



City of Stevenson

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To: City Council
From: Leana Kinley, City Administrator
RE: Water and Sewer System Development Charges and Monthly Rates
Meeting Date: March 21, 2024

Executive Summary:

The City Council held a public hearing on January 18th with a presentation by Brooke Tacia from FCS Group, Inc. on the water and sewer monthly rates and System Development Charges (SDCs). There was a council workshop on January 25th to further discuss the rates and SDCs. There was an additional Public Hearing on February 15th and there was a request for more information related to the Capital Improvements included in the study and to analyze the impact of changing the base rates for transient lodging from ½ to 1 full unit. Additionally, there was a request to look at the possibility and impact of sales tax revenues being used for the utilities.

As there are still outstanding questions on directions for how to update the rates, there are potential revenue losses which need to be discussed.

This memo will address those additional requests and ways to address the potential revenue shortfall. The memo from February 15th is included to assist in addressing the questions that remain outstanding and additional items can be found in the February 15th packet found online at <https://www.ci.stevenson.wa.us/meetings>.

Overview:

Capital Improvement Costs

A copy of the document prepared for the March 2nd Council Retreat is attached. This adds the description of the projects, groups the projects that are planned to be constructed at the same time, and is color coded with grey cells being water projects and green cells being sewer projects.

Ultimately these projects outlined in the respective water or sewer plans will need to be completed to ensure adequate water and sewer services. Delaying projects will end up costing the city more money in the long run due to inflation.

Transient Lodging Base Fee Changes

There was an initial analysis on the change to transient lodging to determine total potential revenue impact by staff. Further analysis is being done by FCS Group. Their analysis will not be ready by the March 21st meeting and will be presented at the March 25th Special Meeting.

Sales Tax Use for Utilities

Generally, it is not recommended to use General Fund revenues for Proprietary Funds. If this is a direction the council would like to pursue there are a few options. On page 168 of the attached Revenue Guide for WA Cities and Towns produced by the Municipal Research Services Center (MRSC) there is a list of unrestricted revenues that may be used for any lawful government purpose. The City currently allocates half of the sales tax received (.5%) tax to the Street Fund. The remaining .5% remains in the General Fund to support ongoing operations.

The current revenues for the General Fund are sufficient to meet existing service level needs. Allocating a substantial amount of revenue to the proprietary funds on a long-term basis is not sustainable with current revenue sources without impacting existing service levels.

If the council is open to discussion on voter-approved options, there may be a way to allocate sales tax revenues on a regular basis without impacting current service levels. Due to restrictions on revenue uses, it can get a bit complex and is ultimately about the color of money and what can be used where. FCS Group will be analyzing the potential impact of this option, and it can be discussed further at the March 25th meeting.

Rate Adoption Timeline

There are still options the council wants to pursue for long-term utility rate setting. The longer this decision takes, the greater the impact on revenues for projects in process. To allow the council ample opportunity for making a decision without rushing, staff propose adopting a rate increase for 2024 at the 10% recommended increase for sewer, effective as of the April 2024 billing cycle. This would then be reflected in utility bills residents receive the beginning of May.

The current funding for the wastewater system improvements are expected to be exhausted this year and the balance will need to come from the rates. The budget outlined for 2024 covered this difference, yet with the delay on direction for how to proceed and final decision for rates there is a concern the revenue needs will not be met.

A summary of current contracted amounts, existing funding, and remaining balances will be provided ahead of the meeting.

Action Needed:

- Changes to the CIP?
- Further Information on Sales Tax Option?
- Adoption of 2024 sewer rates

Review from February 15th meeting:

- Water Rates-Across the board annual increase of 7% from 2024-2028?
- Sewer Rates-Across the board annual increases of 10%, 10%, 3.5%, 3.5% and 3%?
- Move forward with the sewer cost-of-service rate increase for High and Very High?
 - If yes, across-the-board rate increase, or change the BOD rate only (variable impact to customers)?

- Adjust the income tier removing the senior and social security disability requirement and adding a second tier at 400% the national poverty rate for a 25% discount?
- Remove the ability to no longer be charged for a voluntarily shut-off meter (temporary/snowbirds)?
- Existing customers with demolition permits and no new building permit (vacant land):
 - Continue to require the base fees to be paid and no system development charges will be required when rebuilding occurs? Like the requirement for snowbirds or developed properties with utilities that have been shut-off.
OR
 - Require the customer to pay the back-billing from time of disconnect to reconnect, or SDCs, whichever is less?
- Remove construction water rate class?
- Implement the scaling options for System Development Charges?
- Commercial connections follow new flow and BOD calculations, or pull out some other standard rate multipliers similar to existing structure?