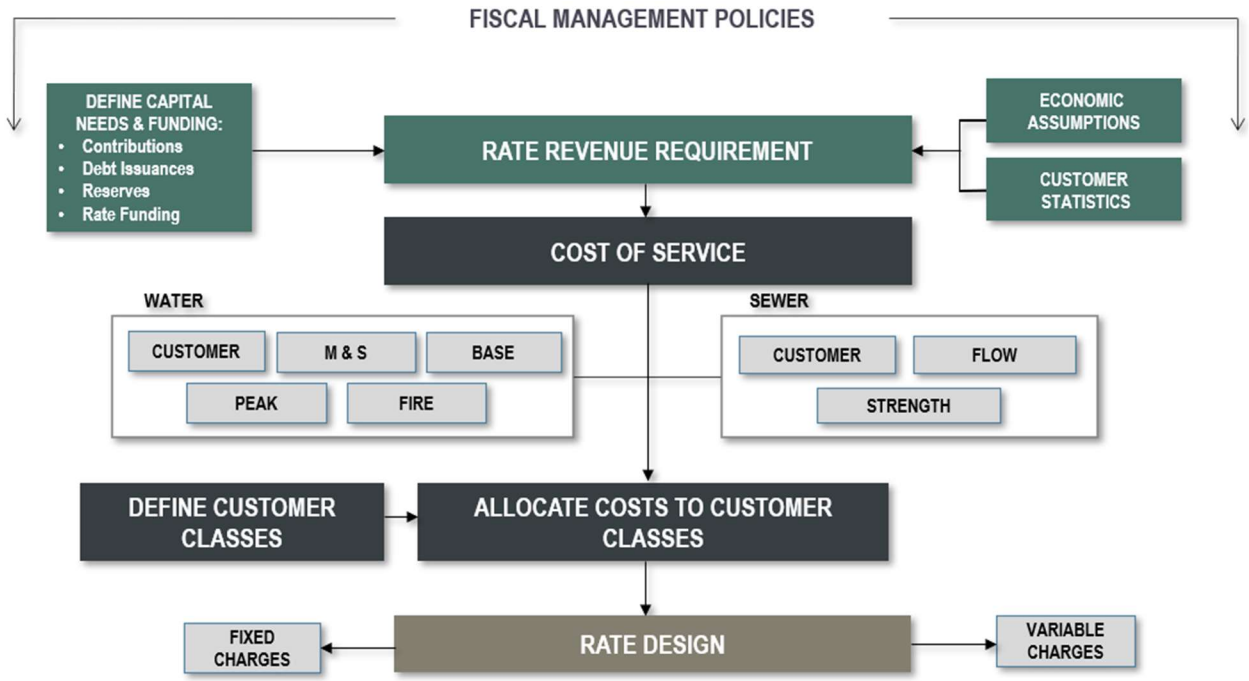
Revenue Requirement Analysis. This analysis identifies the total revenue requirement to fully fund each system on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements and fiscal policy objectives.

Cost of Service Analysis. This analysis equitably distributes costs to customer classes based on their proportional demand and use of each system.

Rate Design Analysis. This analysis includes the development of rates that generate sufficient revenue to meet each system's revenue requirement forecast and continue to address the City's pricing objectives (e.g. conservation and revenue stability).

Revenue requirement, rate design, and cost of service were completed for both utilities. **Exhibit 1** illustrates the entire rate study process.

Exhibit 1: Overview of the Rate Study Process



FISCAL POLICIES

The foundation for evaluating utility revenue needs consists of a set of fiscal policies. These policies, which can address a variety of topics including cash management, capital funding strategy, financial performance, and rate equity, are intended to promote long-term financial viability for the City's utilities.

Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. When evaluating fund reserve levels and objectives, it is important to recognize that the value of reserves lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuation of reserve levels may indicate that the system is working, while lack of variation over many years strongly suggests that the reserves are, in fact, unnecessary. For the purpose of financial planning for the City's utilities, resources are separated into the following reserve categories:

Operating Reserve. An operating reserve is designed to provide a liquidity cushion; it protects the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Like other types of reserves, operating reserves also serve another purpose: they can help smooth rate increases over time. Target funding levels for an operating reserve are generally expressed as a certain number of days of operating and maintenance (O&M) expenses, with the minimum day requirement varying with the expected revenue volatility of the utility.

- The current operating reserve target used in the study for both the water and wastewater utilities is set at approximately 90 days of O&M expenses. (Based on City of Sandpoint Res. No. 18-58).

Capital Contingency Reserve. A capital contingency reserve is an amount of cash set aside in case of an emergency should a piece of equipment or a portion of the utility's infrastructure fail unexpectedly. The reserve can also be used for other unanticipated capital needs including capital project cost overruns. Industry practices range from maintaining a balance equal to 1.00 to 2.00 percent of fixed assets, an amount equal to a 5-year rolling average of CIP costs, or an amount determined sufficient to fund equipment failure (other than catastrophic failure). The final target level should balance industry practice with the risk level of the City.

- The current capital reserve target for both the water and wastewater utilities is set at 1.00 percent of fixed assets. Reserve levels were discussed with City staff and reflect financial policy requirements that these reserve levels mitigate risk. (Based on City of Sandpoint Res. No. 18-58).

Debt Reserve. Bond covenants often establish reserve requirements as a means of protecting against the risk of nonpayment. A common reserve requirement is one year's debt service payment. The balance held in reserve for a particular debt instrument may be used to make the final payment on that debt instrument. The City must continue to fully fund such reserves as required by bond covenant or loan agreement. Since the debt reserve provides a static reserve against inability to pay, it is unnecessary to maintain operating reserves against debt repayment.

- The City does not have a formal debt reserve policy outside of maintaining reserve funds as required by bond covenants. For modeling purposes, the study does not assume reserves are

funded through new debt issuances and the City will determine reserve levels required as new issuances are needed.

System Reinvestment (Rate Funded Capital)

A utility's infrastructure (e.g., storage reservoirs, treatment facilities, transmission/distribution pipes, etc.) is a critical element of serving the City's customers. Establishing a financial plan for the eventual replacement of these assets ensures system reliability and integrity. This practice is known as system reinvestment funding. In the absence of a formal asset management plan, target system reinvestment funding levels are commonly linked to annual depreciation expense. Depreciation expense is a measure of the decline in asset value associated with routine use of the system.

Particularly for utilities that do not already have an explicit system reinvestment policy in place, implementing a funding level based on full depreciation expense can significantly impact rates. A common alternative benchmark is annual depreciation expense net of debt principal payments on outstanding debt. This approach recognizes that customers are still paying for certain assets through the debt component of their rate and intends to avoid simultaneously charging customers for an asset and its future replacement. The specific benchmark used to set system reinvestment funding targets is a matter of policy that must balance various objectives including managing rate impacts, keeping long-term costs down, and promoting "generational equity" (i.e. not excessively burdening current customers with paying for facilities that will serve a larger group of customers in the future).

- The current system reinvestment target for both the water and wastewater utilities is set at full original cost depreciation levels. (Based on City of Sandpoint Res. No. 18-58).
- Both the water and wastewater utilities are forecasted to phase in system reinvestment levels. The water utility will begin FY 2023 at 50 percent, reaching 100 percent of annual depreciation levels by FY 2026. The wastewater utility will begin FY 2023 at 100 percent of depreciation levels but will intentionally pull back on rate funded capital levels in FY 2027 as new debt service is recognized. Rate funded capital levels will drop to 60 percent with this planned reduction, before increasing back to 100 percent by FY 2030.

Debt Management

Debt financing is a viable tool for capital funding. Compared with pay-as-you-go funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also creates intergenerational equity – also referred to as "pay-as-you-use" because future customers who use the assets are the ones paying for them. However, debt should not be relied on too heavily as it carries the risk of default. Debt also reduces budget flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. To evaluate the City's debt level, a measurement of debt service coverage is used.

Debt Service Coverage. Debt service coverage is typically a requirement associated with revenue bonds and some State loans and is a financial measure assessing the ability to repay debt.

- A typical minimum coverage requirement for utility revenue bonds is 1.25. If the City issues debt, the coverage requirements essentially require that the City collect enough revenue to meet operating expenses and not only pay debt service but collect an additional 25.00 percent above

the bonded debt service. The extra revenue is a cushion that assures bondholders that the City has the financial resources to meet its debt service obligations.

- The City's existing target for debt service coverage is 1.40. (Based on City of Sandpoint Res. No. 18-58). Achieving a bonded debt service coverage level greater than the minimum required level is a positive signal to bond rating agencies and can result in more favorable terms when the City enters the market for revenue bonds.

REVENUE REQUIREMENT ANALYSIS

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each system. It also enables the City to set utility rate structures which fully recover the total cost of operating each system: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable sound financial performance for the City's utilities, as well as a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis includes the following core elements to form a complete portrayal of the utility's financial obligations.

Fiscal Policy Analysis. Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding and debt service coverage.

Capital Funding Plan. Defines a strategy for funding the City's capital improvement/infrastructure replacement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).

Operating Forecast. Identifies future annual non-capital costs associated with the operation, maintenance, and administration of the system.

Sufficiency Testing. Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.

Strategy Development. Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the projections period.

COST OF SERVICE ANALYSIS

The purpose of a cost-of-service analysis is to provide a rational basis for distributing the full costs of each utility service to each class of customers in proportion to the demands they place on the system. Detailed cost allocations, along with appropriate customer class designations, help to sharpen the degree of equity that can be achieved in the resulting rate structure design. The key analytical steps of the cost-of-service analysis are as follows:

Functional Cost Allocation. Apportions the annual revenue requirement to the major functions of the system:

- Water: base (average use), peak (highest use), meters & services (reading and servicing meters), fire protection (fire specific costs) and customer (general customer costs).
- Wastewater: flow (collection), strength (treatment) and customer (general customer costs).

Customer Class Designation. Identifies the customer classes that will be evaluated as part of the study. Existing as well as new or revised customer classes or class definitions may be considered. It is appropriate to group customers that exhibit similar usage characteristics and service requirements.

Cost Allocation. Allocates the costs from the functional cost allocation to different customer classes based on their unique demands for each service as defined by system planning documents, industry standards, and recorded user history (from billing data). The results identify shifts in cost recovery by customer class from that experienced under the existing rate structure.

RATE DESIGN

The principal consideration of rate design is for the rate structure to generate sufficient revenues for the system which are reasonably commensurate with the cost of providing service. The pricing structure is largely dictated by the objectives of the system. Most rate designs consist of fixed and variable charges. Fixed charges typically attempt to cover costs of the system that do not vary while variable costs will fluctuate with a change in user demand.

