**Council Meeting Date: April 4, 2022** **Agenda Item:** 8(d)

# CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

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| **AGENDA TITLE:** | Update on the Wastewater Rate Study Project and Policy Discussion |
| **DEPARTMENT:** | Administrative Services<br>Public Works |
| **PRESENTED BY:** | Sara Lane, Administrative Services Director<br>Randy Witt, Public Works Director |
| **ACTION:** | ____ Ordinance ____ Resolution ____ Motion<br>_X__ Discussion ____ Public Hearing |

**PROBLEM/ISSUE STATEMENT:**

The City assumed the Ronald Wastewater District on April 30, 2021. After assumption, the City retained FCS Group (FCSG) to conduct a wastewater rate study to review the utility's existing rate structure (from Ronald at assumption) and determine if adequate funds are provided for operations and to support the Utility's maintenance activities and Capital Improvement Plan, or if a rate update is needed. In addition, FCSG will examine policy alternatives regarding capital funding tools, rate design, and low-income customer assistance options.

At tonight's City Council meeting, staff will present Council with an update and status on the wastewater rate study, and provide information from policy issue papers developed by FCSG on these topics. Staff are seeking Council input and direction to inform the wastewater rate study in advance of preparation of the 2023-2024 biennial budget later this year.

**RESOURCE/FINANCIAL IMPACT:**

There is no resource or financial impact associated with tonight's wastewater rate study discussion. Guidance received tonight will be incorporated into the study and inform the 2023-2024 budget.

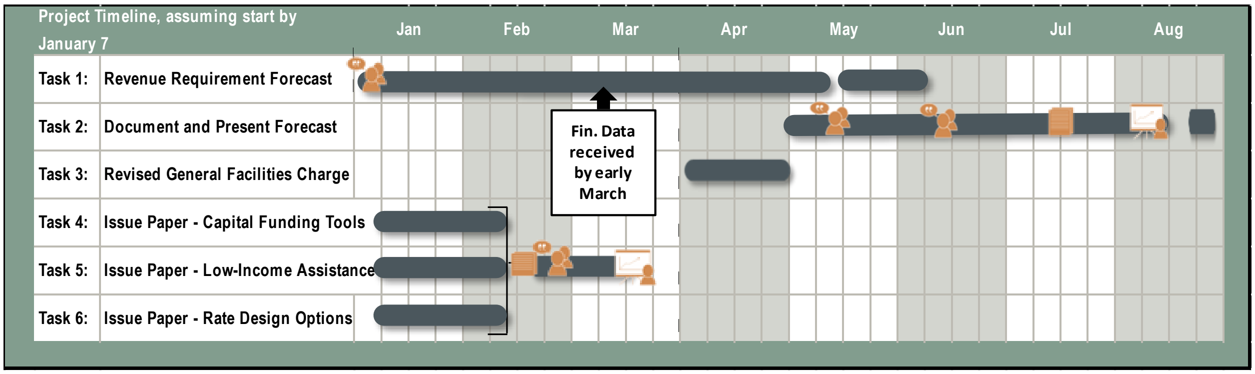
## RECOMMENDATION

No action is required tonight; staff recommends that the City Council provide input and guidance on the FCSG wastewater rate study and the policy questions associated with the study.

Approved By: City Manager ***DT*** City Attorney ***MK***

## BACKGROUND

On December 7, 2020, the City Council authorized the assumption of the Ronald Wastewater District (Ronald), and the City formally assumed Ronald on April 30, 2021. In December 2022, the City retained FCS Group (FCSG) to conduct a wastewater rate study to review the utility's existing rate structure (from Ronald at assumption) and determine if adequate funds are provided for operations and to support the Utility's maintenance activities and Capital Improvement Plan (CIP), or if a rate update is needed. In addition, FCSG will examine policy alternatives regarding capital funding tools, rate design, and low-income customer assistance options. The schedule for this work is shown below.




## DISCUSSION

The wastewater rate study being conducted by FCSG includes developing policy issue papers on capital funding, rate design, and low-income customer assistance options. The policy issue papers prepared by FCSG will be discussed tonight. FCSG is also examining the General Facilities Charge (GFC) to support the utility's 20-year CIP, and the overall rate structure to support operation and maintenance activities and Capital Improvement projects. Information on these analyses will be presented at a future City Council meeting so that the outcome of Council's direction can be incorporated into the study.

### Capital Funding Tools

The Capital Funding Tools Memo (Attachment A) describes the types of funding sources that can be used for capital costs identified in the City's wastewater CIP. In describing capital funding sources, it is important to distinguish between financing and the ultimate cost responsibility. Financing consists of the borrowing mechanism through which a large up-front cost is spread over time. Cost responsibility is the question of who is ultimately responsible to pay; either by paying from current resources (current and past customers) or by paying off a debt over time (current and future customers).

In developing a funding strategy for a CIP, obtaining financing is the easy part. The hard part of infrastructure funding is determining whether it is possible, and if so, under what conditions, to shift the ultimate cost responsibility. For instance, identifying loans as a funding source merely refers to financing; revenue is still required to pay back the loan. In contrast, obtaining grants provides for an actual shift in cost responsibility; a much more significant factor in the affordability of a CIP.

This memo is intended to provide the Council with a foundational understanding of capital funding tools available to the wastewater utility. Staff directed FCSG to propose funding alternatives to support the implementation of the CIP that utilizes a balance of appropriate tools discussed in the memo, including the use of fund balance, rate funded capital, issuing revenue bonds to be supported by rate increases, and where appropriate, potential for grant funding.

**Low-Income Customer Assistance**

Utilities provide a basic service for the population, so the affordability of utility rates becomes an increasing concern as utility rates increase over time. The State of Washington is unusual in having explicit statutory authorization for utilities to provide discounted rates for low-income customers (RCW 74.38.070). In most states, either the legal framework for low-income rates is ambiguous or they are explicitly prohibited.

The City wastewater utility currently has a low-income customer assistance program. Its key limitation is that it applies only to senior citizens (at least 62 years of age) or disabled citizen homeowners who occupy their dwelling and meet household income requirements. This means that the current program excludes renters from receiving a discount. To determine eligibility, the City validates income annually.

The Low-Income Customer Assistance Memo (Attachment B) describes whether and how the City's program might be expanded, and some possible approaches to expand low-income utility customer assistance programs, including those that offer support to multi-family residents who do not have wastewater utility accounts in their name.

The options listed in the issue paper provide a "level" approach, identifying options based upon the complexity of administration, the impact of the option to rate payers, and cost impact to the utility (and ultimately to the residents not receiving the discount.) A summary of that information is below:

| Level | Description | Pros | Cons |
|---|---|---|---|
| One | Status Quo | • Known administrative costs | • Only available to low income senior citizens or disabled citizen homeowners who occupy their home |
| Two | Expand Current Discount to Renters | • More residents benefit | • Not available to all low-income<br>• Does not impact multi-family residents who may be more likely to be low-income<br>• Significant administrative cost for limited benefit |
| Three | Discount on Electricity Bill for Low-Income Residents | • More residents benefit including multi-family<br>• No increase and potential decrease in administrative costs | • Requires negotiating program with Seattle City Light (SCL)<br>• Will require some routine/reconciliation and coordination with SCL |
| Four | City Issues Direct Rebate Checks to Low-Income Shoreline Residents | • More residents benefit; includes multi-family | • Would require increased annual administration |

Recognizing Council's interest in equity and that discounts offered to one set of rate-payers result in increased rates for non-discounted ratepayers, staff recommend that Council direct staff to explore Level 3 and Level 4 for potential implementation in the future and to instruct FCSG to include scenarios modeling discounts at the current level and a reduced discount level in their rate models for future Council consideration.

**Rate Design Options**

The Final FCSG memo, the Rate Design Options Memo (Attachment C), explores alternative wastewater rate structures for its single-family customers to see if there is a practical way to incorporate water usage into the single-family bills. Currently, single-family customers in the City pay a fixed charge for wastewater service regardless of usage. The current charge is comprised of two components:

- **City Conveyance**: This fixed cost component covers the City's collection, transmission, and administrative operating expenses. The current City rate for single-family residential customers is $17.48 per month.
- **Wastewater Treatment**: This fixed cost component covers wastewater treatment services, which are not provided by the City. Single-family customers receive wastewater treatment services from either the King County Wastewater Treatment Division or the City of Edmonds, depending on where their property is located in Shoreline.
    - King County provides service to the majority of single-family ratepayers in Shoreline. The County charges the City a flat fee per single-family customer, regardless of usage. The current King County treatment cost for single-family residential is $49.79 per month.
    - The City of Edmonds provides service to a small number of Shoreline customers. The current Edmonds treatment cost for single-family residential is $30.35 per month.

Because the wastewater treatment costs make up most of the single-family residential bill, it is important to consider how these costs might be impacted by any changes the City might make. The City is currently charged a flat fee per customer by King County and passes that fee on to ratepayers as a "pass through." Edmonds determines a portionate share, based on usage, for each of the cities/districts that they serve and charges the City for its proportionate share. The City still structures this treatment charge as a flat fee to single-family residential customers in the Edmonds treatment area. Although a majority of the jurisdictions served by the County's treatment facilities implement a flat rate structure for single-family sewer customers (as is the City's current practice), the County's wastewater contract does not specify that the jurisdiction must use that structure when collecting revenues from its own customers. In fact, there are some jurisdictions that have a volume component in their rate structure.

However, if the City wants to continue to treat the Wastewater Treatment fees as a "pass through", the alternatives should be considered only for the City's portion of the single-family sewer charge. If that is the case, then the effort that would be involved would produce a very small benefit that might not justify the cost. If the City chooses to treat the Wastewater Treatment costs simply as an expense of the Utility, they could be allocated in the same way other costs are allocated, which could produce a greater benefit to those who use less water. The challenge would be explaining and incorporating the potentially significant treatment rate increases that are anticipated in the future and would be out of the City's control into our rate studies.

*Challenges*

Water usage is often used as a measurement to calculate wastewater usage. The City does not have ready access to water usage data (useage data) for its customers. The City would be reliant on receiving timely and accurate data from Seattle Public Utilities and North City Water District, the two water providers in Shoreline. While the City currently receives commercial data from these agencies annually, the process is complex and frequently fraught with errors requiring manual intervention. Duplicating this process to incorporate all of the City's single-family residential ratepayers would be a major administrative and political undertaking.

Additionally, in discussing these alternatives, the analysis must account for the winter and summer average usage. If the City chooses an option based on usage, it will need to define the off-peak season for the purposes of sewer billing, and that decision can be informed by the actual usage patterns for its own single-family customers. Utilities that incorporate winter average usage into their sewer rate structure must also make policy decisions regarding how to charge 'snowbirds' (customers who leave town for the winter) and other customers where a representative winter-average usage history is not available (such as new customers).

*Options*

Following are some rate design options the Memo discusses:

- Uniform Flat Rate: The City's current structure imposes a flat rate on all single-family customers; this rate does not depend on their individual average winter water use. This is a very common structure for sewer utilities across the State, not just in the King County/Snohomish wastewater service area, and particularly for those that do not also operate the water utility.
- Tiered Flat Rate: This rate structure is similar to the uniform flat rate, grouping customers in defined tiers based on a customer's winter average monthly water usage (e.g., November through February). For example, the three tiers could include a low-user, medium-user, and high-user. It creates a broad link between a customer's bills and their water use, but only to the extent that one tier differs from another tier. Within a given tier, the usage is averaged and there is no differentiation based on individual usage.
- Tailored Flat Rate, Updated Each Year: This alternative consists of a rate per unit of water usage, multiplied by a customer's specific water use during a defined winter period, such as November through February. Because the winter-average usage statistic is computed based on known historical data (typically updated on an annual basis), this structure effectively creates a flat rate tailored to each customer that remains in place throughout the year, until it is recalculated for the following year.
- Fixed + Volume Rate: This structure includes a fixed charge plus a volume rate that applies to a customer's winter water usage. The City could recover its fixed costs via the fixed charge and recover its variable costs (e.g., pumping related

costs) from the volume rate. This option could use the tiered flat rate or tailored flat rate approaches for the volumetric component of the charge.

- Full Volume Rate: This structure would recover all of the City's own costs from a year-round volumetric rate, with no fixed charge and no consideration of the winter average. This option is a theoretical possibility, but it has numerous difficulties, and staff is not aware of any sewer utilities that actually use this structure.

Considering the policy implications and the practical limitations on the City's access to water usage data, staff recommends that the City continue charging its single-family customers a fixed monthly charge, with no volumetric component.

## COUNCIL GOAL(S) ADDRESSED

This item addresses City Council Goal #2: Continue to deliver highly-valued public services through management of the City's infrastructure and stewardship of the natural environment.

## RESOURCE/FINANCIAL IMPACT

There is no resource or financial impact associated with tonight's wastewater rate study discussion. Guidance received tonight will be incorporated into the study and inform the 2023-2024 budget.

## RECOMMENDATION

No action is required tonight; staff recommends that the City Council provide input and guidance on the FCSG wastewater rate study and the policy questions associated with the study.

## ATTACHMENTS

Attachment A - Capital Funding Tools FCSG Policy Issue Paper
Attachment B - Low-Income Customer Assistance FCSG Policy Issue Paper
Attachment C - Rate Design Options FCSG Policy Issue Paper

FCS GROUP
Solutions-Oriented Consulting

# Policy Issue Paper #1

**To:** Sara Lane, Administrative Services Director
City of Shoreline, WA

**Date:** March 22, 2022

**From:** Gordon Wilson, Senior Program Manager Gordon Wilson
Tage Aaker, Project Manager Tage Aaker
Chase Bozett, Senior Analyst Chase Bozett

**Subject:** City of Shoreline Wastewater System – Capital Funding Tools

## PURPOSE

FCS GROUP is currently working on a wastewater rate study for the City of Shoreline. As part of that study, we will be developing a recommended strategy for funding the cost of the City's wastewater capital improvement plan (CIP). We expect to present our recommended approach this summer when we report on the results of the rate study.

Our understanding is that the City Council is interested in the question of whether and how much debt the City might issue for wastewater purposes. Currently the City wastewater utility has no outstanding debt.

This memo does two things. First, it describes in general terms the types of funding sources that can be used for wastewater capital costs. Secondly, we discuss debt more specifically—whether, when, and in what form. Issuing debt is a policy option, and the degree to which the City relies on debt vs. "pay as you go" cash financing is a tradeoff between debt and rate increases.

