

June 30, 2022

Jen Scharber, Interim Clerk/Treasurer  
City of Tenino  
149 Hodgden St S  
Tenino, WA 98589

**Subject: City of Tenino Water and Sewer Utility Rate Study Update (2023)**

Dear Kayleen:

Per our discussion, attached please find a proposed scope of work and budget for FCS GROUP to prepare a comprehensive utility rate update for your water and sewer utilities.

As FCS GROUP prepared your previous rate study, we plan to utilize the financial planning model from that study and update our rate analysis to include changes and/or new processes in fire service delivery, reclaimed water, and septage flows.

We look forward to the opportunity to serve the City again. Please do not hesitate to contact us at (425) 274-2853 or [MartinC@fcsgroup.com](mailto:MartinC@fcsgroup.com) with any questions.

Yours very truly,



Martin Chaw  
Senior Project Manager and Management Consulting Practice Area Lead  
Enclosure

CC: Angie Sanchez Virnoche, Principal

## CITY OF TENINO, WA 2023 WATER AND SEWER RATE UPDATE

**Project understanding:** The City of Tenino operates a water and sewer utility. The 2021 adopted expenditure budget for both utilities total \$3.1 million, or about 50% of the total citywide budget of \$6.3 million<sup>1</sup>.

**Figure 1: City of Tenino 2021 Adopted Budget**

2021 BUDGET POSITION TOTALS						
City Of Tenino				Time: 08:51:59		Date: 12/04/2020
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Fund	Revenue Budgeted	Received	%	Expense Budgeted	Spent	%
001 General Government Fund #001	1,346,103.00	0.00	0.0%	1,332,932.96	0.00	0%
002 Quarry Pool Fund #002	39,122.00	0.00	0.0%	39,120.00	0.00	0%
003 Reserve Academy Operating Fun	10,000.00	0.00	0.0%	10,000.00	0.00	0%
101 City Street Fund #101	670,444.00	0.00	0.0%	658,443.00	0.00	0%
109 Contingency Fund #109	90,435.00	0.00	0.0%	0.00	0.00	0%
310 Municipal Capital Imp Fund 310	1,236,997.00	0.00	0.0%	1,021,042.00	0.00	0%
401 Water Fund	529,559.00	0.00	0.0%	271,706.48	0.00	0%
402 Water Capital Imp Fund	1,034,568.00	0.00	0.0%	267,413.00	0.00	0%
403 Stormwater Fund	37,080.00	0.00	0.0%	0.00	0.00	0%
410 Sewer Fund	1,881,425.00	0.00	0.0%	1,573,242.48	0.00	0%
421 Sewer Capital Improvement Fund	1,226,414.00	0.00	0.0%	442,570.00	0.00	0%
422 Sewer Reserve Fund	765,092.00	0.00	0.0%	559,091.00	0.00	0%
601 SWWAIP Trust Fund	0.00	0.00	0.0%	0.00	0.00	0%
631 Municipal Court Trust Fund #631	62,100.00	0.00	0.0%	56,305.00	0.00	0%
	8,929,339.00	0.00	0.0%	6,231,865.92	0.00	0.0%

FCS GROUP previously prepared the City’s utilities rate study in 2016, which included a water and sewer rate revenue requirement analysis, and a water rate cost of service study. The previous study did not include an analysis of the City’s facility charges and is not included in this proposed study update. Since this previous study, the following major process changes has occurred:

- Fire services are now provided by the County;
- The City now has reclaimed water; and
- The City’s sewer system is now receiving regional septage.

Based on discussions with Kayleen Canup, City Clerk/Treasurer, FCS GROUP will update the previous revenue requirement and cost-of-service analysis and determine any necessary rate adjustments to fully fund forecasted water and sewer utility operating and capital costs.

Our proposed rate study will be based on 2021 actuals, 2022 budget, and forecasted financial performance (operations and capital) for the subsequent five year (2023-2027) period. Our study will include updated rates effective first quarter 2023 and forecasted rates for each year through 2027. We will work with the City to determine the target date for updated rates in 2023.

The following provides a detailed task plan to complete the proposed study.

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<sup>1</sup> Includes budgeted expenses for the Water Operations and CIP funds (401 and 402), Sewer Operations and CIP funds (410 and 421), and the Sewer Reserves fund (422).

## Scope of Work

### Task 1. Kick-off Meeting

Conduct one (1) kick-off meeting with the City's Project Manager and other key City staff to discuss project goals, objectives, and requirements.

We will use this meeting to review and discuss the general study methodology and outcomes, data requirements, and study schedule.

**Deliverables.** *One (1) meeting to kick off the study, discuss and confirm the study's objectives, data requirements, project schedule and key milestones/expectations.*

### Task 2. Data Collection & Validation

We will provide a written request for data ahead of the kick-off meeting. Provide a data request list identifying financial and operational documents, and customer data pertinent to the performance of the study. Review, analyze and validate such information as necessary for use in formulating the technical analyses. Follow up with City staff for any additional items or explanations as necessary.