Section III. WATER UTILITY

INTRODUCTION

The City of Sandpoint owns and operates its water system, which provides water to residential, commercial, industrial, and wholesale customers within the City's service area. The City's service area includes all of Sandpoint's residents as well as Ponderay, Kootenai and unincorporated areas of Bonner County. The existing facilities in the City's water system include two water treatment plants, two water storage facilities, one supply pump station, two booster pump stations and over ninety miles of water distribution pipes.

REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the water system. The FY 2022 budget formed the baseline for this forecast. The operating forecast was developed for the FY 2023 through FY 2028 study period. The following list highlights some of the key assumptions used in the development of the water utility operating forecast.

Reserves

Operating Reserve. A minimum of 25 percent, or approximately 90 days, of operating and maintenance (O&M) expenses ($807,000 to $985,000).

Capital Contingency Reserve. A target of one percent of plant in service ($454,000 to $570,000).

Operating Revenue

Retail Rate Revenue. Based on actual detailed customer accounts and usage statistics from the City's billing system. Usage data from FY 2021 was used to project revenues for FY 2023.

Non-rate Revenue. Non-rate revenue consists of water service charges, water service connections, and other miscellaneous revenues.

Customer Growth. Between FY 2023 and FY 2024, annual customer growth was estimated to be approximately 2.83 percent per year, before dropping to 2.38 percent through FY 2028 (based on input from City staff and reflective of population and demand projections from the City's water system plan). Growth projections result in an average of 207 new connections annually.

Interest Earnings. Interest rates are projected to be 0.15 percent per year in FY 2023, increasing to 0.50 percent by FY 2025. Projections are based on discussions with City staff and recent performance of the Idaho Local Government Investment Pool.

O&M Expenses

General Cost Inflation. 5.00 percent in FY 2023 and FY 2024, falling to 4.00 percent from FY 2025 to FY 2026 and finally to 3.00 percent by FY 2027 (represents near-term inflationary pressure with a return to historical averages).

Construction Cost Inflation. 5.94 percent per year for FY 2023 and FY 2024, falling to 4.00 percent from FY 2025 to FY 2026 and finally to 3.00 percent by FY 2027 (FY 2023 escalation is based on the 20-City Average Engineering News Record Construction Cost Index for 2022 and represents near-term inflationary pressure with a return to historical averages).

Labor Cost Inflation. 3.75 percent per year from FY 2023 to FY 2028 (based on staff input).

Benefit Cost Inflation. 6.00 percent per year from FY 2023 to FY 2028 (based on recent experience of City staff).

Debt Service

Existing Debt. The water utility currently has one outstanding revenue bond, reaching maturity in FY 2038. Annual debt payments on the outstanding loan are steady at $973,000 a year.

New Debt. No new debt is forecasted to fund the capital improvement program.

System Reinvestment

System reinvestment funding is to ensure system integrity through reinvestment in the system. A minimum funding target would be an amount equal to or greater than the annual depreciation expense. It is important to recognize that funding system reinvestment based on original cost depreciation will not fully meet future replacement needs. Ideally, the system reinvestment benchmark is tied to a detailed asset management plan. True replacement costs are generally higher than book values, increasing over time with the cost of labor and materials. Useful lives of assets should be based on condition assessments rather than accounting values. The schedule of replacement combined with accurate replacement costs enables jurisdictions to be more informed when setting a level of funding from rates.

This study assumes system reinvestment is phased-in towards the annual depreciation target. Starting at 50 percent of depreciation levels in FY 2023, increasing to 100 percent by FY 2026. With this proposed phase-in plan, system reinvestment equates to $332,000 in FY 2023 growing to $1.02 million by FY 2028.

Capital Funding Plan

The water utility is anticipating $13.4 million in capital costs from FY 2023 to FY 2028. Larger projects include replacement of coal tar enamel lined pipes, Sand Creek water treatment plant mechanical upgrades and numerous main replacement projects. Funding for the capital identified includes cash balances (including interest), dedicated system reinvestment funding, transfers from the operating fund, and new user facility fee revenues. **Exhibit 2** provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

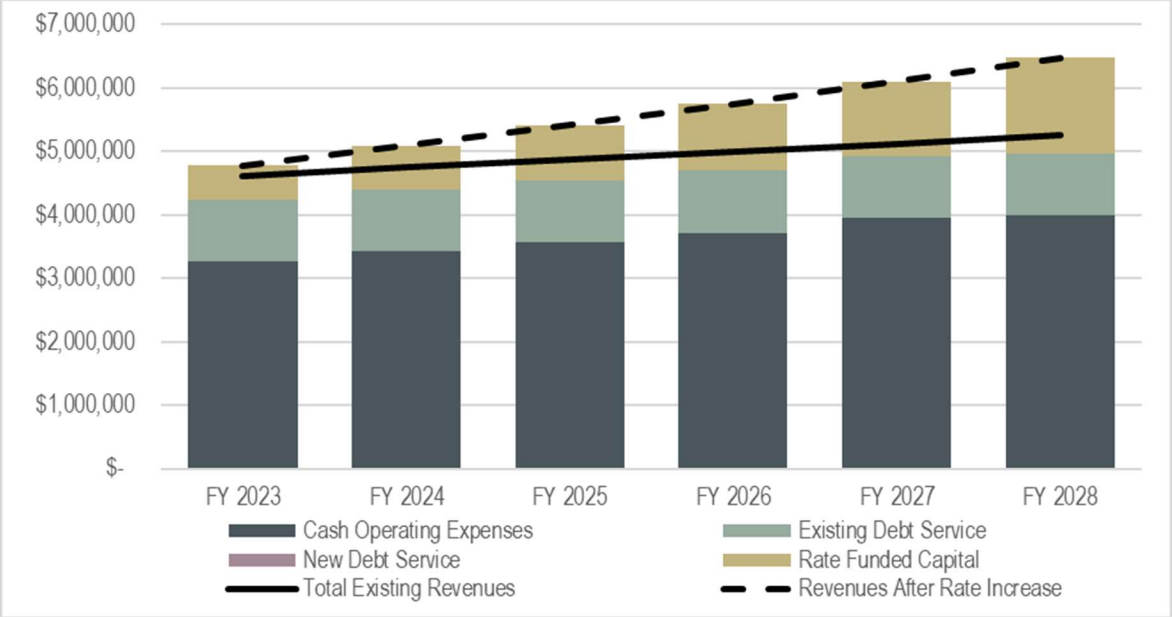
Exhibit 2: Water Capital Funding Summary

Funding Summary	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total
Total Capital Costs	**$1,734,301**	**$4,854,422**	**$2,146,676**	**$ -**	**$2,562,625**	**$2,111,496**	**$ 13,409,520**
Funding Sources							
Cash Balances	$ 665,947	$3,657,099	$ 867,210	$ -	$ 983,685	$ 385,493	$ 6,559,434
Rate Funded Capital	331,505	438,941	623,386	-	891,030	1,021,601	3,306,463
New User Facility Fees	736,848	758,382	656,080	-	687,910	704,403	3,543,623
Total Capital Funding	**$1,734,301**	**$4,854,422**	**$2,146,676**	**$ -**	**$2,562,625**	**$2,111,496**	**$ 13,409,520**

Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service and rate funded system reinvestment come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the water system to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibit 3** provides a summary of the water system revenue requirement findings.

Exhibit 3: Water Utility Revenue Requirement Summary



Summary of water revenue requirement:

- Current revenue levels are sufficient to meet operating expenses and existing debt service, throughout the forecast period. Without a rate increase, revenue falls short of meeting the City's goals for funding system reinvestment at 100 percent depreciation levels and would likely require future debt issuances to support the capital plan. The water utility is projected to be deficient in FY 2024 by $90,500. As operating expenses and system reinvestment obligations continue to grow, this deficit will grow to $738,000 by FY 2028, if no rate adjustments are made.
- System reinvestment funding is increased over time from 50 percent depreciation levels, or $332,000, in FY 2023 to $1.0 million by FY 2028 as annual depreciation expense increases. Reinvestment levels reach 100 percent by FY 2026 and remain there for the duration of the study.
- The operating reserve remains at the target level of 90 days throughout the forecast period.

- The capital contingency reserve is forecast to be at or above the target of 1.00 percent of asset values for the entire duration of the study period.
- Individual water utility debt service coverage is forecast to remain at or above the City's goal of 1.40 in all years; it begins FY 2023 at 2.32, increasing to 3.32 by FY 2028. Keeping this ratio at or above target can be helpful when entering the bond market.
- To meet the total projected financial obligations of the water utility, rate increases are proposed at:
  - **3.8 percent annually from FY 2023 through FY 2028.**

COST OF SERVICE ANALYSIS

A cost-of-service analysis determines the equitable recovery of costs from customers according to unique demands each class places on the system. There are three fundamental steps to allocating the annual revenue requirement to customer classes and developing the final rates – 1) allocate total utility costs by function, 2) develop customer specific allocation factors and 3) allocate costs to customer classes. The methodology used conforms to industry accepted practices as identified by the American Water Works Association (AWWA) Principles of Water Rates, Fees and Charges, M1 Manual.

The functions of service to which water service costs were allocated are listed below.

Customer. These are the costs associated with establishing, maintaining, and serving water customers and tend to include administrative, billing, and customer service costs. These costs are generally uniform by customer regardless of their meter size or demand placed on the water system.

Meters & Services Costs. These costs are associated with installation, maintenance, and repairs of meters and services. These costs are typically allocated based on number of connections and meter size.

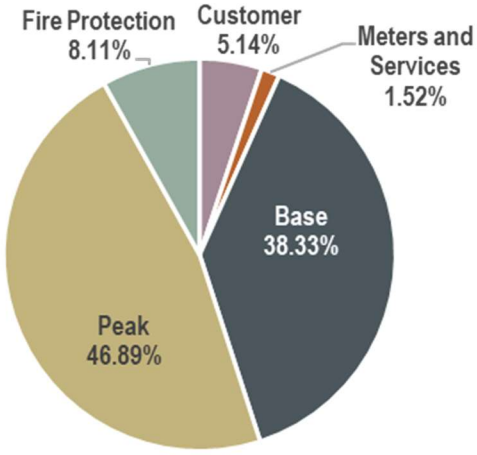
Base Costs. These costs relate to average service provided on demand and are essentially correlated with year-round water consumption.

Peak Costs. These costs relate to peak demand service typically associated with the ability of the system to provide capacity to customers with higher-than-average volume, which usually occurs during the summer months.

Fire Protection. These are the costs associated with the ability of the system to provide adequate capacity and water flow corresponding to minimum fire safety standards required to serve its customer demographic. These are mostly incremental costs related to providing storage, transmission capacity, and hydrants for fire protection.

Exhibit 4 provides a summary of the functional cost allocation results.