No action is expected from the Council at this point, but our goal in this memo is that the "debt vs. pay as you go" question can be understood in the context of the broader issue of capital funding.

## OVERVIEW OF CAPITAL FUNDING

### Financing vs. Cost Responsibility

In describing capital funding sources, it is important to distinguish between *financing* and the ultimate *cost responsibility*. Financing consists of the borrowing mechanism through which a large up-front cost is spread over time. Cost responsibility is the question of who is ultimately responsible to pay—either by paying from current resources or by paying off a debt.

In developing a funding strategy for a CIP, obtaining financing is the easy part. The hard part of infrastructure funding is determining whether it is possible—and if so, under what conditions—to shift the ultimate cost responsibility. If someone talks about "loans" as a funding source, they are merely referring to financing. Revenue is still required to pay back the loan. In contrast, if someone talks about "grants," they are referring to an actual shift in cost responsibility—a much more significant factor in the affordability of a CIP.

### Sources of Cost Responsibility

For most wastewater utilities, there are three most common sources of cost responsibility: property owners (including developers), outside parties with a policy interest, and ratepayers.

### Property Owners

Capital funding sources from property owners may include General Facilities Charges (GFCs), local facilities charges, or utility local improvement district (ULID) assessments. Often infrastructure is directly funded by developers to City standards and then deeded to the City; this counts as a type of capital funding source even though it does not involve cash spending through the CIP. Sometimes a particular capital improvement may have a contractual funding contribution from a private company. Those arrangements are likely to be negotiated in connection with new development.

### Outside Parties

The outside parties can be the State, the federal government, a county government, neighboring wastewater utilities (including wholesale customers or regional partners), or other benefactors. Their policy interests may include environmental protection, orderly land development, or regional cooperation in the provision of wastewater treatment.

In some places, a city's General Fund may serve as an "outside party" (outside of the wastewater ratepayers, that is). However, where there is a well-established utility, the City General Fund is not likely to play a role. New wastewater utilities often receive "launch aid" from tax resources for their initial capitalization, but the general expectation in this country is that utilities will not depend on taxpayer funding on an ongoing basis. Instead, they are expected to recover their ongoing costs (including debt service) from rate revenue paid by connected customers.

### Ratepayers

For a utility, the default cost responsibility rests with the ratepayers. They are the ultimate funding source. If the cost responsibility cannot be shifted to someone else, then a capital project will be funded—either now or later—by ratepayers, if it is to be funded at all.

## Summary of Potential Funding Sources

**Exhibit 1** summarizes the types of capital funding sources that may be available to a utility. The left column—the "someone else pays" column—represents a shift in the cost responsibility. Those are described as "narrow-based funding sources" because none of them are large enough to carry an entire CIP. The "broad-based funding sources" are all different varieties of ratepayer funding, either now or later. They include debt financing, current-year rate funding and cash reserves. Together, current-year rate funding and cash reserves are commonly referred to as "pay as you go financing" or "cash financing."

**Exhibit 1: Overview – Types of Capital Funding Sources**

| *Narrow-Based Funding Sources* | *Broad-Based Funding Sources* |
| --- | --- |
| **Grants**<br>• Usually specific to a particular project<br>• Usually competitive, scarce funding | **Current-Year Rate Funding**<br>• Amount is limited in any given year, so need to “smooth” the funding demands |
| **Contractual Partnerships**<br>• With intergovernmental or private partners<br>• Strings attached, but may be good for specific projects | **Reserves (Advance Savings)**<br>• Useful when costs are projected in advance<br>• Depends on planning horizon<br>• Preserves financial flexibility<br>• Earns interest |
| **Property Owner Funding**<br>• Developer construction of local infrastructure<br>• General Facilities Charges (GFCs)<br>• Local Improvement Districts<br>• Local Facilities Charges<br>• Tax increment Financing | **Debt**<br>• Timing matches needs<br>• Intergenerational equity<br>• However, interest costs and reduced flexibility |
| *Someone Else Pays* | *Ratepayer Funding – Now or Later* |

# NARROW-BASED FUNDING SOURCES

The three major types of narrow-based funding sources are grants, contractual partnerships, and property owner funding.

## Grants

The sources of grants are generally the State of Washington, the federal government, and sometimes a County government. Often a federal grant is administered by the State, so the application process and determination of eligibility would go through the State. For a wastewater grant program administered by the State, the Department of Ecology and Department of Commerce are the most common decision-makers.

Grants are made available because an outside government has a policy interest—such as promoting clean water—and the outside government has decided that some local utilities will not realistically have enough ratepayer resources to make the capital investments that further that policy interest. Just as a local utility will naturally choose grant funding ahead of ratepayer funding, the State also assumes that ratepayers should pay all that they are realistically able to pay before a grant is offered—both parties prefer “someone else” funding. For that reason, grants are usually highly competitive, and often an important criterion is the rate impact of a given capital project in relation to the economic circumstances of the utility customers.

In addition to the primary policy interest, grantors also have other policy interests, such as supporting American-based suppliers or ensuring that construction workers are paid the prevailing level of wages. These policy interests are included in the criteria for awarding the grant. There are typically strict accounting requirements for grants. Grants usually have some kind of "local match" requirement—a percentage share of the project funding that must be provided by the local utility or other resources outside the grant itself. Often there is a requirement that the outside grant funding will "supplement, not supplant" local resources. The local utility may also have to demonstrate that it has planned adequately for the successful completion of the project for which it seeks grant funding. Sometimes there is a "but for" test—in other words, the grant recipient must demonstrate that *but for* the grant funding, it would not be able to fund the project. For all these reasons, a local utility needs to be willing to accept the "strings attached" in order to compete for a federal or State grant.

For our purposes, the "grant" category includes *forgivable loans* and *direct legislative appropriations*. Forgivable loans are structured so that they initially have a payback requirement, but all or most of the required loan payback is waived after successful completion of the project. A direct legislative appropriation occurs when the State legislature explicitly includes funding for a given local project in the State capital budget. Although direct appropriations are not technically the result of a competitive process, in reality they are reserved for the most high-profile projects, where the need is obvious and the project considered essential. The key shared characteristic of grants, forgivable loans, and direct legislative appropriations is that they do not have to be paid back. For that reason, they represent a genuine shift of funding responsibility, and they make a big difference to the rate impact of a given package of capital improvements.

The appendix included with this memo is a summary of Washington State grant and loan programs for water and wastewater projects, as of February 2022. It is produced by the Department of Commerce, and it contains details on the various programs, eligibility requirements, contact information, and whether a given program offers grants or loans.

## Contractual Partnerships

Another narrow-based source of funding is contractual partnerships with either public or private entities. For instance, a major new industrial development may require utility capital investment, with cost-sharing and specified rights negotiated between the utility and the private investor. Similarly, a regional partnership or wholesale relationship may be formed with other utilities based on a negotiated agreement.

## Property Owner Funding

Funding for utility capital improvements may also come from property owners. There is more than one type of funding tool in this category.

### Funding of General Infrastructure

*General infrastructure* consists of large facilities serving multiple properties, such as lift stations, major trunk lines, or treatment plants. To recover a proportionate share of the cost of *general* infrastructure, utilities can impose general facilities charges (GFCs). These charges are also referred to as system development charges (SDCs), capital facilities charges, system investment fees, connection charges, or other terms, but the common element in all of them is that they are one-time charges that recover a proportionate share of the existing and planned capital cost of the system. GFCs are typically imposed for new connections to the system or redevelopment that increases system demand. GFCs may be used only for capital improvements or debt service. For cities, GFCs are authorized in RCW 35.92.025.

## Funding of Local Infrastructure

For wastewater utilities, *local infrastructure* generally includes the sewer pipe, manholes, cleanouts, or other collection system assets that convey wastewater from a given property downstream to the general infrastructure. The most common policy across much of the United States (including in Washington) is that property owners are expected to bear the cost of local infrastructure. There are several ways in which that may happen.

- *Developer-built infrastructure*. Developers preparing a tract for development can be required to build the local infrastructure to the standards of the local utility and then deed the assets to the utility. While this type of investment is not reflected in the utility CIP, it is still a type of property owner capital funding.
- *Local Facilities Charges*. If the local utility builds a local sewer line, it can require property owners to pay a proportionate share of the cost when the property is connected to the sewer.
- *Local Improvement Districts (LIDs)*. A group of properties can be assessed for the proportionate share of the cost of local infrastructure using an LID. (A "utility local improvement district" or ULID is a type of LID that can rely on utility debt.) Organizing an LID is administratively time-consuming, and it is subject to potential rejection by the property owners—a protest by property owners responsible for at least 60% of the cost will stop LID formation. However, if an LID is successfully formed, then it is binding upon all property owners in the defined improvement area, and 100% of the costs are recovered. That gives the City certainty in advance of construction.
- *Latecomer fees.* If a developer is required to extend a sewer line past other undeveloped properties in order to reach his own development, the City can enter into a development agreement in which the City collects "latecomer fees" from the intervening properties when they are developed. The City then remits those amounts to the developer that built the sewer lines.

## Tax Increment Financing

A special type of infrastructure funding tool was authorized by the State legislature in May 2021: tax increment financing (TIF). TIF is new to Washington but well established in other states such as Oregon or California. It rests on the premise that public investment can accelerate private development, which leads to growth in property taxes, which can be used to pay the debt service on the public investment.

Tax increment financing is different from the other types of property owner funding described above because it does not result in an additional cost burden on property owners. Instead, property owners just pay the property tax that they would have paid anyway, and then a portion of that property tax revenue is segregated from regular property tax revenue and committed to fund public improvements in the specified area (which includes their properties). For property owners in the defined area, TIF may be a favorable funding tool.

The first step in the TIF process is to perform a feasibility study and define the relevant geographic area, the "increment area." The adopting ordinance must specify the public improvements to be completed within the increment area—which can include wastewater system improvements—and make certain other findings. Once the increment area is created, the growth in tax revenue attributable to growth in assessed value in the area is then segregated from the regular property tax revenue for a period of time. That stream of dedicated property tax revenue can be used to fund capital improvements directly, or to pay debt service on tax increment-backed revenue bonds. Tax increment-backed revenue bonds would be considered non-recourse debt, so they would not count against the City's statutory G.O. indebtedness limit.

Under the new Washington statute, the City can have no more than two tax increment areas, and the two areas cannot overlap. At the time of formation, their combined assessed value must be less than $200 million and 20% of the total City assessed value. The segregation of property tax revenue would end after 25 years or until all bonds are retired. At that point the assessed value of the TIF area would be added to the regular assessed value of the City and other taxing jurisdictions. The list of potential public improvements is broad, but they all must be identified in the enacting ordinance. Once the increment area is formed, the City cannot expand the boundaries or add new types of public improvements—except to ensure that the original approved improvements can be carried out.

TIF can be used where there is redevelopment as well as new development. For example, Portland has made extensive use of TIF in funding downtown improvements over the past decades. However, TIF does have a notable constraint as a funding source: timing. Experience in other states has shown that it takes a few years for assessed value growth in a defined area to generate enough incremental tax revenue to sell a meaningful amount of bonds. But even early in the life of a tax increment area, TIF can be useful as a supplemental funding source for capital improvements.

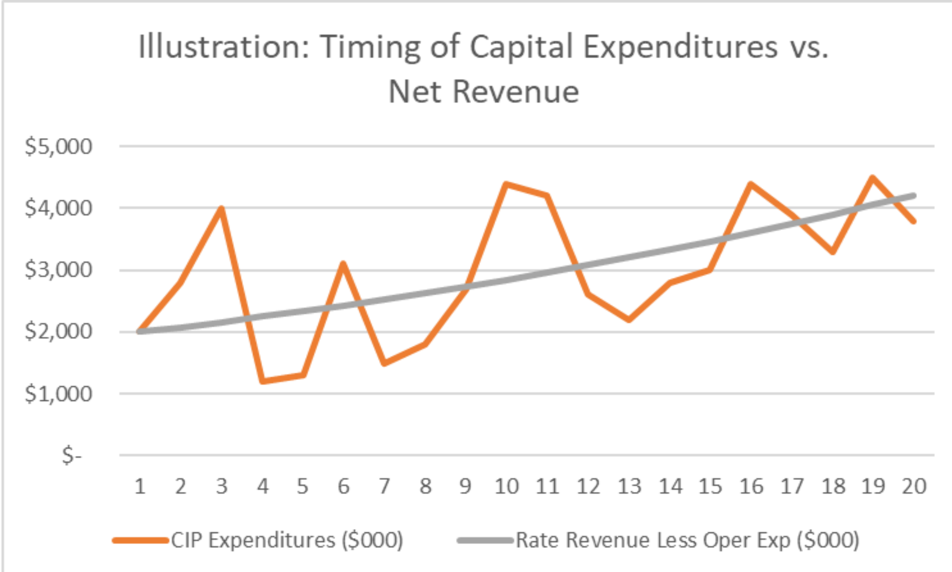
In other states, tax increment financing has generated controversy at times. The key point of debate has to do with the degree to which the incremental growth would have occurred regardless of the TIF investments. To the degree that the incremental growth in property value *would have occurred anyway*—without the public improvements—then segregating the incremental property tax revenue diminishes the funding available for other public services until the TIF area is terminated (in Washington, a maximum of 25 years). However, to the degree that the incremental growth in property value *would not have occurred* without public capital investment in the target area, TIF does not diminish property tax funding for other services, and after 25 years, property tax revenue for other services is increased due to the development stimulated by the TIF investment. Also, the Portland experience illustrates the fact that in certain critical areas like a downtown, TIF can give the City the ability to co-invest with private developers and thereby shape the *quality* of urban development, accomplishing its land use plans more directly than would be possible otherwise.

## RATEPAYER FUNDING – DEBT VS. CASH FINANCING

After narrow-based funding sources have been considered and taken advantage of to the degree appropriate, the remaining cost responsibility falls to the ratepayers.

The basic dilemma for capital funding is the fact that rate revenue tends to be a relatively smooth annual amount, whereas capital expenditures can vary widely from year to year. **Exhibit 2** uses hypothetical data to illustrate the possible year-to-year variability of a capital program in contrast to the relatively smooth growth of net revenue. "Net revenue" refers to total rate revenue minus operating expenses.

**Exhibit 2: Illustration – Timing of Capital Expenditures vs. Net Revenue**




By and large, ratepayers don't like extreme swings in their rates, so there needs to be a way to smooth out the variability in capital spending. Either the utility needs to save up in advance, or it needs to borrow, or some combination of both.