**Deliverables.** *Initial request for information; transmit to the City prior to the kickoff meeting under task 1.*

### Task 3. Updated Revenue Requirement Analysis

This task will update the previous rate models for each utility and will include the following: determine annual rate revenue needs; changes in rates due to the transition to the County for fire services; evaluate/update rates for reclaimed water; evaluate/update rates for receiving regional septage.

**Capital Funding Strategy.** Incorporate identified capital projects and associated annual costs for the planning period, and design funding strategies intended to feasibly execute the capital programs while providing smooth rate impacts. Evaluate an appropriate combination of resources from available cash balances, facilities charge revenue, funding from rates, and debt to remain within industry standards for coverage and debt management thresholds.

After establishing the baseline rate forecast, we will work with staff to identify up to two (2) alternative scenarios.

**Operating Forecast.** Forecast operating and maintenance expenses for each utility over the study period. We will evaluate economic factors for growth and demand to inform line-item cost escalation working closely with the City to determine the most appropriate factors that best reflect local circumstances. The analysis will also incorporate additional or new O&M expenses for known or anticipated changes in operational or administrative requirements such as regulatory impacts, additional operations staffing, deferred maintenance, and new or enhanced program initiatives.

**Revenue Needs Assessment.** Utilizing the forecasted capital and operating financial conditions, we will develop an annual operating cash flow for each utility over the study period. We will compare projected expenses against projected revenue under existing rates to determine the annual adjustments needed to provide financial sustainability over the study period.

Rate revenue sufficiency will be tested from two perspectives: the ability to meet all cash obligations and the attainment of any debt coverage requirements. Working closely with the City, we will develop a multi-year rate adjustment strategy for each utility that provides smooth rate impacts.

Sensitivity analyses will be performed to evaluate the impact of alternative capital funding strategies, O&M, costs and other input parameters and the commensurate impact of each alternative upon the City’s ratepayers.

**Meeting to Review Results.** We will facilitate one (1) meeting with the City to review results of the rate revenue requirements for each utility, answer questions, and adjust/finalize the rate revenue requirement analysis as needed.

**Deliverables.** *Facilitate one (1) meeting to review the results of the financial plan for each utility, identifying the required across-the-board rate increases to fully fund each utility’s financial requirements.*

## Task 4. Cost-of-Service Analysis (COSA) and Rate Design

We will prepare a detailed cost-of-service analysis to establish a defensible basis for assigning “cost shares” and establishing “equity” for system customers based on industry standard methodologies that are tailored to the City’s unique systems and customer characteristics. If the City is satisfied with its current rate structure, this task in its entirety can be eliminated.

**Functional Cost Allocation.** The COSA develops a series of functional allocations that distribute cost pools to classes of customers linked to a proportionate share of costs required to serve their demand. Examples of functions commonly used for cost allocations include:

Water Utility	Sewer Utility
<ul style="list-style-type: none"><li>• Customer</li><li>• Base capacity (avg. demand)</li><li>• Peak capacity (max demand)</li><li>• Meters and Services</li><li>• Fire</li></ul>	<ul style="list-style-type: none"><li>• Customer</li><li>• Flow</li><li>• Strength (BOD/TSS)</li></ul>

Using this information, we will identify the cost to serve each existing or potential customer class. The results will identify any warranted shifts in cost burden that could improve equity between customers from the existing rate structure. The cost of service will identify the required revenue to collect from each customer class to cover their individual costs. Unit costs by functional component will be calculated to support the rate design process.

**Rate Structure Evaluation & Updates.** Rate design considers both the level (amount of revenue that must be generated) and structure (how the revenue will be collected, or bill assessed). Each rate design alternative is developed to generate sufficient revenue to meet the revenue requirement forecast and begin to address any material inequities identified in the COSA findings in a transparent, equitable, and understandable manner. Further, we will identify the portion of revenues anticipated to be collected from the fixed and volume rate components to provide for an appropriate balance of revenue stability and the ability of customers to control their bill by changing behavior.

This task will include evaluating and updating rates for City process changes affecting fire services, reclaimed water, and regional septage flows.

**Jurisdictional Rate Survey.** Prepare a comparison of residential bills for a typical residential customer and up to six (6) neighboring jurisdictions. FCS GROUP will work with the City to determine the most appropriate peers for comparison.

**Sample Customer Bill Impacts.** Prepare sample combined water and sewer utility bills for each customer class comparing bills under the current rates and proposed alternative rates. Impacts will be shown for various usage / levels.

**Meeting to Review Results.** We will facilitate one (1) meeting with the City to review results of the cost of service for each utility, answer questions, and adjust/finalize the cost of service and rate design analysis as needed.