Exhibit 4: Functional Cost Allocation Results



The water utility cost allocation indicates that 46.89 percent of costs relate to meeting peak demands, 38.33 percent are related to meeting base demands, and 8.11 percent are related to fire protection. The rest of the costs make up a relatively small portion of the total cost: 5.14 percent related to the customer component, and 1.52 percent are allocated to meters and services.

Customer Class Distinctions

The City's current customer classes consist of a single-family class, a multi-family class, a commercial class, an irrigation class, and an industrial/large user class.

The cost of service analysis was completed for the following classes:

- Single Family
- Multi Family
- Commercial
- Irrigation
- Industrial/Large User

One of the main objectives of the cost-of-service rate study is to evaluate if cost differences exist when serving different customer classes of the system.

Allocation Factors

Once the customer classes were defined, functional cost pools (shown in **Exhibit 4**) were then allocated to these customer classes based on the demand each class places on the system. In order to complete this task, the analysis consisted of first developing allocation factors that identified customer characteristics including number of accounts, consumption levels, peak demand patterns, and fire flow requirements. The allocation factors are intended to equitably allocate total costs to those benefitting from the service. For this study, the water fund costs were allocated based on the following:

Customer. Based on customer accounts.

Meters & Services Costs. Based on number of meter service equivalents. The American Water Works Association has developed a meter service equivalency factor that reflects cost distinctions for serving different size meters.

Base Costs. Based on total annual water use.

Peak Costs. Based on use during the class's peak month. The majority of classes peaked in the August usage period.

Fire Protection. Based on fire flow gallons per minute and duration requirements identified in Table 4-1 of the City's 2021 Drinking Water Master Plan.

Allocation factors for each customer class can be seen in **Exhibit 5** and were developed from City-specific data related to actual customer demands and system requirements.

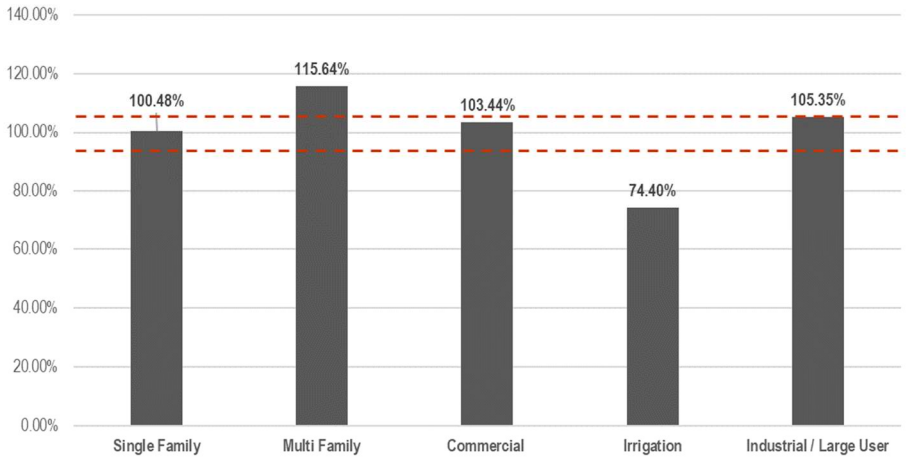
Exhibit 5: Cost Pool Allocation Factors

Customer Class	Meters		MSEs		Annual Total Use		Peaking Factor		Fire Flow Requirement	
	#	%	#	%	#	%	#	%	#	%
Single Family	4,676	78%	4,643	69%	323,646	45%	2.30	47%	1,000 gpm for 60 mins	57%
Multi Family	287	5%	482	7%	78,483	11%	1.70	9%	1,000 gpm for 60 mins	3%
Commercial	858	14%	1,314	19%	194,186	27%	2.01	25%	1,500 gpm for 120 mins	31%
Irrigation	98	2%	153	2%	61,345	9%	3.93	15%	-	0%
Industrial/Large User	68	1%	155	2%	54,961	8%	1.14	4%	2,500 gpm for 240 mins	8%
Total	**5,987**	**100%**	**6,748**	**100%**	**712,621**	**100%**		**100%**		**100%**

Water Cost of Service

Exhibit 6 provides a comparison of current rate revenue distribution between customer classes and the results of the cost-of-service analysis.

Exhibit 6: Comparison of Water Current Revenue Distribution to Cost of Service Distribution



As a general practice, if a class's suggested increase is within +/-5 percent of the overall increase needed (shown by dashed lines), the class is considered within cost of service for the utility. Because costs fluctuate each year, the needed increase by class can also fluctuate and interclass rate changes are not suggested unless the class's revenue difference is outside of the 5 percent threshold.

Using this evaluation, results show that the multi-family class is paying more than their allocated share of costs while the irrigation class is paying less than their allocated share of costs. These results are driven to some degree by peaking costs which represent nearly 47 percent of system costs. The multi-family class has a lower peak while the irrigation class has the largest peaking factor on the

system. To minimize significant rate impacts to any customer class, the City will phase-in cost of service increases over a multi-year period, with a goal to achieve full cost of service by FY 2028.

Exhibit 7 provides a summary of the cost-of-service phase-in.

Exhibit 7: Water Cost of Service Phase-In

Class	Cost of Service Phase In					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Single Family	1.7%	3.7%	3.7%	3.6%	3.6%	3.5%
Multi Family	**0.8%**	**0.8%**	**0.8%**	**0.8%**	**0.8%**	**0.8%**
Commercial	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Irrigation	**7.8%**	**7.8%**	**7.8%**	**7.8%**	**7.8%**	**7.8%**
Industrial / Large User	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
System-Wide Revenue Increase	**3.8%**	**3.8%**	**3.8%**	**3.8%**	**3.8%**	**3.8%**

RATE DESIGN

The principal objective of the rate design stage is to implement water rate structures that collect the appropriate level of revenue.

Establishing rates is a blend of "Art" and "Science" and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates within the system wide revenue increase target. The results of the revenue requirement analysis and cost of service were used to develop new water rate alternatives to recover the projected revenue from customers.

Existing Water Rates

The existing water rates are composed of a fixed monthly charge that varies by meter size but is the same for all customer classes, and a variable consumption charge per thousand gallons (kgals) of water usage. Consumption for the residential class is divided into four escalating pricing tiers that are applied year-round. Residential customers also have a billed usage minimum of 3,000 gallons monthly. Multi-family and industrial users are charged a seasonal consumption rate for all usage, depending on whether usage falls within the winter or summer season. Finally, commercial and large users are charged a flat rate for all consumption used year-round.

Exhibit 8 provides a summary of the existing monthly water utility rates by class in FY 2022.

Exhibit 8: FY 2022 Existing Monthly Water Rates

Water Rates		FY 2022
Fixed Charge (All classes)		
3/4" Meter	$	19.00
1" Meter	$	38.15
1-1/2" Meter	$	67.19
2" Meter	$	95.55
3" Meter	$	343.65
4" Meter	$	572.90
6" Meter	$	1,145.92
Volume Charge (per 1,000 gallons)		
Single Family		
Tier 1: 0-3,000 gal	$	2.88
Tier 2: 3,001- 15,000 gal	$	3.22
Tier 3: 15,001 - 40,000 gal	$	4.95
Tier 4: Over 40,001 gal	$	5.87
Multi Family Summer	$	3.96
Multi Family Winter	$	3.17
Commercial	$	3.73
Industrial Summer	$	3.77
Industrial Winter	$	3.01
Large User	$	3.77
Irrigation	$	5.18

Proposed Water Rates

In addition to the annual rate increases based on the cost of service phase-in plan, the City desired to implement rate design changes aimed at simplifying the existing class and seasonal structure and providing increased conservation messaging to the residential class. Changes proposed through the rate design process include the following:

- Residential changes:
  - Eliminate the 3,000-gallon minimum usage level.
  - Increase usage included in first residential tier from 3,000 gallons to 6,000 gallons while keeping the rate increase for the first tier below the system average – increasing affordability. The revised 6,000-gallon threshold represents the average indoor usage of the residential class. This change mitigates system-wide rate increases for average users.
  - Increase usage included in the second residential tier from 15,000 to 20,000 gallons (roughly twice the summer average) and revise rates for the Tier 3 and Tier 4 users to recover necessary revenue. Rates for Tier 3 and Tier 4 volumes will increase above the system average – targeting discretionary usage of the class. Customers using more than 40,000 gallons monthly are using more than six times the monthly average of the class.
- Other rate design changes:

- Transition seasonal rates for multi-family to a uniform year-round rate. The multi-family class does not demonstrate significant peaking behavior.
- Consolidate industrial and large users into one commercial class to streamline the rate structure and eliminate seasonal rates for the industrial users. Similarly, industrial users demonstrate very little peaking behavior.

Exhibit 9 provides a summary of the proposed rates through FY 2028.

Exhibit 9: Proposed Monthly Water Rates

Water Rates	Proposed					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Fixed Charge (All classes)						
3/4" Meter	$ 19.72	$ 20.47	$ 21.25	$ 22.06	$ 22.90	$ 23.77
1" Meter	$ 39.60	$ 41.10	$ 42.66	$ 44.28	$ 45.96	$ 47.71
1-1/2" Meter	$ 69.74	$ 72.39	$ 75.14	$ 78.00	$ 80.96	$ 84.04
2" Meter	$ 99.18	$ 102.95	$ 106.86	$ 110.92	$ 115.13	$ 119.50
3" Meter	$ 356.71	$ 370.26	$ 384.33	$ 398.93	$ 414.09	$ 429.83
4" Meter	$ 594.67	$ 617.27	$ 640.73	$ 665.08	$ 690.35	$ 716.58
6" Meter	$ 1,189.46	$ 1,234.66	$ 1,281.58	$ 1,330.28	$ 1,380.83	$ 1,433.30
Volume Charge (per 1,000 gallons)						
Single Family						
Tier 1: 0-**6,000** gal	$ 2.93	$ 3.04	$ 3.15	$ 3.26	$ 3.38	$ 3.50
Tier 2: **6,001- 20,000** gal	$ 3.75	$ 3.88	$ 4.00	$ 4.12	$ 4.23	$ 4.35
Tier 3: **20,001** - 40,000 gal	$ 7.51	$ 7.75	$ 7.99	$ 8.23	$ 8.46	$ 8.69
Tier 4: Over 40,001 gal	$ 8.47	$ 8.72	$ 8.99	$ 9.26	$ 9.52	$ 9.78
Multi-Family (all usage)	$ 4.13	$ 4.16	$ 4.20	$ 4.23	$ 4.26	$ 4.30
Commercial (includes industrial and large user)	$ 4.19	$ 4.35	$ 4.51	$ 4.68	$ 4.86	$ 5.04
Irrigation	$ 5.88	$ 6.38	$ 6.91	$ 7.49	$ 8.12	$ 8.79

WATER NEW USER FACILITY FEE ANALYSIS

In addition to the rate study update performed, the City requested an update of their New User Facility Fee (NUFF). The City currently imposes NUFFs for both the water and wastewater utility. The following section discusses the various aspects of the process used to update the NUFF for the water utility.