The following section discusses the potential considerations in deciding how much to rely on debt as opposed to cash financing, and what potential sources of debt financing might be available to the City.

## Cash Financing

As we mentioned above, the term "cash financing" (or "pay as you go" financing) refers to a combination of current-year rate revenue and cash reserves saved from prior-year rate revenue.

### Current Rate Revenue and Smoothing the CIP Over Time

Current rate revenue is clearly eligible as a funding source for wastewater capital projects. While it is a flexible source of revenue, its biggest disadvantage is that the amount available in any given year is limited, whereas the amounts needed to fund the CIP might vary widely. In order to smooth out the financial demands over time, utilities typically need to either save money in advance or borrow.

Still, with good financial planning, a significant part of the Shoreline wastewater CIP might be able to be funded with current rate revenue. Because the City does not have a wastewater treatment plant, the wastewater collection system largely consists of pipes and pumps. Pipe replacement programs have two advantages when it comes to rate-funded capital: the need for pipe replacement can be identified well in advance, and the size of the pipe replacement program can be scaled to meet the resources available in a given year.

### Cash Reserves

In this discussion, "cash reserves" refer to beginning cash balances from prior-year rate revenue. Note that to the degree that beginning cash balances originate with a restricted revenue source, they are committed to the purposes of that revenue source.[1] But beginning cash balances that are not restricted are considered “cash reserves” that can be broadly used to address the City’s wastewater system capital needs.

For that reason, cash reserves are a useful capital funding tool for a wastewater system. Using advance savings as a part of the capital funding package has some distinct advantages. Instead of paying interest on debt, the utility is earning interest on balances. Cash reserves give the utility financial flexibility. If in some future year the utility suffers from a sudden cash squeeze—either a drop in revenue or an unexpected expenditure, it can decide to draw down its cash reserves more quickly or defer some capital projects, but it cannot decide to skip its debt service payments.

However, relying on cash reserves depends on having saved up the cash in advance—this strategy puts a premium on forward-thinking financial planning. And it is especially well-suited for the types of capital projects that are scalable and can be anticipated well in advance, such as pipe replacement programs. If there is a spike in capital spending needs—for instance, if the CIP calls for replacing three lift stations in a two-year period—then it might not make sense to raise the rates suddenly enough to cover that cost without borrowing.

## Debt

Debt is also a useful part of the capital funding toolbox. It provides money when the money is needed, beyond what has been saved for in advance. Debt creates intergenerational equity—it is sometimes referred to as “pay as you use” in contrast to “pay as you go” financing, because the people who carry the cost burden are the ones who benefit from the capital improvement. However, issuing debt requires that interest be paid instead of earned. Debt also reduces financial flexibility; it increases the risk that unanticipated contingencies will have disruptive effects.

While debt is a useful way to smooth the rate impacts of a capital program, it should be carefully managed so that the utility does not rely too much on it. The threshold for how much debt is too much will be addressed later in this rate study. The Ronald Wastewater District had no outstanding debt at the time it was assumed by the City, and it is safe to say that the City could issue some amount of debt without becoming over-reliant on it. If there is a backlog of unfunded capital projects, it might be in the City’s interest to use debt to moderate the rate increases that would otherwise be needed to fully fund the CIP. As we prepare the long-term financial forecast, we will bring forward a recommendation about how much debt the City should incur.

## Sources of Debt Financing

For utilities, there are two primary sources of debt financing: State or federal loan programs, and market debt financing.

### State-Administered Loan Programs

State-administered loans (including federal loans administered by the State) are generally preferable to market debt financing. The interest rate is generally lower for State loans, and the loan terms often

[1] For instance, beginning cash balances from the sale of bonds would be committed for whatever purpose the bonds were sold for. A similar principle is that interest follows principal: interest on unspent bond proceeds is restricted in the same way as the original unspent bond proceeds. Grants are typically funded as an after-the-fact reimbursement, so there is usually no ongoing cash balance and no interest from grant proceeds.

offer more flexibility in administering the debt. For instance, most State loan programs do not include a requirement that the utility maintain a certain minimum level of debt service coverage.

The appendix included with this memo is a summary of State-administered capital funding programs for water and wastewater utilities, including loans as well as grants. This summary describes the eligibility requirements and the types of loans available, as well as contact information for the people administering each program.

### Water Infrastructure Finance and Innovation Act (WIFIA)

The WIFIA loan program is administered directly by the federal Environmental Protection Agency (EPA). It was established in 2014 as a federal credit program for water and wastewater capital. WIFIA loans are intended for large projects. For cities of over 25,000 population, the minimum loan size is $20 million, and WIFIA can fund only up to 49% of the eligible project cost.

Terms for repayment extend for up to 35 years. The program allows flexibility in the repayment schedule, including repayment deferrals up to five years after substantial completion of the project.

The interest rate is based on U.S. Treasury securities of a similar maturity as the WIFIA loan, and it is determined at the time the loan is extended. Additional information regarding funding availability and the application process can be found at https://www.epa.gov/wifia.

### Market Debt Financing

#### General Obligation Bonds

General Obligation (G.O.) bonds are voter-approved bonds secured by the full faith and credit of the issuing agency, committing all available tax and revenue resources to debt repayment. With this high level of commitment, G.O. bonds have relatively low interest rates. General Obligation taxing authority can be sought as a backup pledge to reduce the interest rate of utility debt, even if the actual source of repayment is intended to be utility rates. However, the use of G.O. bond financing is limited in relation to assessed valuation, and G.O. bonds must be authorized by 60% of the voters. For these reasons, G.O. bonds are not often used for utility capital projects.

Limited Tax General Obligation (LTGO) bonds can also be issued up to a statutory ceiling without a vote of the people. In Washington, they are sometimes referred to as “councilmanic” bonds. Unlike G.O. bonds, LTGO debt does not authorize additional property taxes; instead, it must be repaid within the City’s existing taxing authority. Usually there are competing demands for that funding within a City, and for that reason, LTGO debt is not often used for utility capital projects.

#### Revenue Debt

Revenue debt is secured by the revenues of the issuing utility; the debt obligation does not extend to the City’s other revenue sources. With this limited commitment, revenue debt usually bears higher interest rates than G.O. bonds.

Utilities can obtain bank loans, but bank loans often have shorter terms or smaller amounts than would be needed to fund a complete package of capital improvements. In recent years, other financial instruments have been developed that attempt to incorporate the flexibility of bank financing with the larger amounts and longer terms needed to finance a utility CIP. With these hybrid debt instruments, the credit evaluation is done at the outset as part of a master financing agreement, after which specific loan amounts and rates are determined as a capital program progresses.

The most common type of long-term debt for utilities is revenue bonds. Revenue bonds typically require the achievement of minimum debt service coverage each year. Revenue bonds can be issued in Washington without a public vote. There is no limit, except the practical limit of the utility's ability to generate revenue to repay the debt and meet debt service coverage each year.

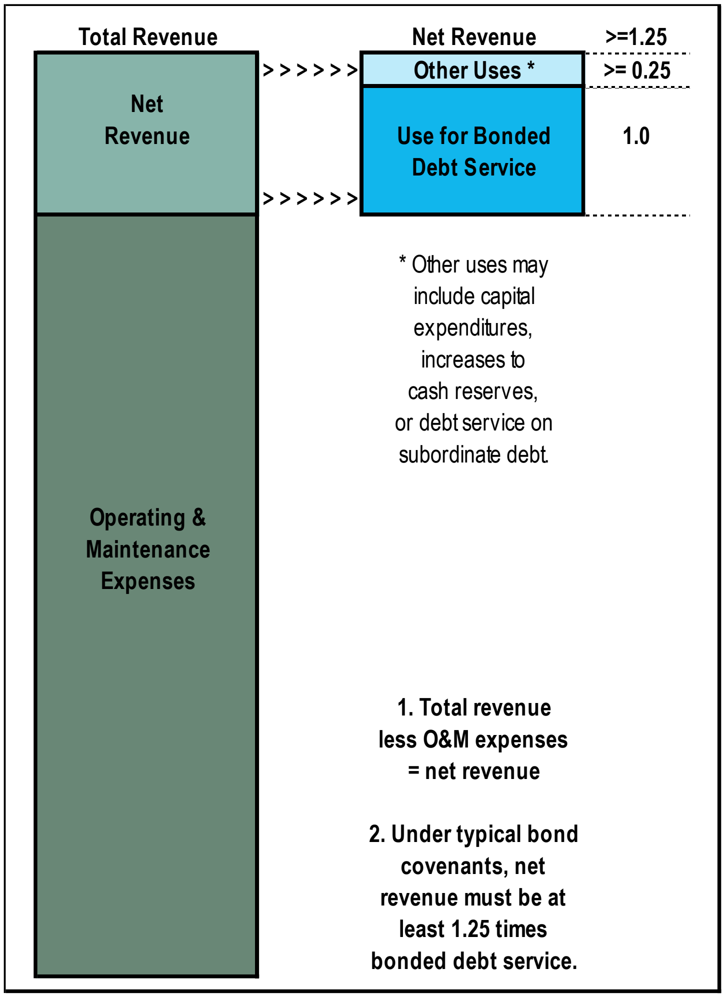
## Debt Service Coverage

Most revenue bonds require a contractual minimum debt service coverage of 1.25 to be maintained by the utility during the life of the bonds. The minimum debt service coverage calculation typically applies to all "parity debt"—that is, all debt that has a first claim on available revenues, equal to the legal rights of the bonds being issued. However, when it comes to debt service coverage, the bond market rewards overachievement—a utility is likely to obtain lower interest rates if coverage on bonded debt is at least 2.0, and if coverage on all debt (including State loans that do not have a legal coverage requirement) is at least 1.5.

What is debt service coverage, and why is it used as a test of financial stability for a utility? (For simplicity in discussion, this paragraph ignores the distinction between parity debt and subordinate debt.) Debt service coverage is defined as the ratio between net revenue (or "net operating income") and annual debt service (either bonded debt service or total debt service). We saw that net revenue is total rate revenue minus operating expenses—it is the equivalent of "operating profit" for a private business. In other words, net revenue is the financial cushion that a given utility has after paying to maintain and operate the system. What can be done with that financial cushion? Logically, it can be used for debt service, or capital expenditures, or building reserves. An annual coverage requirement means that a given utility cannot plan to use all of its financial cushion on debt service—instead, it must use some of it for either capital expenditures or to build reserves. For example, if a utility expects net revenue of $1 million per year, a minimum coverage of 1.25 would mean that it cannot commit more than $800,000 to debt service (because $1 million ÷ $800,000 = 1.25). In other words, a minimum coverage of 1.25 means that the utility promises to generate enough rate revenue so that it will cover all of its debt service cost *plus* an additional 25% on top of that. With $1 million in net revenue, a coverage target of 2.0 would mean that the utility cannot commit more than $500,000 to debt service (because $1 million ÷ $500,000 = 2.0).

**Exhibit 3** illustrates the relationship between the various quantities involved in defining debt service coverage. (This exhibit does acknowledge the difference between parity debt and subordinate debt.)

**Exhibit 3: Illustration of Debt Service Coverage**




When we return this summer with a recommended capital funding strategy, we will also recommend a policy target for debt service coverage if the City does not already have one.

## Capital Resource Funding Priorities

An optimal funding strategy would include the use of grants or other narrow-based funding sources when available and appropriate. To the degree that ratepayer funding is needed, we would first recommend cash financing as long as the forecasted rates are tolerable. The last-resort capital funding source we recommend is debt. To be conservative, our rate forecast typically assumes that any debt incurred is in the form of revenue bonds, but we do recommend that the City explore State or federal loan programs to see if some of them are worth applying for.

# Funding Programs for Drinking Water and Wastewater Projects

# Updated 2-14-22

| Type of Program | Pages |
|---|---|
| Planning/ Pre-Construction | 2 - 5 |
| Pre-Construction Only | 6 - 7 |
| Construction | 8 - 12 |
| Emergency | 13 - 14 |

You can find the latest version of this document at http://www.infrafunding.wa.gov/resources.html

Please contact Cathi Read at cathi.read@commerce.wa.gov if you would like to update your program information

| **PLANNING** Programs | Eligible Projects | Eligible Applicants | Funding Available | How To Apply |
|---|---|---|---|---|
| **CDBG**<br>Community Development Block Grant – General Purpose Grant Fund – Planning-Only Activities | • Comprehensive plans<br>• Non-routine infrastructure plans<br>• Feasibility studies<br>• Community action plans<br>• Low-income housing assessments | Projects must principally benefit low- to moderate-income people in non-entitlement cities and counties.<br>• Cities or towns with fewer than 50,000 people<br>• Counties with fewer than 200,000 people | Grant<br>• Up to $30,000 for a single jurisdiction. | 2022 CDBG General Purpose application materials are due June 1, 2022. Grant awards early September.<br><br>**Contact:** Jon Galow<br>509-847-5021<br>jon.galow@commerce.wa.gov<br><br>Visit www.commerce.wa.gov/cdbg and click on the General Purpose grant menu for information and forms. |
| **SOURCE WATER PROTECTION GRANT PROGRAM** | Source water protection studies (watershed, hydrogeologic, feasibility studies).<br><br>Eligible activities can lead to reducing the risk of contamination of a system's drinking water sources(s), or they can evaluate or build resiliency for a public water supply. They must contribute to better protecting one or more public water supply sources. | Non-profit Group A water systems.<br><br>Local governments proposing a regional project.<br><br>Project must be reasonably expected to provide long-term benefit to drinking water quality or quantity. | Grants<br>• Funding is dependent upon project needs, but typically does not exceed $30,000. | Applications accepted anytime; grants awarded on a funds available basis.<br><br>**Contact:** Derrick Dennis<br>360-236-3122<br>derrick.dennis@doh.wa.gov<br>or<br>Deborah Johnson<br>360-236-3133<br>Deborah.johnson@doh.wa.gov<br><br>http://www.doh.wa.gov/CommunityandEnvironment/DrinkingWater/SourceWater/SourceWaterProtection.aspx<br><br>Grant guidelines<br>https://www.doh.wa.gov/Portals/1/Documents/Pubs/331-552.pdf |