**Deliverables.** *One (1) meeting to review the cost of service analysis by customer class; proposed rates and revised rate structures (as appropriate); sample typical residential customer billings comparing the calculated combined water and sewer billing under current rates, proposed rates, and to up to six (6) neighboring communities.*

## Task 5. Council Presentation

We will facilitate one presentation to the City Council to present and discuss the results of the rate study update. Should additional meetings with staff or the City Council be required, FCS GROUP will coordinate with the City's project team accordingly.

**Prepare Council presentation.** Prepare a draft study presentation for City project team review and comment. Finalize presentation and provide to City for Council agenda packets.

**Attend and Facilitate Council Discussion.** Attend and facilitate discussion of rate study results during one (1) meeting of the City Council.

**Deliverables.** *One (1) meeting with City Council to review results of the rate study.*

## Task 6. Documentation

We will prepare a draft and final report documenting the study's findings, conclusions and recommendations as follows.

**Draft Study Report.** Prepare a draft study report summarizing the findings, conclusions, and recommended across the board and, if appropriate, cost of service adjustments for each utility. The draft report will be provided to the City project team for review and comment.

**Final Study Report.** A final study report will be prepared, incorporating comments from the City's project team.

**Deliverables.** *Draft and Final reports summarizing the results of the rate study.*

## Task 7. Project Management

This task includes project contract management, accounting, and monthly invoicing. In addition, we will schedule monthly project check-in meetings over the duration of the study.

## Budget

The following table summarizes our estimated cost to perform the task plan based on 2021 labor rates. The cost of completing the project tasks above is an amount not to exceed **\$62,880** (or \$31,440 per utility). We have not included any expenses for travel as we are assuming all meetings are to take place remotely. If the proposed budget is outside of City expectations, we invite the opportunity to negotiate the appropriate level of effort and/or make adjustments to the scope of work to better match the City's needs.

Task Detail	A. Sanchez						Total Hours	Budget Estimate
	Virnoche Principal	M. Chaw Manager	D. Gonzales Tech. Adv.	TBD Proj. Cons.	Analyst	Admin Support		
<i>2022 Hourly Billing Rates</i>								
<b>Task Plan</b>	\$280	\$215	\$215	\$175	\$145	\$90		
<b>Task 1 Project Kickoff</b>	2	2	0	2	2	0	8	\$1,630
<b>Task 2 Data Collection and Validation</b>	0	4	2	6	24	0	36	\$5,820
<b>Task 3 Revenue Requirement Analysis</b>								
<b>Water</b>								
3.1 CIP funding strategy	0	2	0	2	6	0	10	1,650
3.2 Operating forecast	0	2	0	2	6	0	10	1,650
3.3 Revenue needs assessment	2	2	0	4	4	0	12	2,270
<b>Sewer</b>								
3.4 CIP funding strategy	0	2	0	2	6	0	10	1,650
3.5 Operating forecast	0	2	0	2	6	0	10	1,650
3.6 Revenue needs assessment	2	2	0	4	4	0	12	2,270
<b>Review</b>								
3.7 Review results with City project team	2	2	0	2	2	0	8	1,630
<b>Task 4 Cost of Service Analysis and Rate Design</b>								
<b>Water</b>								
4.1 Functional cost allocation	1	1	0	4	6	0	12	2,065
4.2 Rate structure evaluation and updates	1	1	0	4	6	0	12	2,065
4.3 Rate structure evaluation - fire services	1	1	2	4	6	0	14	2,495
4.4 Rate structure evaluation - reclaimed water	1	1	2	4	6	0	14	2,495
4.5 Jurisdictional rate survey	1	1	0	2	6	0	10	1,715
<b>Sewer</b>								
4.6 Functional cost allocation	1	1	0	4	6	0	12	2,065
4.7 Rate structure evaluation and updates	1	1	0	4	6	0	12	2,065
4.8 Rate structure evaluation - septage rates	1	1	2	4	6	0	14	2,495
4.9 Jurisdictional rate survey	1	1	0	2	6	0	10	1,715
<b>Review</b>								
4.10 Sample customer bill impacts	0	1	0	2	4	0	7	1,145
4.11 Review results with City project team	2	2	0	2	2	0	8	1,630
<b>Task 5 Council Presentation</b>								
5.1 Prepare Council presentation	2	4	0	4	8	0	18	3,280
5.2 Facilitate Council meeting/discussion	2	2	0	2	2	0	8	1,630
<b>Task 6 Documentation</b>								
6.1 Prepare draft study report	2	8	0	14	40	0	64	10,530
6.2 Prepare final study report	2	2	0	4	4	0	12	2,270
<b>Task 7 Project Administration</b>	2	8	0	0	0	8	18	3,000
<b>Total Tasks</b>	<b>29</b>	<b>56</b>	<b>8</b>	<b>86</b>	<b>174</b>	<b>8</b>	<b>361</b>	<b>\$62,880</b>
						Expenses		\$0
<b>Total Budget Estimate</b>								<b>\$62,880</b>

## Schedule

We estimate that the study will be completed in approximately six (6) months following notice to proceed. The following graphic is presented assuming an August 2022 start date.