Methodology

New user facility fees are one-time fees for new or redevelopment used to recover a proportional share of the value of facilities required to provide service. It should be noted that new user facility fees are not intended to fund ongoing O&M expenses, only capital related obligations. The following section discusses the various aspects of the process used to update the new user facility fee.

The methodology and calculation used for these fees is based on the interpretation by the Court in the 2015 Idaho Supreme Court Case: NIBCA v the City of Hayden. **Exhibit 10** provides the new user facility fee calculation.

Exhibit 10: New User Facility Fee Calculation

New User Facility Fee Calculation	
	Gross Present Day Replacement Value of System
Less:	Bond Principal Outstanding
Less:	Accumulated Original Cost Depreciation
=	**Net System Replacement Value for the Current Year**
÷	Number of Users Current System Can Support
=	**Total New User Facility Fee per Equivalent Unit**

The court held that the new user facility fee must be based on the cost of replacing the pipe and equipment that is in the ground today (i.e. the value of the existing system). The value of the system should represent that portion of the system capacity that the new user will utilize at that point in time. More specifically, the steps used to calculate the total new user facility fee per equivalent unit include:

1.) Determine gross present day replacement value of the system by using an engineering cost index

2.) Subtract applicable bond principal outstanding

3.) Subtract accumulated original cost depreciation

4.) Result of steps 1-3 equals net replacement value for the current year

5.) Divide net system replacement value by the number of users the system can support

The results of this calculation represent the value of that portion of the system capacity that the new user will utilize at that point in time.

The new user facility fee update completed for the City's water utility includes the following key elements and data sources.

Gross Present-Day Replacement Value

The gross present day replacement value was determined by identifying all existing facilities utilized to provide water service to customers as of September 30, 2021. Important considerations for this part of the equation include:

- Assessing accurate installation years
  - » Installation year is not only important for determining annual depreciation, it is also important for determining replacement cost. Existing asset records are used to populate installation years.
- Transmission and distribution system asset replacement cost determination
  - » Transmission and distribution system replacement costs were estimated by applying a pipe replacement cost approximation based on pipe diameter to the 485,000 linear feet of pipe detailed in Table 5-2 of the 2021 WSP. Pipe replacement costs were based on recent engineering estimates for utilities of similar size and location. Total transmission and distribution system replacement costs are estimated at $86.6 million.
- Replacement cost determination for all other system assets
  - » Replacement costs for other system assets were determined by applying an Engineering News Record (ENR) construction cost index (CCI) ratio to the original cost of the asset as listed on the detailed asset register on record at the City. The ENR CCI 2021 average is used for determining replacement cost. The difference in the CCI between the installation year and this 2021 average determines the multiplier applied to the original cost of the asset, ultimately deriving the replacement cost.

Total gross present-day system replacement value = $147.4 million as shown in **Exhibit 11**.

Exhibit 11: Gross System Replacement Value

System Replacement Value	Total
Supply & Treatment	$48,547,583
Pumping	$2,347,512
Storage	$808,536
Transmission & Distribution	$86,566,600
Hydrants	$1,750,000
General	$7,390,060
Total Gross Replacement Value	**$147,410,292**

Bond Principal

The methodology identified allows a deduction for outstanding bond principal which represents the unpaid value of the system. Debt service is paid for through user fees and therefore should be deducted from the system replacement value so it is not double charged – once in rates and once in the new user facility fee. The City currently has one outstanding debt obligation resulting in a deduction of $11.8 million from the system replacement value.

Accumulated Original Cost Depreciation

Accumulated original cost depreciation is another deduction identified in the methodology. Original cost depreciation was calculated using the original cost of each asset divided by the useful life of each asset. The result of this calculation is annual straight-line depreciation. Depreciation accumulates each year until the full original cost is reached. Useful lives were based on the City's detailed asset register.

The original cost accumulated depreciation for the City is estimated at $17.7 million.

Net Present-Day Replacement Value

Exhibit 12 summarizes the net present day system replacement value by deducting the bond principal remaining and original cost accumulated depreciation values. The net present day system replacement value is calculated at $117.9 million.

Exhibit 12: New Present-Day Replacement Value

System Replacement Value	Total
Supply & Treatment	$48,547,583
Pumping	$2,347,512
Storage	$808,536
Transmission & Distribution	$86,566,600
Hydrants	$1,750,000
General	$7,390,060
Total Gross Replacement Value	**$147,410,292**
Less: Bond Principal Outstanding	-$11,835,789
Less: Original Cost Accumulated Depreciation	-$17,686,257
Net Present-Day Replacement Value	**$117,888,245**

System Capacity

A key component of the new user facility fee calculation is determining the number of users the system can support. Based on Table 4-4 of the City's 2021 WSP, the firm water supply capacity is 5,680 gallons per minute (gpm). Section E-1 of the 2021 WSP also states an estimate of residential demand per equivalent residential unit (ERU) as 190 gallons per day, per ERU. Dividing total system capacity by the definition of an ERU results in 18,717 ERUs of capacity in the existing system. The existing system capacity represents a 100.5 percent increase over the number of existing ERUs (based on 2021 detailed customer statistics).

The City currently charges all new connections based on their meter size, or meter capacity equivalent (MCE). In order to derive the existing system capacity in terms of MCEs, rather than ERUs, the same percentage increase, 100.5 percent, was applied to the existing MCEs, resulting in total existing system capacity of 14,969 MCEs, as shown in **Exhibit 13**.

Exhibit 13: Total Existing System Capacity

System Capacity	MCEs
Existing MCEs	7,467
Additional Capacity	7,502
Total Existing Capacity	**14,969**

Calculation of the New User Facility Fee

The new user facility fee is calculated by taking the net present day replacement value and dividing by the existing system capacity in MCEs. The calculated new user facility fee is $7,875 per MCE, which is $4,486 more than the current fee of $3,389.

Exhibit 14: Total New User Facility Fee

New User Facility Fee	Total
Net Present Day Replacement Value	$117,888,245
Existing System Capacity (MCEs)	14,969
Total New User Facility Fee	**$7,875**

The calculated charge is the maximum allowable charge that the City may choose to implement. The City also has the option to phase the increase in over time. Adopting a charge less than the maximum is a viable option, particularly as part of a multi-year strategy to phase the increase in – however, the City should be aware that this alternative may result in less cash being available for capital purposes. In such a scenario, near-term capital needs may put additional pressure on current ratepayers.

The analysis described above concludes the new user facility fee study for the City. The calculated charge represents the legally defensible maximum that the City may impose for new connections to the system.

It is strongly recommended that the City recalculate their new user facility fee upon completion of major projects to maintain full representation of system value as assets are placed into service.

SUMMARY

The analysis described above concludes the rate and new user facility fee study for the water utility. The revenue requirement analysis results indicate that revenues at current levels are not sufficient to fund ongoing water system obligations as operating expenses continue to grow and system reinvestment obligations are phased in to 100 percent of depreciation levels by FY 2026 to support the planned $13.4 million capital plan. As a result, 3.80 percent annual increases are proposed from FY 2023 to FY 2028. The increases will be applied to the revised rate structure, based on the cost-of-service phase-in proposed.

In addition to the rate analysis, a new user facility fee (NUFF) was calculated for the water utility.

The City adopted the updated NUFF on August 17th, 2022 with FY 2023 rate increases adopted on October 1st of 2022; rate design changes discussed will be effective for the May 2023 utility billings.

We recommend that the City revisit the study findings during the budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenues and expenses. Any significant or unexpected changes will require adjustments to the rate strategy proposed.

The detail behind the summary tables discussed in this report can be found in the detailed rate model provided to the City.

Section IV. WASTEWATER UTILITY

INTRODUCTION

The City of Sandpoint collects, transports, and treats residential, commercial, and industrial wastewater within the City's service area. The existing facilities in the City's wastewater system include nineteen lift stations, one wastewater treatment plant, and almost fifty miles of collection pipelines. Currently, the City's treatment facility is approaching the end of its useful life while the new discharge permit will likely come with more stringent limits. The discussion below incorporates the need to replace the wastewater treatment plant ensuring that the City remains compliant with permit requirements, state and federal laws and evaluates its impacts on wastewater rates.

REVENUE REQUIREMENT

Similar to the water utility, a revenue requirement was completed for the wastewater utility and forms the basis for the long-range financial plan and multi-year financial management strategy.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the wastewater system. The FY 2022 budget formed the baseline for this forecast. The operating forecast was developed for the FY 2023 through FY 2028 study period. The following list highlights some of the key assumptions used in the development of the wastewater utility operating forecast.

Reserves

Operating Reserve. A minimum of 25 percent, or approximately 90 days, of operating and maintenance (O&M) expenses ($770,000 to $936,000)

Capital Contingency Reserve. A target of 1.00 percent of plant in service ($352,000 to $1.2 million).

Operating Revenue

Retail Rate Revenue. Based on actual detailed customer accounts and flow statistics from the City's billing system. Flow data from FY 2021 was used to project FY 2022.

Non-rate Revenue. Non-rate revenue consists of wastewater service charges, equipment rentals and other miscellaneous revenues.

Customer Growth. In alignment with the water utility, between FY 2023 and FY 2024, annual customer growth was estimated to be approximately 2.83 percent per year, before dropping to 2.38 percent through FY 2028 (based on input from City staff). Growth projections result in an average of 101 new sewer connections annually.

Interest Earnings. Interest rates are projected to be 0.15 percent per year in FY 2023, increasing to 0.50 percent by FY 2025. Projections are based on discussions with City staff and recent performance of the Idaho Local Government Investment Pool.

O&M Expenses

General Cost Inflation. 5.00 percent in FY 2023 and FY 2024, falling to 4.00 percent from FY 2025 to FY 2026 and finally to 3.00 percent by FY 2027 (represents near-term inflationary pressure with a return to historical averages).

Construction Cost Inflation. 5.94 percent per year for FY 2023 and FY 2024, falling to 4.00 percent from FY 2025 to FY 2026 and finally to 3.00 percent by FY 2027 (FY 2023 escalation is based on the 20-City Average Engineering News Record Construction Cost Index for 2022 and represents near-term inflationary pressure with a return to historical averages).

Labor Cost Inflation. 3.75 percent per year from FY 2023 to FY 2028 (based on staff input).