<table>
<tr><th>PLANNING<br>Programs</th><th>Eligible Projects</th><th>Eligible Applicants</th><th>Funding Available</th><th>How To Apply</th></tr>
<tr><td>ECOLOGY: INTEGRATED WATER QUALITY FUNDING PROGRAM<br>State Water Pollution Control Revolving Fund (SRF)<br><br>Centennial Clean Water Fund</td><td>Planning projects associated with publicly-owned wastewater and stormwater facilities.<br><br>The integrated program also funds planning and implementation of nonpoint source pollution control activities.</td><td>Counties, cities, towns, conservation districts, or other political subdivision, municipal or quasi-municipal corporations, and tribes</td><td>Loan: $10,000,000 reserved for preconstruction statewide<br><br>Interest rates (SFY 2023)<br>• 6-20 year loans: 1.1%<br>• 1-5 year loans: 0.5%<br><br><u>Preconstruction set-aside (Distressed Communities)</u><br>50% forgivable principal loan and 50% loan</td><td>Applications due October 12, 2022.<br><br>Contact: David Dunn<br>360-515-8601<br>david.dunn@ecy.wa.gov<br><br>https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans</td></tr>
<tr><td>RD PRE-DEVELOPMENT PLANNING GRANTS (PPG)<br>U.S. Dept. of Agriculture Rural Development – Rural Utilities Service – Water and Waste Disposal Direct Loans and Grants</td><td>Water and/or sewer planning; environmental work; and other work to assist in developing an application for infrastructure improvements.</td><td>Low-income, small communities and systems serving areas under 10,000 population.</td><td>Planning grant to assist in paying costs associated with developing a complete application for RD funding for a proposed project.<br><br>Maximum $30,000 grant.<br>Requires minimum 25% match.</td><td>Applications accepted year-round, on a fund-available basis.<br><br>Contact: Marti Canatsey<br>509-367-8570<br>marlene.canatsey@usda.gov<br><br>http://www.rd.usda.gov/wa</td></tr>
<tr><td>RD ‘SEARCH’ GRANTS: SPECIAL EVALUATION ASSISTANCE FOR RURAL COMMUNITIES<br>U.S. Dept. of Agriculture Rural Development – Rural Utilities Service – Water and Waste Disposal Direct Loans and Grants</td><td>Water and/or sewer planning; environmental work; and other work to assist in developing an application for infrastructure improvements.</td><td>Low-income, small communities and systems serving areas under 2,500 population.</td><td>Maximum $30,000 grant.<br>No match required.</td><td>Applications accepted year-round, on a fund-available basis.<br><br>Contact: Marti Canatsey<br>509-367-8570<br>marlene.canatsey@usda.gov<br><br>http://www.rd.usda.gov/wa</td></tr>
</table>

| **PLANNING** **Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **CERB PLANNING AND FEASIBILITY GRANTS**<br>Community Economic Revitalization Board – Project-Specific Planning Program | Project-specific feasibility and pre-development studies that advance community economic development goals for industrial sector business development. | Eligible statewide<br>• Counties, cities, towns, port districts, special districts.<br>• Federally recognized tribes<br>• Municipal corporations, quasi-municipal corporations w/ economic development purposes. | Grant<br>• Up to $50,000 per application.<br>• Requires 25% (of total project cost) matching funds. | Applications accepted year-round.<br>The Board meets six times a year.<br><br>**Contact:** Janea Delk<br>360-725-3151<br>janea.delk@commerce.wa.gov |
| **RCAC**<br>Rural Community Assistance Corporation<br><br>Feasibility and Pre-Development Loans | Water, wastewater, stormwater, and solid waste planning; environmental work; and other work to assist in developing an application for infrastructure improvements. | Non-profit organizations, public agencies, tribes, and low-income rural communities with a 50,000 population or less, or 10,000 or less if proposed permanent financing is through USDA Rural Development. | • Typically up to $50,000 for feasibility loan.<br>• Typically up to $350,000 for pre-development loan.<br>• Typically up to a 1-year term.<br>• 5% interest rate.<br>• 1% loan fee. | Applications accepted anytime.<br><br>**Contact**: Jessica Scott<br>719-458-5460<br>jscott@rcac.org<br><br>Applications available online at http://www.rcac.org/lending/environmental-loans/ |
| **DWSRF**<br>Drinking Water State Revolving Fund<br><br>Preconstruction Loans | Preparation of planning documents, engineering reports, construction documents, permits, cultural reports, environmental reports. | Group A (private and publicly-owned) community and not-for-profit non-community water systems, but not federal or state-owned systems. | • $500,000 maximum per jurisdiction<br>• 0% annual interest rate<br>• 2% loan origination fee<br>• 2-year time of performance<br>• 10-year repayment period | On-line applications accepted year-round until funding exhausted. Approximately $3 million available to award each year.<br><br>**Contact:** Corina Hayes<br>360-236-3153<br>Corina.hayes@doh.wa.gov<br><br>For information and forms visit: http://www.doh.wa.gov/DWSRF |

| **PLANNING**<br>**Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **Economic Development Administration (EDA)** United States Department of Commerce<br><br>**EDA Public Works Program:** Planning, Feasibility Studies, Preliminary Engineering Reports, Environmental Consultation for distressed and disaster communities. | Drinking water infrastructure; including pre-distribution conveyance, withdrawal/harvest (i.e. well extraction), storage facilities, treatment and distribution.<br><br>Waste water infrastructure; including conveyance, treatment facilities, discharge infrastructure and water recycling. | Municipalities, counties, cities, towns, states, not-for-profit organizations, ports, tribal nations. | Grants:<br>• EDA investment share up to $1M.<br>• Cost sharing required from applicant **up to** 50% of total project cost.<br>○ Up to 100% for Tribal Nations | **Information:**<br>EDA.gov<br><br>**Contact:**<br>Laura Ives<br>206-200-1951<br>lives@eda.gov<br><br>**Apply at:**<br>grants.gov |

| PRECONSTRUCTION ONLY<br>Programs | Eligible Projects | Eligible Applicants | Funding Available | How To Apply |
|---|---|---|---|---|
| **ECOLOGY: INTEGRATED WATER QUALITY FUNDING PROGRAM**<br>State Water Pollution Control Revolving Fund (SRF)<br><br>Centennial Clean Water Fund<br><br>Stormwater Financial Assistance Program (SFAP) | Design projects associated with publicly-owned wastewater and stormwater facilities.<br><br>The integrated program also funds planning and implementation of nonpoint source pollution control activities. | Counties, cities, towns, conservation districts, or other political subdivision, municipal or quasi-municipal corporations, and tribes. | Loan: $10,000,000 reserved for preconstruction statewide<br><br>Interest rates (SFY 2023)<br>• 6-20 year loans: 1.1%<br>• 1-5 year loans: 0.5%<br><br>Preconstruction set-aside (Distressed Communities)<br>50% forgivable principal loan and 50% loan | Applications due October 12, 2022.<br><br>A cost effectiveness analysis must be complete at the time of application.<br><br>**Contact:** David Dunn<br>360-515-8601<br>david.dunn@ecy.wa.gov<br><br>https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans |
| **PWB PRE-CON**<br>Public Works Board<br><br>Pre-Construction Program | Low-interest loans to fund pre-construction activities that prepare a specific project for construction.<br><br>Water, sanitary sewer, stormwater, roads, streets, bridges, solid waste, and recycling facilities. | Counties, cities, special purpose districts, and quasi-municipal organizations that meet certain requirements.<br><br>School districts and port districts are not eligible. | • Approximately $10 million available for preconstruction<br>• Maximum loan amount $1 million per jurisdiction per biennium.<br>• 5-year loan term.<br>• Interest rates vary.<br>• Pre-construction work must be completed within 2 years. | The next funding cycle is expected to be announced in early 2023.<br><br>Check the Public Works Board website periodically at http://www.pwb.wa.gov to obtain the latest information on program details or to contact Public Works Board staff.<br><br>**Contact:** Mark Rentfrow<br>360-529-6432<br>Mark.rentfrow@commerce.wa.gov |

| **PRECONSTRUCTION ONLY**<br>**Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **RCAC**<br>Rural Community Assistance Corporation<br><br>Feasibility and Pre-Development Loans | Water, wastewater, stormwater, or solid waste planning; environmental work; and other work to assist in developing an application for infrastructure improvements. | Non-profit organizations, public agencies, tribes, and low-income rural communities with a 50,000 population or less, or 10,000 or less if proposed permanent financing is through USDA Rural Development. | • Typically up to $50,000 for feasibility loan.<br>• Typically up to $350,000 for pre-development loan.<br>• Typically a 1-year term.<br>• 5% interest rate.<br>• 1% loan fee. | Applications accepted anytime.<br><br>**Contact**: Jessica Scott<br>719-458-5460<br>jscott@rcac.org<br><br>Applications available online at http://www.rcac.org/lending/environmental-loans/ |
| **Economic Development Administration (EDA)**<br>United States Department of Commerce<br><br>**EDA Public Works Program:**<br>Design and/or Construction for distressed and disaster communities. | Drinking water infrastructure; including pre-distribution conveyance, withdrawal/harvest (i.e. well extraction), storage facilities, treatment and distribution.<br><br>Waste water infrastructure; including conveyance, treatment facilities, discharge infrastructure and water recycling. | Municipalities, counties, cities, towns, states, not-for-profit organizations, ports, tribal nations. | Grants:<br>• EDA investment share up to $1M.<br>• Cost sharing required from applicant **up to** 50% of total project cost.<br>    ○ Up to 100% for Tribal Nations | **Information:**<br>EDA.gov<br><br>**Contact:**<br>Laura Ives<br>206-200-1951<br>lives@eda.gov<br><br>**Apply at:**<br>grants.gov |

| **CONSTRUCTION AND DESIGN/CONSTRUCTION Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **CDBG-GP**<br>Community Development Block Grant<br><br>General Purpose Grants | • Final design and construction of wastewater, drinking water, side connections, stormwater, streets, and community facility projects.<br>• Infrastructure in support of economic development or affordable housing.<br>• Planning activities | Projects must principally benefit low- to moderate-income people in non-entitlement cities and counties.<br>• Cities or towns with fewer than 50,000 people<br>• Counties with fewer than 200,000 people | Maximum grant amounts:<br>• $1,000,000 for construction and acquisition projects.<br>• $500,000 for local housing rehabilitation programs.<br>• $250,000 for local microenterprise assistance programs.<br>• $30,000 for planning-only activities. | 2022 CDBG General Purpose application materials are due June 1, 2022. Grant awards early September.<br><br>**Contact:** Jacquie Andresen 360-688-0822 Jacquie.andresen@commerce.wa.gov<br><br>Visit www.commerce.wa.gov/cdbg and click on the General Purpose Grants menu for information and forms. |
| **PWB**<br>Public Works Board<br><br>Construction Program | New construction, replacement, and repair of existing infrastructure for drinking water, wastewater, stormwater, solid waste, recycling, road or bridge projects. | • Counties, cities, special purpose districts, and quasi-municipal organizations.<br>• No school districts, port districts, or tribes per statute. | • Approximately $114 million available for construction projects.<br>• Maximum loan amount $10 million per jurisdiction per biennium.<br>• 20-year loan term.<br>• Interest rates vary.<br>• Construction must be completed within 5 years. | The next funding cycle is expected to be announced in early 2023.<br><br>Check the Public Works Board website periodically at http://www.pwb.wa.gov to obtain the latest information on program details or to contact Public Works Board staff.<br><br>**Contact:** Mark Rentfrow 360-529-6432 Mark.rentfrow@commerce.wa.gov<br><br>Please visit: http://www.pwb.wa.gov |

| **CONSTRUCTION AND DESIGN/CONSTRUCTION Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **DWSRF**<br>Drinking Water State Revolving Fund<br><br>Construction Loan Program | Drinking water system infrastructure projects aimed at increasing public health protection.<br><br>There is a limited amount of principal forgiveness for communities with high affordability index numbers and water system restructuring/ consolidation projects. | Group A (private and publicly-owned) community and not-for-profit non-community water systems, but not federal or state-owned systems.<br><br>Tribal systems are eligible provided the project is not receiving other national set-aside funding for the project. | Loan<br>• 1.0% loan fee (water systems receiving subsidy are not subject to loan fees).<br>• 1.75% interest rate (final rate is set September 1, 2022).<br>• Loan repayment period: 20 years or life of the project, whichever is less.<br>• No local match required. | Online applications available and accepted October 1 through November 30, 2022.<br><br>NOTE: The timeframe for applications may be modified to coincide with infrastructure stimulus funding. Check the DWSRF webpage for updates.<br><br>**Contact:** Corina Hayes<br>360-236-3153<br>Corina.hayes@doh.wa.gov<br><br>For information and forms visit:<br>http://www.doh.wa.gov/DWSRF |
| **ECOLOGY: INTEGRATED WATER QUALITY FUNDING PROGRAM**<br>State Water Pollution Control Revolving Fund (SRF)<br><br>Centennial Clean Water Fund<br><br>Stormwater Financial Assistance Program (SFAP) | Construction projects associated with publicly-owned wastewater and stormwater facilities.<br><br>The integrated program also funds planning and implementation of nonpoint source pollution control activities. | Counties, cities, towns, conservation districts, or other political subdivision, municipal or quasi-municipal corporations, and tribes.<br><br>Hardship Assistance<br>Jurisdictions listed above with a population of 25,000 or less. | Loan: $250,000,000 available statewide.<br><br>Interest rates (SFY 2023)<br>• 21-30 year loans: 1.4%<br>• 6-20 year loans: 1.1%<br>• 1-5 year loans: 0.5%<br><br>Hardship assistance for the construction of wastewater treatment facilities may be available in the form of a reduced interest rate, and up to $5,000,000 grant or loan forgiveness.<br><br>Stormwater grant maximum award per jurisdiction: $5,000,000, with a required 25% match. | Applications due October 12, 2022.<br><br>A cost effectiveness analysis must be complete at the time of application.<br><br>**Contact:** David Dunn<br>360-515-8601<br>david.dunn@ecy.wa.gov<br><br>https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans |

| **CONSTRUCTION AND DESIGN/CONSTRUCTION** **Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **RD**<br>U.S. Dept. of Agriculture<br>Rural Development -<br>Rural Utilities Service<br><br>Water and Waste Disposal Direct Loans and Grants | Pre-construction and construction associated with building, repairing, or improving drinking water, wastewater, solid waste, and stormwater facilities. | • Cities, towns, and other public bodies, tribes and private non-profit corporations serving rural areas with populations under 10,000. | Loans; Grants in some cases<br>• Interest rates change quarterly; contact staff for latest interest rates.<br>• Up to 40-year loan term.<br>• No pre-payment penalty. | Applications accepted year-round on a fund-available basis.<br><br>**Contact:** Marti Canatsey<br>509-367-8570<br>marlene.canatsey@usda.gov<br><br>http://www.rd.usda.gov/wa |
| **CERB**<br>Community Economic Revitalization Board<br><br>Construction Program | Public facility projects required by private sector expansion and job creation.<br><br>Projects must support significant job creation or significant private investment in the state.<br><br>• Bridges, roads and railroad spurs, domestic and industrial water, sanitary and storm sewers.<br>• Electricity, natural gas and telecommunications<br>• General purpose industrial buildings, port facilities.<br>• Acquisition, construction, repair, reconstruction, replacement, rehabilitation | • Counties, cities, towns, port districts, special districts<br>• Federally-recognized tribes<br>• Municipal and quasi-municipal corporations with economic development purposes. | Loans; grants in unique cases<br>• Projects without a committed private partner allowed for in rural areas.<br>• $3 million maximum per project, per policy.<br>• Interest rates: 1-3% Based on Debt Service Coverage Ratio (DSCR), Distressed County, and length of loan term.<br>• 20-year maximum loan term<br>• Match for committed private partners: 20% (of total project cost).<br>• Match for prospective partners: 50% (of total project cost).<br>• Applicants must demonstrate gap in public project funding and need for CERB assistance.<br>• CERB is authority for funding approvals. | Applications accepted year-round. The Board meets six times a year.<br><br>**Contact:** Janea Delk<br>360-725-3151<br>janea.delk@commerce.wa.gov |
| **RCAC**<br>Rural Community Assistance Corporation<br><br>Intermediate Term Loan | Water, wastewater, solid waste and stormwater facilities that primarily serve low-income rural communities. | Non-profit organizations, public agencies, tribes, and low-income rural communities with a 50,000 population or less. | • For smaller capital needs, normally not to exceed $100,000.<br>• Typically up to a 20-year term<br>• 5% interest rate<br>• 1% – 1.125% loan fee | Applications accepted anytime.<br>**Contact**: Jessica Scott<br>719-458-5460<br>jscott@rcac.org<br><br>Applications available online at http://www.rcac.org/lending/environmental-loans/ |

| CONSTRUCTION AND DESIGN/CONSTRUCTION Programs | Eligible Projects | Eligible Applicants | Funding Available | How To Apply |
|---|---|---|---|---|
| **RCAC**<br>Rural Community Assistance Corporation<br><br>Construction Loans | Water, wastewater, solid waste and stormwater facilities that primarily serve low-income rural communities. Can include pre-development costs. | Non-profit organizations, public agencies, tribes, and low-income rural communities with a 50,000 population or less, or 10,000 populations or less if using USDA Rural Development financing as the takeout. | • Typically up to $3 million with commitment letter for permanent financing<br>• Security in permanent loan letter of conditions<br>• Term matches construction period.<br>• 5% interest rate<br>• 1.125% loan fee | Applications accepted anytime.<br><br>**Contact**: Jessica Scott<br>719-458-5460<br>jscott@rcac.org<br><br>Applications available online at http://www.rcac.org/lending/environmental-loans/ |
| **RURAL WATER REVOLVING LOAN FUND** | Short-term costs incurred for replacement equipment, small scale extension of services, or other small capital projects that are not a part of regular operations and maintenance for drinking water and wastewater projects. | Public entities, including municipalities, counties, special purpose districts, Native American Tribes, and corporations not operated for profit, including cooperatives, with up to 10,000 population and rural areas with no population limits. | • Loan amounts may not exceed $100,000 or 75% of the total project cost, whichever is less. Applicants will be given credit for documented project costs prior to receiving the RLF loan.<br>• Interest rates at the lower of the poverty or market interest rate as published by USDA RD RUS, with a minimum of 3% at the time of closing.<br>• Maximum repayment period is 10 years. Additional ranking points for a shorter repayment period. The repayment period cannot exceed the useful life of the facilities or financed item. | Applications accepted anytime.<br><br>**Contact**: Tracey Hunter<br>Evergreen Rural Water of WA<br>360-462-9287<br>thunter@erwow.org<br><br>Download application online: http://nrwa.org/initiatives/revolving-loan-fund/ |
| **Economic Development Administration (EDA)**<br>United States Department of Commerce<br><br>**EDA Public Works Program:** Design and/or Construction for distressed and disaster communities. | Drinking water infrastructure; including pre-distribution conveyance, withdrawal/ harvest (i.e. well extraction), storage facilities, treatment and distribution.<br><br>Waste water infrastructure; including conveyance, treatment facilities, discharge infrastructure and water recycling. | Municipalities, counties, cities, towns, states, not-for-profit organizations, ports, tribal nations. | Grants:<br>• EDA investment share up to $3M.<br>• Cost sharing required from applicant **up to** 50% of total project cost.<br>  ○ Up to 100% for Tribal Nations | **Information:**<br>EDA.gov<br><br>**Contact:**<br>Laura Ives<br>206-200-1951<br>lives@eda.gov<br><br>**Apply at:**<br>grants.gov |

| **CONSTRUCTION AND DESIGN/CONSTRUCTION Programs** | **Eligible Projects** | **Eligible Applicants** | **Funding Available** | **How To Apply** |
|---|---|---|---|---|
| **Energy Retrofits for Public Buildings Program:**<br>**Energy Efficiency Grant**<br>*(formerly Energy Efficiency & Solar)*<br><br>Washington State Department of Commerce | Retrofit projects that reduce energy consumption (electricity, gas, water, etc.) and operational costs on existing facilities and related projects owned by an eligible applicant. Projects must utilize devices that do not require fossil fuels whenever possible. | • Washington State public entities, such as cities, towns, local agencies, public higher education institutions, school districts, federally recognized tribal governments, and state agencies.<br>• Some percentage of funds are reserved for projects in small towns or cities with populations of 5,000 or fewer.<br>• Priority will be given to applicants who have not received funding previously, and school districts that reduce PCB's through lighting upgrades. | 2022: $1.5 million<br><br>• Maximum grant: TBD<br>• Minimum match requirements will apply.<br>• Other State funds cannot be used as match.<br>• Applications expected to open March 2022. | **Contact:** Kristen Kalbrener<br>360-515-8112<br>energyretrofits@commerce.wa.gov<br><br>Visit https://www.commerce.wa.gov/growing-the-economy/energy/energy-efficiency-and-solar-grants/ for more information. |
| **Energy Retrofits for Public Buildings:**<br>**Solar Grants**<br>*(formerly Energy Efficiency & Solar)*<br><br>Washington State Department of Commerce | Purchase and installation of grid-tied solar photovoltaic (electric) arrays net metered with existing facilities owned by public entities.<br><br>Additional points for 'Made in Washington' components. | • Washington State public entities, such as cities, towns, local agencies, public higher education institutions, school districts, federally recognized tribal governments, and state agencies.<br>• Minimum payback period of 35 years. Priority will be given to applicants who have not received funding previously. | 2022: $1.1 million<br><br>• Maximum amount per awardee: $250,000<br>• Minimum match requirements will apply.<br>• Applications expected to open March 2022. | **Contact:** Jill Eikenhorst<br>360-522-0000<br>energyretrofits@commerce.wa.gov<br><br>Visit https://www.commerce.wa.gov/growing-the-economy/energy/energy-efficiency-and-solar-grants/ for more information. |

| **EMERGENCY** Programs | Eligible Projects | Eligible Applicants | Funding Available | How To Apply |
|---|---|---|---|---|
| **RD – ECWAG**<br>U.S. Dept. of Agriculture Rural Development<br><br>Emergency Community Water Assistance Grants | Domestic water projects needing emergency repairs due to an incident such as: a drought; earthquake; flood; chemical spill; fire; etc. A significant decline in quantity or quality of potable water supply that was caused by an emergency. | Public bodies, tribes and private non-profit corporations serving rural areas with populations under 10,000. | Grant; pending availability of funds<br>• $150,000 limit for incident related emergency repairs to an existing water system.<br>• $500,000 limit to alleviate a significant decline in potable water supply caused by an emergency. | Applications accepted year-round on a fund-available basis.<br><br>**Contact:** Marti Canatsey<br>509-367-8570<br>marlene.canatsey@usda.gov<br><br>http://www.rd.usda.gov/wa |
| **DWSRF**<br>Department of Health – Drinking Water State Revolving Fund<br><br>Emergency Loan Program | Will financially assist eligible communities experiencing the loss of critical drinking water services or facilities due to an emergency. | • Publicly or privately owned (not-for-profit) Group A community water systems with a population of fewer than 10,000.<br>• Transient or non-transient non-community public water systems owned by a non-profit organization. Non-profit non-community water systems must submit tax-exempt documentation.<br>• Tribal systems are eligible provided the project is not receiving other national set-aside funding for the project. | Loan<br>• Interest rate: 0%, no subsidy available<br>• Loan fee: 1.5%<br>• Loan term: 10 years<br>• $500,000 maximum award per jurisdiction.<br>• Time of performance: 2 years from contract execution to project completion date.<br>• Repayment commencing first October after contract execution. | To be considered for an emergency loan, an applicant must submit a completed emergency application package to the department.<br><br>**Contacts:**<br>Department of Health Regional Engineers<br>or<br>Corina Hayes<br>360-236-3153<br>Corina.hayes@doh.wa.gov<br><br>For information and forms visit:<br>http://www.doh.wa.gov/DWSRF |
| **PWB**<br>Public Works Board<br><br>Emergency Loan Program: Repair, replace, rehabilitate, or reconstruct eligible systems to current standards for existing users. | A public works project made necessary by a natural disaster, or an immediate and emergent threat to the public health and safety due to unforeseen or unavoidable circumstances.<br><br>Demonstrate financial need through inadequate local budget resources. | Counties, cities, special purpose districts, and quasi-municipal organizations.<br><br>No school districts, port districts, or tribes per statute.<br><br>Water, sanitary sewer, storm water, roads, streets, bridges, solid waste, and recycling facilities. | • Approximately $5 million for emergency loan funding.<br>• Maximum loan amount $1 million per jurisdiction per biennium.<br>• 20-year loan term or life of the improvement, whichever is less.<br>• Interest rates vary.<br>• Application cycle is open until available funds are exhausted. | Check the Public Works Board website periodically at: http://www.pwb.wa.gov to obtain the latest information on program details or to contact Public Works Board staff.<br><br>**Contact:** Mark Rentfrow<br>360-529-6432<br>Mark.rentfrow@commerce.wa.gov |

| **EMERGENCY** Programs | Eligible Projects | Eligible Applicants | Funding Available | How To Apply |
|---|---|---|---|---|
| **ECOLOGY** – Clean Water State Revolving Fund<br><br>Emergency Funding Program | Water quality-related projects that meet the definition of "environmental emergency" in WAC 173-98-030(27) and have received a Declaration of Emergency from the local government. Eligible projects may result from a natural disaster or an immediate and emergent threat to public health due to water quality issues resulting from unforeseen or unavoidable circumstances. | Counties, cities, towns, federally-recognized tribes, and special purpose districts serving a population of 10,000 or less. | Loan<br>• 10-year loan term or the life of the project, whichever is less.<br>• 0.0% interest rate.<br>• $5,000,000 maximum total per year.<br>• $500,000 maximum per jurisdiction per year.<br>• 2 years to complete project after loan execution.<br>• Repayment begins 1 year after completion. | Applications accepted any time.<br><br>**Contact:** Daniel Thompson<br>360-407-6510<br>daniel.thompson@ecy.wa.gov<br><br>Funding Guidelines and Applicant Prep Tool:<br><br>https://apps.ecology.wa.gov/publications/documents/2010059.pdf |
| **HAZARD MITIGATION GRANT PROGRAM**<br>FEMA/WA Emergency Management Division | Disaster risk-reduction projects and planning after a disaster declaration in the state. | Any state, tribe, county, or local jurisdiction (incl., special purpose districts) that has a current FEMA-approved hazard mitigation plan. | Varies depending on the level of disaster, but projects only need to compete at the state level.<br><br>Local jurisdiction cost-share: 12.5% | Applications will be opened after a disaster declaration.<br><br>**Contact**: Tim Cook<br>State Hazard Mitigation Officer<br>253-512-7072<br>Tim.cook@mil.wa.gov |
| **PUBLIC ASSISTANCE PROGRAM**<br>FEMA/WA Emergency Management Division | Construction, repair to, and restoration of publicly owned facilities damaged during a disaster.<br><br>Debris-removal, life-saving measures, and restoration of public infrastructure. | State, tribes, counties, and local jurisdictions directly affected by the disaster. | Varies depending on the level of disaster and total damage caused. | Applications are opened after disaster declaration.<br><br>**Contact:** Gary Urbas<br>Public Assistance Project Manager<br>253-512-7402<br>Gary.urbas@mil.wa.gov |
| **RURAL WATER REVOLVING LOAN FUND**<br>Disaster area emergency loans | Contact staff for more information on emergency loans. | Public entities, including municipalities, counties, special purpose districts, Native American Tribes, and corporations not operated for profit, including cooperatives, with up to 10,000 population and rural areas with no population limits. | 90-day, no interest, disaster area emergency loans with immediate turn-around.<br><br>Download application online:<br>http://nrwa.org/initiatives/revolving-loan-fund/ | Applications accepted anytime.<br><br>**Contact**: Tracey Hunter<br>Evergreen Rural Water of WA<br>360-462-9287<br>thunter@erwow.org |

FCS GROUP
Solutions-Oriented Consulting

# Policy Issue Paper #2

**To:** Sara Lane, Administrative Services Director
City of Shoreline, WA

**Date:** March 23, 2022

**From:** Gordon Wilson, Senior Program Manager Gordon Wilson
Tage Aaker, Project Manager Tage Aaker
Chase Bozett, Senior Analyst Chase Bozett

**Subject:** City of Shoreline – Low-Income Customer Assistance

## INTRODUCTION

Utilities provide a basic service for the population, so the affordability of utility rates becomes an increasing concern as utility rates increase over time. The City has inquired about whether and how its existing bill discount program to low-income wastewater customers might be expanded. This memo describes some possible approaches to low-income customer assistance programs, including those that support multi-family residents who do not have utility accounts in their name.