Benefit Cost Inflation. 6.00 percent per year from FY 2023 to FY 2028 (based on recent experience of City staff).

Debt Service

Existing Debt. The wastewater utility does not currently have any outstanding debt obligations. The City's 2016 refunding revenue bond was fully repaid in FY 2022.

New Debt. One new debt issuance is anticipated to help fund the $88.9 million capital program:

- $61.5 million Department of Environmental Quality (DEQ) loan in FY 2025. This loan is assumed to be a 30-year term, with a 2.5 percent interest rate, a 1.00 percent issuance cost and two years of interest only payments.

The forecasted low interest loan will be aimed at funding the new wastewater treatment plant construction. This new issuance, in FY 2025, will add $3.1 million in annual debt service once the full principal and interest are realized in FY 2027. The City will revisit the level of debt needed prior to issuance.

System Reinvestment

The wastewater utility will begin FY 2023 at 100 percent of depreciation levels but will intentionally pull back on rate funded capital levels in FY 2027 as full principal and interest related to the new DEQ loan is recognized. Rate funded capital levels will drop to 60 percent with this planned reduction, before increasing back to 100 percent by FY 2030.

Capital Funding Plan

The wastewater utility is anticipating $88.9 million in capital costs from FY 2023 through FY 2028, escalated to the date of construction. The most significant capital project is the construction of the new wastewater treatment plant in FY 2025/2026, with additional infrastructure investments related to lift station rehabilitations and mainline pipe repair and replacements rounding out the total. Funding for the capital identified includes cash balances (including interest), rate funded system reinvestment, new user facility fee revenues, transfers from the operating fund and new DEQ loan proceeds. **Exhibit 15** provides a summary of the funding sources for the capital funding expenditures. The full capital plan can be found in the detailed rate model provided to the City.

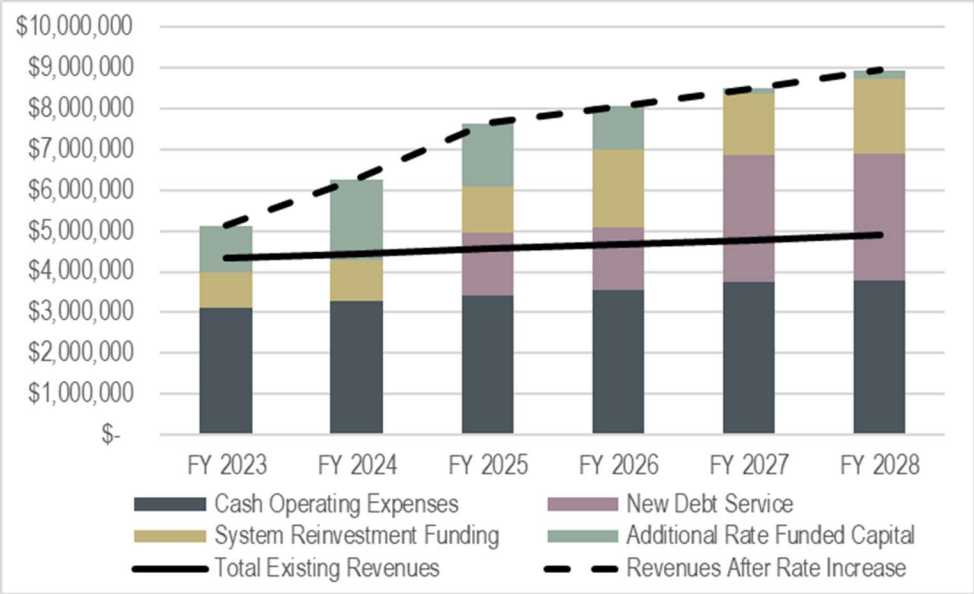
Exhibit 15: Wastewater Capital Funding Summary

Funding Summary	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Total
Total Capital Costs	**$ 6,520,578**	**$ 8,658,268**	**$ 39,051,058**	**$ 29,557,218**	**$ 2,586,178**	**$ 2,575,862**	**$ 88,949,162**
Funding Sources							
Cash Balances	$ 5,171,756	$ 7,165,772	$ -	$ 3,222,497	$ 647,078	$ 296,550	$ 16,503,653
Rate Funded Capital	880,000	1,010,412	1,129,600	1,910,621	1,501,059	1,830,770	8,262,462
New User Facility Fees	468,823	482,085	417,772	427,785	438,040	448,542	2,683,047
DEQ Loan Proceeds			37,503,686	23,996,314			61,500,000
Total Capital Funding	**$ 6,520,578**	**$ 8,658,268**	**$ 39,051,058**	**$ 29,557,218**	**$ 2,586,178**	**$ 2,575,862**	**$ 88,949,162**

Summary of Revenue Requirement

The operating forecast components of O&M expenses, debt service and rate funded system reinvestment come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the wastewater system to the expenses to evaluate the sufficiency of rates. **Exhibit 16** provides a summary of the wastewater system revenue requirement findings.

Exhibit 16: Wastewater Utility Revenue Requirement Summary



Summary of wastewater revenue requirement:

- Current revenue levels are sufficient to meet cash operating expenses and targeted levels of rate funded system reinvestment in FY 2023. Without a rate increase, revenue falls short of meeting all rate funded capital needs. As operating expenses continue to grow and the utility prepares for new debt service payments associated with the DEQ loan in FY 2025, the wastewater utility is projected to be deficient in FY 2025 by $1.5 million increasing to $3.8 million by FY 2028.
- With the introduction of the DEQ loan, new debt service over the study period will increase from $1.6 million annually in FY 2025/FY 2026, when interest only payments are incurred, to $3.1 million annually by FY 2027, when full principal and interest payments begin.
- Rate funded system reinvestment begins FY 2023 at 100 percent of depreciation levels but will intentionally be retracted in FY 2027 as full principal and interest related to the new DEQ loan is

recognized. Rate funded capital levels will drop to 60 percent with this planned reduction, before increasing back to 100 percent by FY 2030.

- The operating reserve remains at the target level of 90 days throughout the forecast.
- The capital contingency reserve maintains its target of 1.00 percent of plant assets for FY 2023 to FY 2026 but falls slightly in FY 2027 and FY 2028. It's worth mentioning that the capital target for the wastewater utility is forecasted to grow significantly with the addition of the new wastewater treatment plant, increasing from $352,000 in FY 2023 to $1.2 million by FY 2028. With the notable increase in target balances, it's reasonable to expect a multi-year timeframe to build reserves to this new elevated level. At its lowest point, in FY 2028, the capital fund balance is expected to be at 68 percent of target levels, or $816,000, and is forecast to meet target by FY 2032.
- Individual wastewater utility debt service coverage is forecast to remain at or above the City's goal of 1.40 in all years. The wastewater utility does not have any debt service payments until the new DEQ loan is drawn in FY 2025. When coverage on total debt is calculated, it begins FY 2025 at 3.00, falling to a low of 1.66 in FY 2027, before bouncing back to 1.80 by FY 2028. Keeping this ratio at or above target is important when entering the bond market.
- To meet the total projected financial obligations of the wastewater utility, rate increases are proposed at:
  - **19.00 percent annually from FY 2023 through FY 2025, before falling to 3.00 percent annually thereafter.**

COST OF SERVICE ANALYSIS

Similar to the water utility, the cost-of-service allocation process for the wastewater utility involves three steps - 1) allocate total utility costs by function, 2) develop customer class specific allocation factors and 3) allocate costs to customer classes. The methodology used conforms to industry accepted practices as identified by the Water Environment Federation (WEF) Financing and Charges for Sewer Systems Manual 27.

The functions of service to which wastewater service costs have been allocated are listed below.

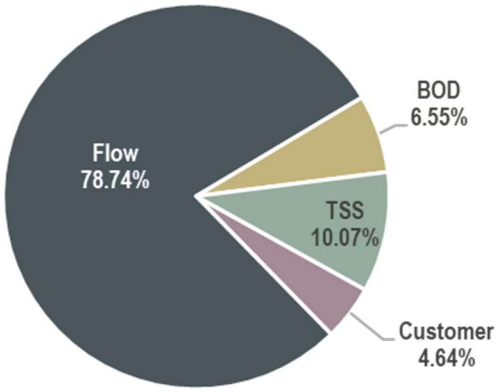
Customer. These costs are associated with providing service to customers regardless of wastewater contribution, such as billing and office support.

Wastewater Flow. These costs relate to actual and estimated wastewater volume processed within the system in a year.

Strength. These costs reflect strength of sewage processed. Strength is tracked by two measurements – biochemical oxygen demand (BOD) and total suspended solids (TSS). BOD is the parameter used to characterize the organic strength of sewage and TSS is the parameter that measures the amount of particles suspended in water.

Exhibit 17 provides a summary of the functional cost allocation results.

Exhibit 17: Wastewater Utility Functional Cost Allocation Summary



The wastewater utility cost allocation indicates that 78.74 percent of costs are related to flow, 10.07 percent of costs are related to TSS, 6.55 percent of costs are related to BOD and 4.64 percent of costs are related to the customer component.

Customer Class Distinctions

The City's current customer classes consist of a single-family class, a multi-family class, and two commercial classes - one for customers who contribute domestic level effluent (non-grease) and one for customers who have higher strength concentrations (grease).

The cost of service analysis was performed for the following classes:

- Single Family
- Multi Family
- Commercial 1 – Non Grease
- Commercial 2 - Grease

One of the main objectives of the cost-of-service rate study is to evaluate if cost differences exist when serving different customer classes of the system.

Allocation Factors

The next step in the cost-of-service analysis involves distribution of the allocated system costs to the customer classes served by the system. The functionally allocated system-wide costs are allocated to these customer classes as follows:

Customer costs are allocated to the customer classes based on their proportional share of the total number of accounts in the system.

Wastewater flow costs are allocated based on annual volume contributed to the wastewater system.

Strength costs were allocated based on annual volume and adjusted for the different strength factors associated with each customer class. The strength factors applied rely on data developed during the previous cost of service analysis.

- Single-family, multi-family and commercial class – non grease customers are all assumed to have the same strength concentrations. BOD for these classes is assumed at 200 mg/l and TSS is assumed at 140 mg/l.
- Commercial class – grease customers demonstrate higher strength concentrations than their domestic strength counterparts. BOD for this class is assumed at 500 mg/l and TSS is assumed at 340 mg/l.

Allocation factors for each customer class can be seen in **Exhibit 18** and were developed from City-specific data related to actual customer flows and system requirements.

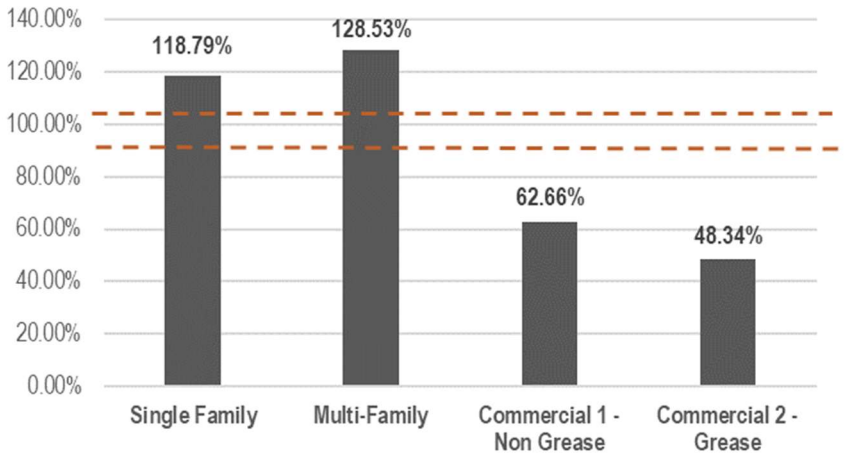
Exhibit 18: Sewer Cost Pool Allocation Factors

Customer Class	Accounts		Flow		BOD Concentration		TSS Concentration	
	#	%	#	%	#	%	#	%
Single Family	2,951	61%	117,703	42%	200 mg/l	37%	140 mg/l	37%
Multi Family	1,308	27%	27,534	10%	200 mg/l	9%	140 mg/l	9%
Commercial 1 - Non Grease	527	11%	97,148	35%	200 mg/l	31%	140 mg/l	31%
Commercial 2 - Grease	53	1%	37,730	13%	500 mg/l	23%	340 mg/l	23%
Total	**4,839**	**100%**	**280,115**	**100%**		**100%**		**100%**

Wastewater Cost of Service

Exhibit 19 provides a comparison of current rate revenue distribution between customer classes and the distribution of revenues indicated from the cost-of-service analysis.

Exhibit 19: Comparison of Wastewater Current Revenue Distribution to Cost of Service Distribution



As discussed for the water utility, if a class's suggested increase is within +/-5 percent of the overall increase needed (shown by dashed lines), the class is considered within cost of service for the utility.

Using this evaluation, results show that the single family and multi-family classes are paying more than their allocated share of costs while the commercial non-grease and grease classes are paying less than their allocated share of costs. These results are driven by the data analysis showing the commercial classes contribute proportionately more flow with higher concentrations of strength constituents. In addition, for many customers, the City's existing non-residential flow rates are lower than the flow rates charged to residential customers, compounding the cost allocation imbalance. To

minimize significant rate impacts to any customer class, the City will phase-in cost of service increases over a multi-year period, with a goal to achieve full cost of service by FY 2028.

Exhibit 20 provides a summary of the cost-of-service phase-in.

Exhibit 20: Wastewater Cost of Service Phase-In

Class	Cost of Service Phase In					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Single Family	16.2%	15.6%	15.1%	0.0%	0.0%	0.0%
Multi Family	12.0%	12.0%	12.0%	0.0%	0.0%	0.0%
Commercial 1 - Non Grease	25.0%	25.0%	25.0%	7.5%	7.5%	7.5%
Commercial 2 - Grease	30.0%	30.0%	30.0%	8.0%	8.0%	7.5%
System-Wide Revenue Increase	**19.0%**	**19.0%**	**19.0%**	**3.0%**	**3.0%**	**3.0%**

RATE DESIGN

As discussed in the water utility section, the principal objective of the rate design stage is to implement rate structures that collect the appropriate level of revenue as outlined by the revenue requirement and cost of service findings.

Existing Wastewater Rates

All customers of the wastewater utility pay a monthly fixed charge per account that is the same for single family and commercial customers. Multi-family customers pay a monthly fixed charge per unit, which is eighty percent of the single family fixed charge. All customers also pay a volume charge per thousand gallons of flow (kgals). Single family and multi-family customers pay a uniform rate for all flow. Commercial customers are charged based on an inclining two tier rate structure that differs between the non-grease and grease commercial classes. All customer classes currently have a monthly minimum billed flow, that differs by class.

Exhibit 21 provides a summary of the existing FY 2022 wastewater utility rates by class.

Exhibit 21: FY 2022 Existing Monthly Wastewater Rates

Sewer Rates	FY 2022
Fixed Charge	
Single Family	$ 29.36
Multi Family (per unit)	$ 23.47
Commercial Class 1 - Non Grease	$ 29.36
Commercial Class 2 - Grease	$ 29.36
Flow Charge (per 1,000 gallons)	
Single Family	$ 9.55
Multi Family	$ 9.55
Commercial Class 1 - Non Grease	
Tier 1: 0-6,000 gal	$ 7.67
Tier 2: Over 6,001 gal	$ 9.06
Commercial Class 2 - Grease	
Tier 1: 0-6,000 gal	$ 7.75
Tier 2: Over 6,001 gal	$ 10.25

Existing Minimums:	
Single Family	$ 48.46
Multi Family	$ 38.75
Commercial 1 - Non Grease	$ 56.21
Commercial 2 - Grease	$ 56.49

Proposed Wastewater Rates

In addition to the annual rate increases based on the cost-of-service phase-in plan, rate design changes will help ensure revenue stability as new debt service is forecast in the near-term, and simplification of the schedule of existing charges. Changes proposed through the rate design process include the following:

- Residential changes:
  - Eliminate minimum billed flow.
  - Move to a fixed rate for all residential customers – eliminate the existing flow charge. This change will help address revenue stability as the utility prepares for increased debt obligations.
  - Create two residential sub-classes; one for usage less than 2,000 gallons monthly and one for usage more than 2,000 gallons monthly. In order to be classified in the low user group, usage had to fall below the 2,000 gallon threshold, but be more than zero, in all months of the year. This modification eases the impact of the rate design change for the lower users of the class. The City will aim to phase the fixed rates into one charge for the whole residential class by FY 2028.
- Other rate design changes:
  - Eliminate minimum billed flow.
  - Transition multi-family class to a fixed rate per unit for all multi-family customers. This change will also help to address revenue stability.

- Eliminate the tier structure for the Commercial 2– Grease class. Based on customer statistics, 92 percent of usage is over the existing tier threshold of 6,000 gallons. Eliminating the tier structure will simplify the rate schedule without substantial customer impacts.
- Move towards elimination of the Commercial 1 tiered rate in the future when rates near more inflationary levels to minimize impacts to this customer class.

Exhibit 22 provides a summary of the proposed rates through FY 2028.

Exhibit 22: Proposed Wastewater Rates

Sewer Rates	Proposed					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Fixed Charge						
Single Family						
Less than 2,000 gallons	$ 57.66	$ 68.62	$ 81.65	$ 85.73	$ 90.02	$ 95.30
More than 2,000 gallons	$ 75.63	$ 87.07	$ 99.62	$ 98.59	$ 97.16	$ 95.30
Multi Family (per unit)	$ 44.49	$ 49.83	$ 55.81	$ 55.81	$ 55.81	$ 55.81
Commercial Class 1 - Non Grease	$ 68.00	$ 85.00	$ 106.25	$ 114.22	$ 122.79	$ 131.99
Commercial Class 2 - Grease	$ 70.00	$ 91.00	$ 118.30	$ 127.76	$ 137.99	$ 148.33
Flow Charge (per 1,000 gallons)						
Commercial Class 1 - Non Grease						
Tier 1: 0-6,000 gal	$ 8.35	$ 10.44	$ 13.05	$ 14.03	$ 15.08	$ 16.21
Tier 2: Over 6,001 gal	$ 9.61	$ 12.01	$ 15.01	$ 16.13	$ 17.34	$ 18.64
Commercial Class 2 - Grease						
All Flow	$ 13.04	$ 16.96	$ 22.04	$ 23.81	$ 25.71	$ 27.64

WASTEWATER NEW USER FACILITY FEE ANALYSIS

In addition to the rate study update performed, the City requested an update of their New User Facility Fee (NUFF). The following section discusses the various aspects of the process used to update the NUFF for the wastewater utility.

As discussed for the water utility, the methodology and calculation used for these fees is based on the interpretation by the Court in the 2015 Idaho Supreme Court Case: NIBCA v the City of Hayden. Please refer to **Exhibit 10** for more explanation on the methodology of the charge. The following discussion will concentrate on the key elements and data sources used in development of the charge update.

Gross Present-Day Replacement Value

The gross present day replacement value was determined by identifying all existing facilities utilized to provide wastewater service to customers as of September 30, 2021. Important considerations for this part of the equation include:

- Assessing accurate installation years
  - » Installation year is not only important for determining annual depreciation, it is also important for determining replacement cost. Existing asset records are used to populate installation years.

- Collection system asset replacement cost determination
  - » Collection system replacement costs were estimated by applying a pipe replacement cost approximation based on pipe diameter to the 256,000 linear feet of pipe based on existing Geographic Information System (GIS) data at the City. Pipe replacement costs were based on recent engineering estimates for utilities of similar size and location. Total collection system replacement costs are estimated at $37.8 million.

- Replacement cost determination for all other system assets
  - » Replacement costs for other system assets were determined by applying an Engineering News Record (ENR) construction cost index (CCI) ratio to the original cost of the asset as listed on the detailed asset register on record at the City. The ENR CCI 2021 average is used for determining replacement cost. The difference in the CCI between the installation year and this 2021 average determines the multiplier applied to the original cost of the asset, ultimately deriving the replacement cost.

Total gross present-day system replacement value = $76.8 million as shown in **Exhibit 23**.

Exhibit 23: Gross System Replacement Value

System Replacement Value	Total
Treatment	$27,375,248
Collection	$37,779,424
Pumping	$5,516,611
General	$6,175,546
Total Gross Replacement Value	**$76,846,829**

Bond Principal

The methodology identified allows a deduction for outstanding bond principal which represents the unpaid value of the system. Debt service is paid for through user fees and therefore should be deducted from the system replacement value so it is not double charged – once in rates and once in the new user facility fee. The City currently has one outstanding debt obligation resulting in a deduction of $763,000 from the system replacement value.

Accumulated Original Cost Depreciation

Accumulated original cost depreciation is another deduction identified in the methodology. Original cost depreciation was calculated using the original cost of each asset divided by the useful life of each asset. The result of this calculation is annual straight-line depreciation. Depreciation accumulates each year until the full original cost is reached. Useful lives were based on the City's detailed asset register.

The original cost accumulated depreciation for the City is estimated at $15.3 million.

Net Present-Day Replacement Value

Exhibit 24 summarizes the net present day system replacement value by deducting the bond principal remaining and original cost accumulated depreciation values. The net present day system replacement value is calculated at $60.8 million.