### Legal Background

The State of Washington is unusual in having explicit statutory authorization for utilities to provide discounted rates for low-income customers; in most states, either the legal framework for low-income rates is ambiguous or they are explicitly prohibited. In Washington, RCW 74.38.070 states:

> Notwithstanding any other provision of law, any county, city, town, public utility district or other municipal corporation, or quasi municipal corporation providing utility services may provide such services at reduced rates for **low-income senior citizens** or other **low-income citizens**: PROVIDED, That, for the purposes of this section, "low-income senior citizen" or "other low-income citizen" shall be defined by appropriate ordinance or resolution adopted by the governing body of the county, city, town, public utility district or other municipal corporation, or quasi municipal corporation providing the utility services. Any reduction in rates granted in whatever manner to low-income senior citizens or other low-income citizens in one part of a service area shall be uniformly extended to low-income senior citizens or other low-income citizens in all other parts of the service area.

### Current City Low-Income Customer Assistance Program

The City of Shoreline wastewater utility currently has a low-income customer assistance program. It consists of a 50% bill discount to qualifying City wastewater customers. To qualify, residents must (a) have a City utility account in their name; (b) meet the City's definition of low-income; and (c) be either senior (age 62 or older) or disabled. If there are two adults in the household, both must be age 62 or older to qualify as a senior household. For administrative and bill collection reasons, the name on City utility accounts is always the property owner, which means that the wastewater bill-discount program is effectively limited to senior or disabled homeowners who meet the income test. The most recent qualifying income is $50,160/year for one person or $57,360 for a household with two or more residents. The 50% bill discount applies to the full service charge, including the treatment charge as well as the City charge.

The key limitation of the City's current utility customer assistance program is that only a narrow range of low-income residents are eligible. It excludes low-income residents who are not homeowners, and even among homeowners, it excludes low-income residents who are less than 62 and not disabled. According to City staff, about 310 customers participate in the bill discount program, or 1.8% of the City's 16,903 utility accounts. According to the Census Bureau's most recent data from the American Community Survey, 6,066 households in Shoreline earn less than $50,000 per year, so the 310 participating customers represent about 5% of the low-income households who might be eligible if the criteria were less restrictive.

An Appendix is attached to this memo with information from the City's web site about various utility discount programs for Shoreline residents, as well as a copy of the application form for the wastewater bill discount program. In addition, because it is relevant to the discussion later in this memo, the Appendix includes a copy of web pages and a description of the application process for Seattle City Light and Seattle Public Utilities.

# LEVELS OF ADMINISTRATIVE COMPLEXITY

Low-income assistance programs can be thought of as having four levels of complexity. With each successive level, the number of customers potentially receiving assistance increases, but the administrative costs and foregone rate revenue are also a more significant consideration.

## Level One: Eligibility Limited to Homeowners and Senior or Disabled

Level One is the status quo program for the City. Qualified customers may apply, but eligibility is effectively limited to low-income homeowners who are seniors or disabled persons The program design makes it likely that a relatively small fraction of the low-income residents who are affected by City utility bills can actually qualify for support.

## Level Two: All Low-Income Customers with a City Utility Account

A Level Two program design would broaden the pool of eligible customers by allowing any low-income customers—not just seniors or disabled citizens—to apply for a bill discount. The allowable documentation could include proof of eligibility for SNAP assistance (food stamps), free/reduced lunch, or other means-tested government programs, without age or disability limitation.

Another way of broadening the pool of eligible low-income customers has to do with the name on the account. In order to explain that idea, we first need to step back and offer a brief explanation about the general challenge of reaching renters with a bill discount program for low-income individuals or families. These challenges apply to all water or wastewater utilities, not just the City of Shoreline.

### Barriers to Reaching Renters

There are two types of barriers for extending the benefits of a bill discount program to renters. First, if the utility account must be in the property owner's name, the occupant or renter might not be identified as the person who is paying the bill. Cities that have a water utility can allow someone other than the property owner to be the account holder, because if the wastewater bill goes unpaid, those cities can shut off the water. Because Shoreline does not have a water utility, its only recourse for non-payment is a cumbersome lien process, and the City has to be strict about making sure that the account holder is the property owner.

The second type of barrier is the fact that there is typically a single joint water meter for a multi-unit building. So only one party pays the wastewater bill for the entire building—probably a property management company or the owner, but probably not one of the renters. If a low-income family rents a unit in a multi-unit building, a reduced wastewater bill will not help that family.

### Potential Eligibility of Renters Authorized to Receive Duplicate Bill

With that background, we'll return to our discussion of the goal of broadening the eligibility criteria to include low-income residents who are not necessarily just homeowners. The second type of barrier—where a joint water meter serves multiple dwelling units—is beyond Level Two; we will discuss that with Level Three or Four. However, according to the staff, Shoreline has a lot of single-family rental housing. If there is one water meter per dwelling unit, then the only barrier to reaching renters is the fact that the account holder must be the property owner.

Fortunately, the City does have a process by which the property owner can submit a form designating someone else to receive a duplicate bill. The designee may either be a property manager or a tenant, but not both. Where the renter is designated to receive a duplicate bill, it is probably because the renter is normally the party who actually pays the bill (even if the property owner is legally responsible in case the renter moves out). So the authorization for a renter to receive duplicate bills gives the City information on which eligibility for a low-income discount program can be based.

Currently the City application form requires that a low-income applicant show evidence of property ownership (typically, a property tax statement). If the City wants to broaden the eligibility to at least some renters, it can change the form so that a low-income applicant provides *either* evidence of property ownership *or* a copy of the form authorizing the renter to receive duplicate wastewater bills. The City can then link the application to a customer account and begin classifying that account as a low-income account.

Moving from a Level One program design to Level Two would mean added cost to the City utility in two ways: (a) more foregone rate revenue, and (b) additional administrative costs, as the City receives and processes more applications.

### Administrative Cost

How much administrative cost? That is a difficult question to answer for Shoreline specifically, but an analysis we performed for the City of Bellingham last year can give us some clues. Because the Bellingham bill discount program has three income tiers and three levels of support (25%, 50%, and 75% discount), the City has to administer its own program instead of just taking advantage of the property tax deferral program. That means the administrative cost for Bellingham might correspond more closely to a Level Two program design than to Shoreline's current design.

We spoke with the Bellingham customer billing supervisor to learn about their cost of administering the City's low-income discount program, which currently has 699 participants. The program's time demands are not a steady cost throughout the year; instead, most of their staff time required to determine eligibility is concentrated into a one- or two-month window. Given that caveat, a ballpark estimate of the total hours of staff time in a given year equates to approximately $70,000-$80,000 per year. Since the total foregone rate revenue for Bellingham's bill discount program (for water, sewer, and stormwater utilities combined) is about $485,000 per year, the administrative cost represents about 15% of the total benefit to customers. As an order of magnitude, the staff time demand is not a small consideration.

## Level Three: Discount on Electricity Bill for Multi-family Residents

Level Three is to attempt to reach renters by offering a discount on the electricity bill. It is common for multi-family complexes to have one water meter per building but an electric meter for each unit. Low-income residents are therefore likely to have an electric account in their name even if they do not have a water, sewer, or stormwater account in their name.

For cities that have their own electric utilities (like Seattle, Tacoma, and Port Angeles), this is a preferred way to extend the benefits of a water/sewer bill discount to individual renters. However, most cities (including Shoreline) do not have their own electric utility.

It may be possible to reach a data sharing and reimbursement agreement with an outside electric utility, either public or private. As far as we are aware, this approach has not yet been implemented with an outside electric utility in the Pacific Northwest for a low-income utility bill discount program. However, Shoreline does have an existing pass-through arrangement with Seattle City Light (SCL) with respect to its utility tax exemption on PSE (natural gas) and Recology (solid waste) bills. SCL is the electricity provider for Shoreline residents. SCL has experience with a utility bill discount program, because it provides electricity bill discounts for Seattle Public Utilities water, sewer, and solid waste customers who live in multi-family housing. For that reason, Shoreline might be well positioned to develop the concept with an outside electric utility, but it would take time and administrative effort to implement this type of program.

If Shoreline decides that it is interested in going down this path, it would need to negotiate a legal framework, match the eligible multi-family residents with electric accounts, program the data sharing, and carry out the financial reimbursement to the electric utility.

With any effort to have a low-income program reach renters in multi-unit housing, the foregone rate revenue and the administrative cost would typically be higher than with a program limited to homeowners or renters of single-family housing.

### Adopting Eligibility Criteria of Seattle City Light

However, if the City were to work out a reimbursement agreement with Seattle City Light, that agreement could be used for more than just passing through a bill discount to the SCL electricity bills of Shoreline multi-unit renters. The City might try to achieve some administrative efficiencies by adopting the SCL eligibility criteria— not just for renters in multi-unit housing but also for homeowners and renters in single-family housing. The City would be saying, in effect, “If you are low-income for the SCL electricity bill discount program, then you are low-income for the Shoreline wastewater bill discount also.” The SCL income thresholds are shown in the Appendix—they are different from Shoreline’s thresholds. For example, the Shoreline qualifying income for a single person is $50,160; for Seattle it is $39,372. For Shoreline, the qualifying income for households of two or more is $57,360. For Seattle, the qualifying income for a two-person household is $51,480, but the qualifying income is scaled for larger household sizes.

If the City of Shoreline were to adopt the eligibility criteria of SCL, it would in effect be piggybacking off the eligibility determination made by SCL. In that case, SCL might want to be reimbursed for a share of its own administrative effort on behalf of Shoreline wastewater customers.

### Level Four: Direct Rebate Checks to Multi-family Residents

A Level Four program design would offer assistance to low-income residents in multi-family housing by sending them a rebate check. This is the approach taken by Bellevue. This can work alongside a more conventional bill discount program for low-income residents who have City utility accounts in their names. While a cash rebate is not a direct offset against utility expenses, the *amount* of the potential rebate could be set with reference to the City's typical water, sewer, or stormwater bills.

## IMPACT ON RATES

With all four levels, the foregone rate revenue and cost of administration will have an impact on the rates for non-low-income customers.

Here is a simple hypothetical example with round numbers. For simplicity, this example ignores commercial customers, which would not be eligible for a bill discount. Consider a scenario where the revenue requirement for a given year is $9 million and the average household is charged $60 per month. (These assumptions imply that there are 12,500 total customers.) If 4% of the households (that is, 500 households) qualify for and participate in a low-income program that offers a 50% bill discount, then the foregone revenue would be 2% of $9 million, or $180,000. However, that $180,000 still needs to be generated in order to run the wastewater system, so everyone's rates would be pushed up to compensate. Before considering administration costs, the result would be a 2% increase in the rates, to $61.20 per month.

Now, let's also assume that program administration costs are $100,000 per year. The resulting revenue requirement now is not $9,000,000 but $9,100,000. Still assuming 12,500 customers (of which 500 pay half of the regular rate), the regular rate would therefore be about $61.88 per month, a 3.1% increase over the rates with no low-income program. The average low-income customer in that case would benefit by $30.94 per month (50% of the $61.88 adjusted monthly rate), which adds up to $371 per year.

Is it worth it to charge everyone 3.1% more in order to help low-income people by $30.94 per month? That is for City policymakers to decide—and the decision should be made with real numbers rather than hypothetical numbers.

If the rate impact to non-low-income customers is too great, then the City may consider adjusting the discount percentage. In general, there are four related variables: the number of qualifying people, the level of discount, the estimated administrative costs, and the rate impact on the non-low-income customers. The first three drive the fourth. Depending on how many low-income customers are projected to take advantage of an expanded program, the need to keep the rate impact manageable might point to a logical percentage discount of 30% or 40% or something else. In order to expand the bill discount program, it might be worth it to offer less assistance to a larger number of people.

## JURISDICTIONAL SURVEY

The following six jurisdictions within King County were included in a survey of current practices: the cities of Seattle, Bellevue, Auburn, and Lynnwood as well as Sammamish Plateau Water and Sewer District and Northshore Utility District. All provide support to multi-family customers. The following elements of the multi-family low-income discount programs were surveyed:

- What level of discount or rebate/voucher is provided for?

- What type of qualifying income documentation is needed?
- Are in-person interviews a required part of the application process?

The following exhibit outlines the findings of each multi-family low-income discount program.

**Exhibit 1: Multi-family Low-Income Discount Program Findings**

| Jurisdiction | Discount & Description of Program | Income Documentation Required? | Interview Required? |
|---|---|---|---|
| **Seattle** | If you are a tenant whose SPU utilities (water/sewer) are paid by a Condo Home Owners Association (HOA) or landlord, but you still receive a Seattle City Light bill, then you (the tenant) can receive a **50%** credit per month on their electric bill | Yes. Either SNAP (Supplemental Nutrition Assistance Program) Benefits Client ID or Social Security Number. If not on SNAP, other documentation can be provided such as paycheck stubs. | No |
| **Bellevue** | If the customer's utility costs have been paid through rent or other third party, they may qualify for a rebate check. Residents can get a rebate of **70%** off their basic water, wastewater, and drainage costs previously paid through rent or other third party by qualifying for this program. | Yes. Previous years' income documents (tax statements) are required for each member of household. Bank statements could potentially substitute for preferred income documentation. | Yes, if applying for the first time or it has been more than 12 months since last application. |
| **Auburn** | Customers who pay utilities (water, sewer, storm and/or water) to the City of Auburn through their landlord or property manager may be eligible. Applicants are accepted each year in the month of May. Current recipients need to re-apply each year with the previous year's annual income in May.<br>**80%** water rebate on the base charge and **50%** rebate on sewer charge for customers that pay indirectly. **City staff noted that the rebate is for both the City's charge and King County's charge.** | Yes. Previous years' federal tax return required. | No |
| **Lynnwood** | Directly Billed Customers: Customers receive a **50-60%** discount on base and volume charges<br>Indirectly Billed Customers: Customers receive a **50-60%** discount on base and volume charges with in the usage allowance | The City accepts multiple forms of documentation including property tax information, proof of state assistance programs, proof of free/reduced school lunch program, or medical necessity | No |

| Jurisdiction | Discount & Description of Program | Income Documentation Required? | Interview Required? |
|---|---|---|---|
| **Sammamish Plateau Water** | This program applies to residents of apartments, condominiums, and residential homes who pay for water and sewer service through rent or to a third party. For each month that you lived at the residence, you will receive the following rebates: **45%** of the base charge for water and **30%** discount on the collection portion for sewer<br>This program is included in the District's budget and has been funded by a previous rate adjustment of 0.25% for water rates and 0.25% sewer rates. | Yes. Previous years' federal tax return required. | No |
| **Northshore Utility District** | Indirectly billed eligible customers (served from a shared metered connection) will receive a rebate check on an annual basis. The amount will be the difference between the full base rate and the discounted rate.<br>**45%** discount on base water rate and **50%** discount on base sewer rate. **No discount on King County sewer treatment costs.** | Yes. Previous years' federal tax return required. Other documentation may be accepted. | No |

The following bullets summarize the findings of the survey:

- Discounts range from 30-80% with the most common discount rate being about 50% per utility. Where noted by the jurisdiction, this equated to an approximate range of $15-$45 per month.
- Both Sammamish Plateau Water and Northshore Utility District specify that the King County Treatment charge is not eligible for a discount. However, the City of Auburn's multi-family rebate applies to both the City's charge and King County's charge.
- All six of the jurisdictions surveyed currently request federal documents to verify the customer is eligible for the program (Seattle, Bellevue, and Lynnwood allow alternative documentation if federal documents are not available).
- Based on information made available on each jurisdiction's website, only one of the six jurisdictions require an in-person interview as a part of the application process (City of Bellevue). This could be due to the higher level of administrative burden along with the perceived additional barrier for prospective customers looking to enroll in the program.
- While the six jurisdictions included in this survey offer examples of multi-family low-income discount programs, the majority of utilities in this area do not have a discount program for multi-family residents at this time.
- However, low-income assistance in general is an emerging area of policy interest among our clients across the Northwest, and there may be more efforts in the future to design programs that can reach multi-family residents.