Exhibit 24: New Present-Day Replacement Value

System Replacement Value	Total
Treatment	$27,375,248
Collection	$37,779,424
Pumping	$5,516,611
General	$6,175,546
Total Gross Replacement Value	**$76,846,829**
Less: Bond Principal Outstanding	-$763,129
Less: Original Cost Accumulated Depreciation	-$15,279,524
Net Present-Day Replacement Value	**$60,804,175**

System Capacity

A key component of the new user facility fee calculation is determining the number of users the system can support. Based on Exhibit B-2 of the 2010 HDR Engineering report, the existing treatment plant capacity is 2.83 million gallons per day (mgd). Section 1 of the City's 2016 sewer rules and regulations also states an estimate of residential demand per equivalent residential unit (ERU) as 6,000 gallons per month, per ERU. A peaking factor of 1.8 is added to the ERU definition to account for wet weather events. The peaking factor used was based on Table 3.1 of the City's 2019 treatment plant facility plan. Dividing total system capacity by the definition of a max month ERU results in 7,970 ERUs of capacity in the existing system, as shown in **Exhibit 25**.

Exhibit 25: Total Existing System Capacity

System Capacity	ERUs
Existing ERUs	3,652
Additional Capacity	4,318
Total Existing Capacity	**7,970**

Calculation of the New User Facility Fee

The new user facility fee is calculated by taking the net present day replacement value and dividing by the existing system capacity in ERUs. The calculated new user facility fee is $7,629 per ERU, which is $3,215 more than the current fee of $4,413.

Exhibit 26: Total New User Facility Fee

New User Facility Fee	Total
Net Present Day Replacement Value	$60,804,175
Existing System Capacity (ERUs)	7,970
Total New User Facility Fee	**$7,629**

The calculated charge is the maximum allowable charge that the City may choose to implement.

While the City could implement the maximum allowable charge now, with the near-term construction of the new wastewater treatment plant, it's prudent to review a range of future fee levels to avoid volatility in the charge as new infrastructure costs and offsetting debt principal levels are realized.

In order to project future fee levels, the components of net system replacement value and total system capacity were reviewed to forecast future conditions. Considerations were made to reflect planned capital spending that will result in future assets for the utility, the level of future outstanding debt principal and decreases to forecasted depreciation with replacement of aging infrastructure. **Exhibit 27** provides a range of potential future charges, depending on the final level of infrastructure investment and outstanding debt.

Exhibit 27: Forecasted Future Fee Levels

System Replacement Value	Maximum Calculated Total	Future Range Total	Future Range Total
Total Gross Replacement Value	**$76,846,829**	**$145,924,422**	**$145,924,422**
Less: Bond Principal Outstanding	-$763,129	-$62,121,212	-$31,060,606
Less: Original Cost Accumulated Depreciation	-$15,279,524	-$11,234,990	-$11,234,990
Net Present-Day Replacement Value	**$60,804,175**	**$72,568,220**	**$103,628,826**

System Capacity	ERUs	ERUs
Existing ERUs	3,652	3,652
Additional Capacity	4,318	12,768
Total Existing Capacity	**7,970**	**16,419**

New User Facility Fee	Total	Total	Total
Net Present Day Replacement Value	$60,804,175	$72,568,220	$103,628,826
Existing System Capacity (ERUs)	7,970	16,419	16,419
Total New User Facility Fee	**$7,629**	**$4,420**	**$6,311**

The analysis in **Exhibit 26**, represents the legally defensible maximum that the City may impose for new connections to the system.

Based on the future forecast in **Exhibit 27**, updated fee levels after construction of the new wastewater treatment plant could range from $4,420 per ERU to $6,311 per ERU. To avoid potential fee volatility in the future, it's recommended that the City implement the new user facility fee at $6,311 per ERU to account for the likely increase of bond principal outstanding in the future.

It is strongly recommended that the City recalculate their new user facility fee upon completion of major projects to maintain full representation of system value as assets are placed into service.

SUMMARY

The analysis described above concludes the rate and new user facility fee study for the wastewater utility. The revenue requirement analysis results indicate that revenues at current levels are not sufficient to fund ongoing wastewater system obligations as operating expenses continue to grow and the city incurs new debt service on the anticipated $61.5 million DEQ loan for the wastewater treatment plant. System reinvestment begins FY 2023 at 100 percent of depreciation levels but will drop to 60 percent in FY 2027. This forecasted reduction is intentional, as full principal and interest related to the new DEQ loan is recognized. Rate funded capital levels will return to 100 percent by FY 2030 to support the planned $88.9 million capital plan. As a result, 19.00 percent annual increases are proposed from FY 2023 to FY 2025 before dropping to 3.00 percent annually from FY

2026 forward. The increases will be applied to the revised rate structure, based on the cost-of-service phase-in proposed.

In addition to the rate analysis, a new user facility fee (NUFF) was calculated for the wastewater utility.

The City adopted the updated NUFF on August 17th, 2022 with FY 2023 rate increases adopted on October 1st of 2022; rate design changes discussed will be effective for the May 2023 utility billings.

We recommend that the City revisit the study findings during the budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenues and expenses. Any significant or unexpected changes will require adjustments to the rate strategy proposed.

The detail behind the summary tables discussed in this report can be found in the detailed rate model provided to the City.

Section V. RATE STUDY PRESENTATIONS

It has been over 10 years since a comprehensive rate study was completed by the City. A key component of the rate study was education and engagement of the City Council in the rate-setting process and providing a forum for members to evaluate the rate recommendations and advise on the recommendations to align with community goals and objectives.

The following presentations/workshops were held over the course of the study to share results, gain feedback and to incorporate suggestions:

- Rate Setting Fundamentals – January 5, 2022
- Water and Sewer Revenue Requirement Results and New User Facility Fees – June 8, 2022
- Water Cost of Service, Rate Design and Wholesale Results – February 15, 2023
- Sewer Cost of Service and Rate Design Results – March 1, 2023
- Water and Sewer Rate Study Public Hearing – April 5, 2023

Recordings of past presentation materials can be found on the City's YouTube channel and can be accessed through the following web address: https://www.youtube.com/@CityofSandpoint.

FCS GROUP
Solutions-Oriented Consulting

| Memorandum

To: Greg Lanning, Utilities Director
Sarah Lynds, Finance Director

Date: May 2023

From: Angie Sanchez Virnoche, Principal
Brooke Tacia, Project Manager

RE Final Wholesale Rate Development

INTRODUCTION

The City of Sandpoint (City) currently provides wholesale water service to three water purveyors located adjacent to the City's service area. The City provides the infrastructure and water supply necessary to deliver water to the master meters of each customer. Each purveyor then uses its own distribution system to provide water from the master metering points to its customers. The sale of water to each purveyor is managed through wholesale contracts, all of which are currently up for renewal. As a part of that process, the City engaged Financial Consulting Solutions Group (FCS GROUP) to update the rate for providing wholesale water service. Below is a summary of the 2023 wholesale rate calculation.

METHODOLOGY

There are two primary methods of setting utility rates: the utility basis and cash basis. The differences mainly have to do with how the eligible costs are calculated. The cost of service is the amount of money that the utility needs to recover to meet its financial obligations. This amount is divided by the applicable number of units (such as number of customers or cubic feet of water consumed) to yield the actual rate assessed to customers.

While the utility basis and cash basis treat operating costs the same, they differ in their recovery of capital costs. The cash basis is forward looking, focusing on ensuring funding for projected *future* capital costs and debt service costs. The utility basis focuses on recovering what has been invested in the *past*, along with a return *on* that investment and a return *of* that investment in the form of annual amortization.

Chapter VI.1 of the AWWA M1 Manual provides guidance around the use of the utility basis for wholesale customers, noting these customers typically do not have legal responsibilities to repay any debts incurred, operate the system within regulatory specifications or have any legal standing in the governance of the utility. Utilizing a utility basis approach compensates the retail customers for the risks incurred in providing service to wholesale customers.

The utility basis approach recovers costs related to the following three (3) main cost components:

- ***Operating and Maintenance Expenses (O&M)*** – costs related to ongoing maintenance and operation of eligible assets.
- ***Annual Depreciation Expense*** – costs related to the loss in value of facilities, not restored by current maintenance, due to wear and tear, decay, and obsolescence.

- ***Return on Investment*** – intends to pay the annual interest cost of debt capital and provide a fair rate of return for the total equity capital employed to finance facilities used to provide water service.

BASIS FOR ALLOCATING COSTS

- ***Consumption & Demand***. There are two primary demand bases for allocating costs to wholesale customers. Allocable assets and fixed supply-related operating costs allocated to customers based on their share of system capacity. Variable operating costs such as electricity or chemicals are allocated to customers based on actual consumption relative to total water system consumption.

  In order to calculate wholesale customer's share of system capacity, annual usage statistics were adjusted by a maximum day demand (MDD) to average day demand (ADD) ratio. A ratio of 1.83 was used, based on max and average day demand data from the City's 2021 detailed billing statistics. The peaking factor for the wholesale customers is lower than the peaking factor for the retail system, which averages 2.30 based on Table 2-2 of the City's 2021 Water System Plan.

  Exhibit 1 summarizes the derivation of the capacity share and consumption share allocation factors for the whole customers.

Exhibit 1: Demand Allocation Factors

Description	Wholesale	City
Capacity (ccf)	**88,282**	**1,639,028**
% Share	5.11%	94.89%
Actual Usage (ccf)	**48,236**	**712,621**
% Share	6.34%	93.66%

- ***System Assets***. The City's water system asset schedule drives several calculations in the wholesale rate determination, including both the allocation of capital assets (depreciation) and the allocation of asset-related operating costs to functions of service (and ultimately the wholesale customers). The 2023 rate structure is based on plant-in-service for year-end 2021, as summarized in **Exhibit 2**.

  In order to equitably assign assets that provide service to wholesale customers, the City's system assets were first organized by functions of water service. Next, each asset was allocated based on the following allocation basis:

  - *Supply/Treatment*. The $22.8 million in supply/treatment assets were allocated to wholesale customers based on their actual consumption share, or average use, of 6.34 percent.
  - *Pumping*. The $95,700 in pumping assets were allocated to wholesale customers based on their capacity share of 5.11 percent.
  - *Storage*. The $106,000 in storage assets were allocated to wholesale customers based on their capacity share of 5.11 percent.
  - *Transmission.* The $2.6 million in transmission assets were allocated to wholesale customers based on their capacity share of 5.11 percent.
  - *Distribution*. Since each wholesale purveyor delivers water to their customers through a distribution system that is maintained by the wholesale customer, no distribution system costs were allocated to wholesale customers.