## SUMMARY - ITEMS FOR CONSIDERATION

Currently the City's bill discount program is limited to low-income homeowners who are senior or disabled. Even the Level Two approach—expanding the current program so that it applies regardless of age or disability status, and including renters of single-family housing—would increase the percentage of low-income people who can benefit from assistance with City utility costs. Going to

Level Three or Four would mean developing a way—either through the electricity bills or through cash payments—to offset the implied utility costs borne by low-income Shoreline residents who do not see a wastewater utility bill.

If the City in interested in expanding its current low-income discount program, there are a few items that should be considered during the evaluation process:

- What level of assistance should be provided?
- What documentation methods would be accepted?
- If assistance is to be provided to customers without a linkage to a City utility account, how should that assistance be delivered? Should there be a cash rebate provided directly to the customer, or should the City work with Seattle City Light to create a discount on the electric bill?
- Depending on the level of participation, how much total revenue might be foregone if the City were to expand its discount program? How much of a rate impact to non-low-income customers would be acceptable?
- Depending on the program level, how much additional staff time would need to be dedicated the program?
- How detailed would the application be?
- How often will customers need to re-apply?
- Should the bill discount apply only to the non-treatment part of the bill, or should it continue to apply to the King County treatment charge as well?
- If the City develops a reimbursement agreement with Seattle City Light to extend wastewater bill rebates to electricity customers, should it also adopt the SCL eligibility criteria?

We suggest that the City consider either Level Two or Three. Level Two would be more straightforward to implement but would still have administrative impacts because of a greater volume of applications. The City staff will need to help estimate the administrative cost, after which we can estimate the rate impact.

If the City plans to significantly expand the reach of its low-income bill discount program, we suggest that it consider alternate discount percentages in order to ensure that the rate impact to non-low-income customers is acceptable.

This is a complicated enough topic that an expanded low-income bill discount program might not fit within the time frame of the current rate study. If needed, it would not be difficult for FCS GROUP to adapt the rate model at a later date to incorporate the impact of an expanded program.

# APPENDIX

- Page from City of Shoreline web site, describing assistance available to low-income residents for several utilities.
- City of Shoreline application form for current low-income discount program for wastewater utility.
- Pages from City of Seattle web site, describing the Utility Discount Program used by Seattle City Light and Seattle Public Utilities, including the income thresholds.
- City of Seattle guide to the on-line application process for the Utility Discount Program.

- Federal Public Housing Assistance (Section 8)
- VA Veterans Pension (Supplemental Income for Wartime Veterans)
- VA Survivors Pension

## Electric, Water, and Garbage/Recycling Service

The Utility Discount Program helps income qualified Seattle City Light customers lower their electric bills by 60%. Seattle Public Utilities customers will also receive 50% off their water bills if enrolled in this program. You may be eligible if you are a Seattle City Light customer and meet income eligibility requirements. Call 206-684-0268 or go to the Utility Discount Program webpage for more information.

Qualifying Recology and Puget Sound Energy (PSE) customers may be eligible for exemption from City of Shoreline utility tax on these services. For more information please call the City at (206) 801-2302.

## Low Income Property Tax Info

Low income Seniors over 61, and persons with disabilities may be able to lower their current property tax bills. The King County Assessor has full details on this program. For more information on Shoreline tax information, please visit the Finance page.

## Low Income Utility Assistance

The City of Shoreline provides $25,000 in annual funding to Hopelink for utility assistance for low-income individuals. Persons seeking to apply for assistance should contact Hopelink at (206) 440-7300.

## North City Water District

The North City Water District provides a low-income discount for those households that have income within the "very-low income" limits set by HUD for the Seattle area. The discount is 50% of the base charge for single family customers (~ $25 discount per billing cycle). In addition, NCWD has implemented several programs to provide assistance to customers financially impacted by COVID-19. For more information please, visit the website, North City Water District, or call (206) 362-8100.

## Wastewater Service

Qualifying senior citizens (62 years of age or older) and persons with disabilities receive reduced rates from the City of Shoreline Wastewater District (Low Income Senior Citizen Discount form). The qualifying income levels correspond with the limits by HUD for "very-low income" for the Seattle area. For more information please call (206) 546-2494.

Account #Attachment B ______

**City of Shoreline Wastewater Utility**
17500 Midvale Avenue N
Shoreline, Washington 98133-4905
(206) 546-2494
wwcustomerservice@shorelinewa.gov

# 2021 Application for
# Low Income Senior Citizen Discount or
# Low Income Disabled Citizen Discount

Please read the entire form before completing. Please call if you have questions.

Name ______________________ Co-Applicant's Name ______________________

Street Address ______________________ Phone # ______________

Applicant's Birth date ______________ Co-Applicant's Birth date ______________

Age at time of completing this application ________ Co-Applicant's Age ________

Email ______________________________________________

***Requirements for Low Income Senior Citizen Discount or Low Income Disable Citizen Discount for Year 2021:***

**Senior Citizen Discount *ONLY*:**

- ●You or your spouse/co-applicant must be at least 62 years of age.
- ●A copy of your Washington State Driver's License or Birth Certificate(s).
- ●A copy of your property tax statement or assessment card. Must own and reside at the property for at least one (1) year prior to date of application.
- ●A copy of your 2020 1040 form or 2020 SSA-1099 form or SSA-4926 form.

**Disability Discount *ONLY*:**

- ●A copy of your Social Security Administration Disability Verification Letter.
- ●A copy of your Washington State Driver's License or Birth Certificate(s).
- ●A copy of your property tax statement or assessment card. Must own and reside at the property for at least one (l) year prior to date of application.
- ●A copy of your 2020 1040 form or 2020 SSA-1099 form or SSA-4926 form.

**Please note: financial eligibility requirements are:**
One person Gross Income must be less than $50.160.00 per year
Two Person Gross Income must be less than $57,360.00 per year

**Please notify Shoreline Wastewater Utility immediately of any changes in your eligibility.**

I hereby apply for the City of Shoreline Wastewater Utility Low Income Senior Citizen or Disability Discount and, by signing below, do certify under penalty of perjury that to the best of my knowledge all on this form are true.

Applicant's Signature ______________________________ Date ______________

Co-Applicant's Signature ______________________________ Date ______________

**UTILITY USE ONLY**

Approval Date: ____________ Effective Date: __________ By: ______________________

Application Denied Date: ______________ Reason: ______________________________

# CITY OF SHORELINE WASTEWATER UTILITY
# 2021 LOW INCOME SENIOR CITIZEN DISCOUNT OR
# LOW INCOME DISABLED CITIZEN DISCOUNT
# INCOME FILING FORM

Please use this form when your only taxable income was one or more of the sources listed below, and you DO NOT file a 1040 form. Enter the amount of 2020 income for each item listed below, IF APPLICABLE.

1. Gross Social Security Income $ ______________________ per year
2. Gross Income (Wages/Salaries) $ ______________________ per year
3. Gross Dividend Income $ ______________________ per year
4. Gross Rental Income $ ______________________ per year
5. Gross Taxable Interest Income $ ______________________ per year
6. Gross Taxable Retirement Income (Pensions, Annuities, IRA Distributions) $ ______________________ per year
7. TOTAL GROSS INCOME (Add lines 1-7) $ ______________________ per year

If line 7 is less than the Total Gross Income listed below, you should quality for a discount with the Ronald Wastewater District.

| | |
|---|---|
| Single Applicant | **$50,160.00 per year** |
| Household of two (2) or more | **$57,360.00 per year** |

______________________________ ______________

Print Name Date

______________________________

Signature

______________________________

Print Co-Applicant's Name

______________________________

Co-Applicant's Signature

# People in Household ________



Revised 07/01/21

## CITY OF SHORELINE WASTEWATER UTILTIY

***List of Acceptable Documentation for the Senior Citizen & Disabled Discount***

- **PROOF OF BIRTH DATE** (One of the following)

  > Driver's License<br>
  > Birth Certificate<br>
  > Passport<br>
  > Any official document with your birth date on it

- **PROOF OF PROPERTY OWNERSHIP** (One of the following)

  > Property Tax Statement<br>
  > Property Assessment Card<br>
  > If the mortgage company pays your property taxes, then use a copy of the receipt the Mortgage Company provides.<br>
  > Must own and reside at the property for at least one (1) year prior to date of application.

- **DISABLED APPLICANTS ONLY – SOCIAL SECIRUTY DEPARTMENTS DISABILITY VERIFICATION LETTER**

- **COPY OF 1040 TAX RETURN -- OR --**

- **COMPLETED SENIOR/DISABLED INCOME FILING FORM (Page 2)**

  > Complete ONLY if you do not file a 1040 tax return<br>
  > Report income from all sources (example: Social Security, interest, pension, retirement, Rental income, wages, etc.)<br>
  > Must be signed by applicant and spouse/co-applicant (if applicable)

- **SENIOR CITIZENS ONLY – COPY OF SSA-1099 OR SSA-4926**

  > You should receive these each year from Social Security<br>
  > We will need one for you and your spouse/co-applicant (if applicable)<br>
  > If you did not receive, please call Seattle Social Security office at 1-800-772-1213<br>
  > To obtain a copy, either call or go to the Social Security office:<br>
  13510 Aurora Ave N Suite B<br>
  Seattle, WA 98133

**We only need copies of the verifications – PLEASE DO NOT SEND ORIGINALS!!**

There is a copy machine in our office, and we are happy to make all necessary copies for you.

## Seattle Public Utilities Information & Alerts

**Bill Assistance**
SPU knows the COVID-19 pandemic has made it harder for some of its customers to afford essential services. We're here to help. SPU has several financial assistance resources available, including **flexible payment plans, utility discounts, and emergency bill assistance (/utilities/your-services/discounts-and-incentives/covid-19-assistance)**. You can help by donating to the **Community Donation Fund (/utilities/your-services/discounts-and-incentives/community-donation-fund)**.

## Seattle Public Utilities (utilities)

# Utility Discount Program

The Utility Discount Program provides bill assistance for seniors, persons with disabilities, and low-income customers. If your household income is at or below 70% of the state median income, the program helps you get current and stay current on utility payments by offering a discount of about 60% on your Seattle City Light bill and a 50% discount on your Seattle Public Utilities (SPU) bill. This discount is only available for residential City Light and SPU customers.


If you need immediate help with a past due balance, you may be able to receive **emergency assistance (/utilities/your-services/discounts-and-incentives/emergency-assistance-program)**.

## Eligibility

To be eligible for the Utility Discount Program, you must meet the following:

- You are the homeowner or renter; if a landlord pays all utilities, qualifying low-income tenants may still be eligible for utility financial help.
- You have a Seattle City Light and/or Seattle Public Utilities bill in your name.
- Effective January 1, 2022, your total household income in the one-month period prior to applying must be at or below:

| Household Size | Gross Monthly Income | Gross Yearly Income |
|---|---|---|
| 1 | $3,281 | $39,372 |
| 2 | $4,290 | $51,480 |
| 3 | $5,300 | $63,600 |
| 4 | $6,309 | $75,708 |
| 5 | $7,319 | $87,828 |
| 6 | $8,328 | $99,936 |
| 7 | $8,518 | $102,216 |
| 8 | $8,707 | $104,496 |
| 9 | $8,896 | $106,776 |
| 10 | $9,086 | $109,056 |
| Each additional | $190 | $2,280 |

**Note:** Gross Income is based on 70% of the state's median income.

### Not directly billed for your SPU utilities?

If you are a tenant whose SPU services are paid by a Condo Home Owners Association (HOA) or landlord, but you still receive a Seattle City Light bill, then you can receive the following credits per month to your electric bill:

| | Water | Sewer | Drainage | Garbage | Yard Waste |
|---|---|---|---|---|---|
| Single-family | $22.85 | $33.43 | $23.24 | $19.30 | $6.20 |
| Duplex | $22.85 | $33.34 | $11.62 | $19.30 | $6.20 |
| Multi-family | $12.50 | $23.32 | $2.49 | $15.80 | $6.20 |

All credits effective January 1, 2020 except for garbage and yard waste, which are effective April 1, 2020.

### Free transfer station passes

Utility Discount Program (UDP) participants may receive free transfer station passes up to twice each year. To be eligible for this special assistance program, participants must:

- Be enrolled in the Utility Discount Program (UDP).
- Live at the UDP-enrolled address.
- Be the primary account holder for Seattle City Light and/or Seattle Public Utilities accounts.

To learn more, please call the Utility Discount Program using the contact information below.

## Application and Contact

To apply for the Utility Discount Program:

- Complete the **UDP online enrollment form (https://civiform.seattle.gov/applicants/8998/edit)**. (Download a **Help Guide (Documents/Departments/SPU/Documents/UDPHelpGuide.pdf)**)
- Your application will be reviewed and processed. If your application meets the eligibility requirements above, your household will be enrolled in UDP.

If you need more information, contact the Utility Discount Program at **UDP@seattle.gov (mailto:UDP@seattle.gov)** or **(206) 684-0268 (tel: +1 (206) 684-0268)** (TTY/TDD: **(206) 233-2778 (tel: +1 (206) 233-2778)**). Our call-in hours are Monday to Friday, 8:30 a.m. - 4:00 p.m.