» *Meters & Services*. The City's investment of $841,000 in meters and services was allocated based on the number of meter service equivalents (MSEs). Of the total 6,784 MSEs in the City, 37 MSEs were identified as eligible to wholesale customers, resulting in an allocation of 0.54 percent.

» *General*. Since the $2.4 million in general assets are in support of the system as a whole, these assets were allocated to the wholesale customers based on the weighted allocation of all other functional allocations, resulting in an allocation of 3.94 percent to wholesale customers.

» *Hydrants*. Similar to the methodology used for the distribution system, since each wholesale customer provides distribution services, it is assumed that all hydrants and fire protection needs are met by the wholesale customers. Therefore, no hydrant costs are allocated to wholesale customers.

The same allocation factors were then applied by function of service to accumulated depreciation, contributions in aid of construction (CIAC), and annual depreciation net of CIAC. The combination of assets at their original cost less accumulated depreciation and CIAC results in the net rate base for the wholesale customers. This allocation factor is used to assign costs that are in support of the whole system – resulting in a net rate base of $1.69 million or a 3.94 percent allocation to wholesale customers.

Exhibit 2: System Asset Summary

WHOLESALE SHARE

Functions of Service	Original Cost	Less: Accum. Depreciation	Less: CIAC	Net Rate Base	Annual Depreciation
Supply & Treatment	$ 1,721,303	$ (277,549)	$ -	**$ 1,443,754**	$ 20,383
Pumping	14,068	(9,178)	-	**4,890**	191
Storage	7,137	(1,742)	-	**5,395**	104
Transmission	191,330	(56,544)	-	**134,785**	2,551
Distribution	-	-	-	**-**	-
Meters & Services	6,347	(1,821)	-	**4,526**	117
Hydrants	-	-	-	**-**	-
General	132,600	(37,954)	-	**94,646**	1,688
Total	**$ 2,072,784**	**$ (384,788)**	**$ -**	**$ 1,687,996**	**$ 25,034**

CITY SHARE

Functions of Service	Original Cost	Less: Accum. Depreciation	Less: CIAC	Net Rate Base	Annual Depreciation
Supply & Treatment	$ 25,429,894	$ (4,100,400)	$ -	**$ 21,329,494**	$ 301,134
Pumping	261,187	(170,406)	-	**90,781**	3,551
Storage	132,496	(32,337)	-	**100,159**	1,928
Transmission	3,552,195	(1,049,792)	-	**2,502,403**	47,363
Distribution	26,283,627	(10,762,999)	(1,733,218)	**13,787,411**	327,339
Meters & Services	1,172,271	(336,280)	-	**835,991**	21,547
Hydrants	196,275	(44,470)	-	**151,805**	2,777
General	3,228,797	(924,179)	-	**2,304,618**	51,007
Total	**$ 60,256,743**	**$ (17,420,862)**	**$ (1,733,218)**	**$ 41,102,662**	**$ 756,646**

OPERATING COST ALLOCATIONS

Next, O&M expenses were functionalized by department and budget line item as follows:

- Utilities administration expenses were allocated based on the overall net rate base – or 3.94 percent to wholesale customers.
- Water transmission and distribution expenses were allocated based on the weighted allocation of transmission, distribution, and hydrant assets. Since wholesale customers do not receive allocations for distribution and hydrant assets, the weighted allocation for O&M expenses is reduced to 0.81 percent for wholesale customers.
- Water treatment expenses and all electricity costs were allocated based on average use, resulting in an allocation of 6.34 percent to wholesale customers.
- Water project expenses were allocated based on the overall net rate base of 3.94 percent to wholesale customers.
- Resale supply expenses were allocated based on the number of MSEs, or 0.54 percent to wholesale customers.
- Transfers to the general fund were allocated based on the weighted average of all other expense allocations. This weighted average resulted in an allocation of 3.76 percent to wholesale customers.

Exhibit 3 provides the summary of the O&M allocations.

Exhibit 3: O&M Allocation Summary

Description	O&M Allocation	
	Wholesale	City
Utilities Administration	$ 20,870	$ 508,189
Transmission & Distribution	4,264	520,093
Treatment & Electricity	45,556	673,027
Project Expenses	2,696	65,651
Resale Expenses	707	130,543
Transfers to General Fund	48,890	1,252,056
Total O&M	**$ 122,982**	**$ 3,149,558**

DEPRECIATION ALLOCATION

The rate structure recovers a share of depreciation on assets that provide service to wholesale customers. As identified in **Exhibit 2** above, the annual depreciation on non-contributed assets included in the calculated charge was $25,034.

RETURN ON INVESTMENT

Since the wholesale customers have not bought into the system through a NUFF, they are renting capacity from the City. The return-on-investment cost component represents the capacity "*rental*" portion. In general, the return on investment is intended to provide a reasonable rate of return on the City's investment in facilities which the wholesale customers utilize.

The return on investment is calculated by multiplying the *rate base* by a *rate of return*, as follows:

- *Rate base* is the utility's net investment in assets. It excludes capital funded by grants or originally contributed by developers and deducts accumulated depreciation / amortization on

assets that were paid for by the utility. The asset values utilized in the rate base calculation are typically expressed in original costs. Deducting allocable cumulative depreciation of $17.81 million and contributions in aid of construction of $1.73 million from the allocable original cost of $62.33 million results in an allocable rate base of $42.79 million.

- *Rate of return* is typically referred to as the weighted average cost of capital (WACC) and should provide a return on investment to "*owners*" of the system equivalent with returns available from other investments having equal risk. The WACC consists of two components:
  - *Debt interest rate on outstanding debt.* As of year-end FY 2021 the City's water utility had $13.5 million in outstanding loan debt principal. Given the total FY 2021 expense of $381,465 in debt service interest, the average interest rate on outstanding debt was 2.82 percent. This rate changes over time as debt is retired and new debt is issued.
  - *Return on equity.* The return on equity recognizes that the utility's capital investment provides value and should earn a return. It can be set as a premium over expected future debt interest costs, reflecting the discretionary investment of utility financial resources and reasonable expectation of return, as well as the various risks associated with system ownership, use of equity financing, and the terms of individual wholesale supply contracts. The risk premium on the rate of return can be specified as an amount or by formula in the contract. The methodology chosen by the City sets this rate based on the prevailing Bond Buyers Index for 20-year municipal bonds (3.25 percent during the completion of the study), plus a risk premium associated with the incremental return above the risk-free rate, multiplied by a water services industry beta. Including the beta component attempts to capture the co-movement in a company's returns with the returns of the market, an effect which is usually more prominent with smaller companies than with larger ones. The incremental return above the identified risk-free rate was determined by comparing the twenty-year average returns of the S&P 500 Index (8.95 percent from 2003-2022) to the twenty-year average rate of return on common treasury stock (3.44 percent from 2003-2022) and multiplying by a water services beta of 0.52, as identified by Kroll's Cost of Capital[1] components. The identified adjusted risk premium is 2.86 percent.
  - Using this methodology, the total rate of return on equity was calculated at 6.11 percent. Absent a specific rate in the agreement between the City and the wholesale customers, this factor is linked to the prevailing bond market and will vary over time as market conditions change.

The WACC is computed by identifying debt and equity shares of the rate base and then multiplying each component by the appropriate rate of return as shown in **Exhibit 4**.

[1] Kroll is a leading independent valuation services provider and a trusted expert on estimating cost of capital. Their published industry betas and other cost of capital components can be found on their website, at: www.krolls.com.

Exhibit 4: Calculation of Weighted Average Cost of Capital

Weighted Average Cost of Capital (WACC)	Share of Net Book Assets $	Share of Net Book Assets %	Rate of Return
Debt	$ 13,526,696	31.61%	2.82%
Equity	29,263,962	68.39%	6.11%
Total O&M	**$ 42,790,658**	**100.00%**	**5.07%**

The return-on-investment component was computed by multiplying the wholesale net rate base of $1.69 million by the WACC of 5.07 percent resulting in a return on investment of $85,610.

WHOLESALE RATE CALCULATION

Combining the O&M, depreciation and return on investment components results in a wholesale allocable cost of service of $233,626. **Exhibit 5** provides a summary of the three cost components.

Exhibit 5: Wholesale Allocable Cost of Service

Utility Basis	2023 Cost of Service
Operations and maintenance (O&M)	$ 122,982
Annual depreciation	25,034
Return on investment	85,610
Revenue Requirement	**$ 233,626**

The current wholesale water rates are summarized in **Exhibit 6** and consist of an inclining tier structure for volume charges and a monthly fixed charge based on the meter size of each customer's connection. Tier thresholds are multiplied by the number of accounts served by each wholesale purveyor.

Exhibit 6: Existing Monthly Wholesale Rates

Description	2023 Existing
Fixed Charge	
3/4" Meter	$19.72
1" Meter	$39.60
1-1/2" Meter	$69.74
2" Meter	$99.18
3" Meter	$356.71
4" Meter	$594.67
6" Meter	$1,189.46
Volume Charge (per 1,000 gallons)	
Wholesale - thresholds are per account	
Tier 1: 0-15,000 gal	$3.91
Tier 2: 15,001- 40,000 gal	$6.43
Tier 3: Over 40,001 gal	$7.62

To help address revenue stability and align cost causation with revenue collection, the City will begin collecting the capital components of annual depreciation and return on investment through a monthly fixed charge. The capital components were allocated to the three wholesale customers based on an average of five years of historical usage levels. Historical data was reviewed to remove any abnormalities (i.e., leaks). O&M expenses will be collected through a uniform usage charge, moving

away from the inclining tier structure applied today. Each wholesale customer will continue to have the flexibility to charge their customers based on a rate structure that addresses the policies and objectives of each wholesale purveyor. **Exhibit 7** provides a summary of the monthly fixed and variable charges applicable to the wholesale customers.

Exhibit 7: Proposed Monthly Wholesale Rates

Description	Proposed
Fixed Charge	
Syringa Heights Water District	$4,949
Northside Water Users Association	$3,683
Edelweiss Village Improvement Association	$588
Volume Charge (per 1,000 gallons)	
All Usage	$2.85

SUMMARY

The initial rate calculation described above, representative of the utility basis methodology, is intended to set rates for FY 2023. The allocated costs to be recovered from wholesale customers results in a 26.5 percent increase over forecasted FY 2022 revenue generation for the class. It is recommended that the City increase the stated rates annually, by the water system average rate increase of 3.80 percent from FY 2024 through FY 2028. During the next rate setting cycle, a comprehensive wholesale analysis is recommended to recalibrate the rate basis.

Aside from the annual updates, any material changes in the system infrastructure, asset base, specific facilities serving wholesale customers, level of service provided, and the utility's operating and maintenance expenses relative to the current cost structure could warrant an update of the wholesale rate analysis and an adjustment to wholesale rates.