# UTILITY DISCOUNT PROGRAM

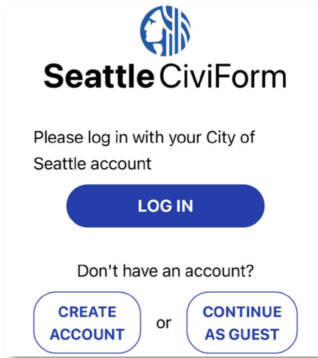
## HOW TO SUBMIT AN APPLICATION

The following instructions are intended to help residents use CiviForm to enter information and upload required documents. If you have questions about the Utility Discount Program, please call **(206) 684-0268 or email** [UDP@seattle.gov](mailto:UDP@seattle.gov).

## 1) Quick Start

- Go to [http://www.seattle.gov/udp](http://www.seattle.gov/udp)
- Click **APPLY ONLINE**

**CREATE ACCOUNT** to save your information and receive an email confirmation of your application.




**LOG IN** if you have a Seattle CiviForm account.

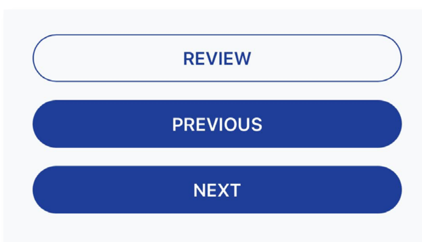
**CONTINUE AS GUEST** to start the application right away. You will have the option to create an account later.

## 2) Complete the Form

*NOTE: You will need your **Seattle City Light 10-digit account number** and **all income documents** and **government identification** for **all household members over 18 years of age**.*

**REVIEW**: Preview the form and edit previous responses.

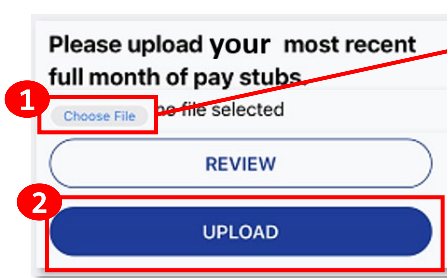
**PREVIOUS**: Navigate to the previous page.

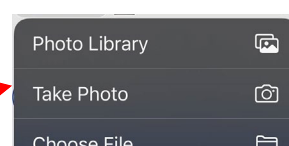



**NEXT**: Save your responses and navigate to the next page.

## 3) Upload Required Documents

**CHOOSE FILE:** To upload the requested documents.



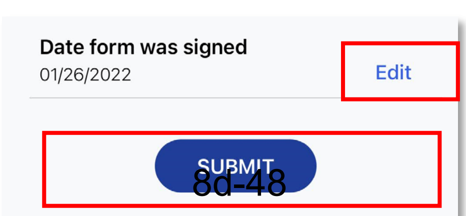




**TIP!** Accepted formats include photos, PDFs, and digital images such as JPEG and PNG.

## 4) Review & Submit Your Application!

**EDIT**: Make any final changes to your responses.

**SUBMIT:** Once submitted, our team will review your application.




**TIP!** You can select "Apply to Another Program" to reuse your information for other City discount programs.

City of Seattle

Updated: 1/26/2022

## ONLINE APPLICATION DOCUMENTATION GUIDANCE

1. You will need to provide financial documents and an acceptable form of government-issued identification for everyone 18 and older in the household
2. The documents can be provided in several formats: photos taken with your phone, PDFs, JPG/PNG images
3. Uploading clear, readable versions of your all required documents will make this process quicker and easier for you to be enrolled

### All applications must include a digital copy of an acceptable form of government-issued identification.

For each household member 18 years or older, you'll be asked to upload a copy of **ONE** of the following types of government identification and just the front side of the card:

- State Driver's License
- State Identification Card
- Passport (include the page with the photograph only)
- Permanent Resident Card

### Does the primary account holder of the Seattle City Light account in the household receive Supplemental Nutrition Assistance Program (SNAP) benefits?

If the City Light primary account holder for the household receives SNAP and the entire household's combined income meets the program income guidelines, you'll only need to upload a copy of your Department of Social and Health Services (DSHS) **Approval Letter for Benefits**. You'll need to provide both the **cover page** of your approval letter, and the **calculation page**. Find an example of the DSHS approval letter for benefits on the Washington DSHS site. YOU ARE NOT REQUIRED TO UPLOAD ANY OTHER DOCUMENTS IF YOU PROVIDE YOUR SNAP INFORMATION.

**If the primary utility account holder does not receive SNAP benefits, you'll be asked to provide income documentation for each household member 18 years of age or older.** For each adult household member, you'll be asked to report all types of income they receive. The table below will help you gather the documents you'll need to submit with your application.

| UTILITY DISCOUNT PROGRAM: FORMS OF INCOME DOCUMENTATION | |
|---|---|
| **IF THE HOUSEHOLD MEMBER HAS THIS TYPE OF INCOME…** | **YOU'LL BE ASKED TO PROVIDE THIS DOCUMENTATION** |
| **WAGES** | All **pay stubs** received between the first and last day of the most recent full month. |
| **UNEMPLOYMENT** | The household member's **Employment Security Department (ESD) Form**. An electronic copy of the ESD form can be downloaded by logging into SecureAccess Washington: https://secure.esd.wa.gov/home |
| **CHILD SUPPORT** | A **court-ordered document**, or a **note from the parent paying child support**. |
| **ADOPTION SUPPORT** | An **Adoption Award Letter**. |
| **TEMPORARY ASSISTANCE FOR NEEDY FAMILIES / AGED, BLIND OR DISABLED ASSISTANCE (TANF/ABD )** | A Washington Department of Social and Health Services (DSHS) **Approval Letter for Benefits**. Must include both the Cover Page and the Calculation Page. Find an example of these documents on the Washington DSHS site. |
| **PENSION/ANNUITY** | All **pension/annuity paystubs or statements** received between the first and last day of the most recent full month. |
| **REFUGEE CASH ASSISTANCE (RCA)** | The household member's **Refugee Cash Assistance Award Letter**. You can find an electronic version of the RCA award letter by logging into the Washington Connection site. |
| **VETERAN'S BENEFITS (VA)** | The household member's **Veterans Affairs Benefits Letter**. You can find an electronic version of the BA Benefits Letter on the Department of Veteran's Affairs site. |
| **RENTAL INCOME** | **Lease or Rental Agreement(s)** held by the household member. This includes any rental or investment property income received by the household member. |
| **HOUSING AND ESSENTIAL NEEDS REFERRAL (HEN)** | A Washington Department of Social and Health Services (DSHS) **Approval Letter for Benefits**. Must include both the Cover Page and the Calculation Page. Find an example of these documents on the Washington DSHS site. |
| **SOCIAL SECURITY / SSI** | The household member's Social Security, SSI and/or Survivor **Benefits Award Letter**. An electronic copy can be downloaded by visiting the Social Security Administration site. |
| **SELF-EMPLOYED** | The household member's most recent **tax return**, or last three months of **profit and loss statements**. |
| **OTHER** | Select this option for any other types of income not listed above. |
| **NONE** | If the household member has no sources of income, select this option. |

FCS GROUP
Solutions-Oriented Consulting

# Policy Issue Paper #3

**To:** Sara Lane, Administrative Services Director
City of Shoreline, WA

**Date:** March 22, 2022

**From:** Gordon Wilson, Senior Program Manager Gordon Wilson
Tage Aaker, Project Manager Tage Aaker
Chase Bozett, Analyst Chase Bozett

**Subject:** City of Shoreline – Rate Design Options

## Introduction

The City of Shoreline is exploring alternative wastewater rate structures for its residential customers to see if there is a practical way to incorporate water usage into the residential bills. (In the City, "residential" customers are those occupying a residential structure of up to four units. Duplexes, triplexes, and fourplexes are charged per unit. Multi-family structures with five or more dwelling units are included with commercial customers.)

Residential customers in the City currently pay a fixed charge regardless of usage. The current charge is comprised of two components:

- **City:** This fixed component covers the City's own collection, transmission, and administrative operating expenses;
- **Treatment:** This fixed component covers the cost of treatment. For most of the City's wastewater service area, King County Wastewater Treatment Division provides treatment service. For a small part of the service area, the City of Edmonds is the treatment provider. King County charges the City a flat fee per residential customer, regardless of usage.

## Key Assumptions and Choices

Although a majority of the jurisdictions served by the County's treatment facilities implement a flat rate structure for single-family sewer customers (as is the City's current practice), the County's wastewater contract does not specify that the jurisdiction must use that structure when collecting revenues from its own customers. If the City were to opt for any type of volume-based charge for residential customers, it would need to decide if water consumption would be used to calculate the City charge only or for both the City and treatment charge.

In discussing these alternatives, our assumption is that most of the difference between winter average usage and summer average usage represents irrigation water that does not enter the sewer system. The term "winter average" refers to the off-peak season for water usage, and it can vary by utility. We sometimes see utilities with a four-month "winter" and others with a six-month "winter." Occasionally utilities will choose a five-month "winter." If the City chooses an option based on usage, it will need to define the off-peak season for the purposes of sewer billing, and that decision can be informed by the actual usage patterns for its own single-family customers.

Utilities that incorporate winter average usage into their sewer rate structure must make policy decisions regarding how to charge 'snowbirds' (customers who leave town for the winter) and other customers where a representative winter-average usage history is not available (such as new customers). The most common solutions to these issues include charging for a minimum volume or charging based on the median usage level.

## Alternatives

Following are some rate design options for the City to consider.

- **Uniform Flat Rate:** The City's current structure imposes a flat rate on all single-family customers; this rate does not depend on their individual average winter water use. This is a very common structure for sewer utilities—across the State, not just in the King County wastewater service area.

- **Tiered Flat Rate:** This rate structure is similar to the uniform flat rate, grouping customers in defined tiers based on a customer's winter average monthly water usage (e.g., November through February). For example, the three tiers could include a low-user, medium-user, and high-user. It creates a broad link between a customer's bills and their water use, but only to the extent that one tier differs from another tier. Within a given tier, the usage is averaged and there is no differentiation based on individual usage.

- **Tailored Flat Rate, Updated Each Year:** This alternative consists of a rate per unit of water usage, multiplied by a customer's specific water use during a defined winter period, such as November through February. Because the winter-average usage statistic is computed based on known historical data (typically updated on an annual basis), this structure effectively creates a flat rate tailored to each customer that remains in place throughout the year, until it is recalculated for the following year.

- **Fixed + Volume Rate:** This structure includes a fixed charge plus a volume rate that applies to a customer's winter water usage. The City could recover its fixed costs via the fixed charge and recover its variable costs (e.g., pumping related costs) from the volume rate. This option could use the tiered flat rate or tailored flat rate approaches for the volumetric component of the charge.

- **Full Volume Rate:** This structure would recover all of the City's own costs from a year-round volumetric rate, with no fixed charge and no consideration of the winter average. This option is a theoretical possibility, but it has numerous difficulties, and we know of no sewer utilities that actually use it.

There are variations on these options when it comes to defining and applying the winter average. For instance, some sewer utilities calculate the winter average and that becomes the basis for a customer's volume charges over the following 12 months, regardless of actual usage during the following year. Other utilities define the basis of their volume charge as the prior-year winter average or the current month's actual usage, whichever is less. Some of these design decisions are affected by software limitations and whether the sewer utility has ready access to water usage data.

## Policy Considerations

Wastewater utilities often use a flat rate for single family customers. There are several reasons for this.

- **Relatively Similar Demand.** Single-family customers are relatively similar in their demand characteristics, in contrast with commercial or industrial customers. For multi-family customers, many sewer utilities use a fixed charge per dwelling unit, again because the per-unit demand tends to be similar. There is a relatively small number of commercial and industrial customers, and they vary dramatically in their demand characteristics. For that reason, there has to be some way to scale up the charge—to differentiate between large and small customers—and that is a big enough consideration to justify a more complex rate design for commercial and industrial customers. But that is not the case for single-family customers.

- **Nature of Costs to be Recovered.** A high percentage of the cost of a sewer system are fixed over the short term. For Shoreline, the treatment cost paid to King County is not fixed—it varies with the number of Residential Customer Equivalents—but the cost per residential customer is fixed. The City's other costs consist mainly of pipes, pumps, and administration. The capital cost of pipes and pumps is sensitive to the capacity requirement—in other words, the potential demand—of a given customer, but not to the actual volume of wastewater discharged into the system. The main variable cost is the electricity used in pumping, but the per-customer cost of electricity is relatively small compared to the overall cost of building, maintaining, and operating the system.
- **Simplicity.** A flat rate for single-family customers is simpler and less costly to administer. This is particularly important for the City, which would have to rely on North City Water District and Seattle Public Utilities for data on customer water usage.
- **Revenue Stability.** Since the large majority of the customers in the utility are single-family, having single-family charges based on a flat monthly rate makes a noticeable improvement in the revenue stability for the utility as a whole. Again, this matters because such a high percentage of the system costs are fixed costs, so if water usage declines, the costs do not decline by very much.
- **Usage Component for Treatment Charge.** If the City were to implement a volume component to its wastewater rates, it would need to decide whether to have that volume charge apply to the cost of the collection system only or also to the treatment costs. Right now, roughly one third of the District's costs are for the collection system and the other two-thirds are for treatment charges paid to King County (and, to a small extent, to the City of Edmonds). On the one hand, it seems hardly worth the administrative effort to have a volume-sensitive charge only apply to a third of the City's wastewater costs. On the other hand, the treatment charges paid by the City to its primary provider—King County—is a flat amount per single family customer, no matter how much water a given customer uses. To make the treatment charge sensitive to water usage would introduce artificial variability to the revenue stream, one that is disconnected from the reality of the City's costs.

## Implementation Considerations

If the City wants to continue farther down the road of choosing a volume-based rate design for single-family customers, following are some implementation questions for consideration.

The City should evaluate the following policy considerations regarding alternative rate structures:

- Can the City's customer billing software handle an alternative rate structure? If not, what programming changes would need to be made in order to produce the bills?
- How and when would the City obtain customer water usage data from North City Water District and Seattle Public Utilities?
- How much additional administrative effort would be needed to analyze the water usage data and incorporate the information into residential customer bills? This currently happens for

commercial customers, but creating volume rates for residential customers would introduce a whole new level of administrative complexity.

- How should the City address new customers or "snowbird" customers, who do not have a good measurement for how their usage would impact the system?
- How should the City address sewer-only customers, where the water service is provided by a well and therefore there is no measurement of demand specific to the individual customers?

## Recommendation

After considering the policy implications and the practical limitations on the City's access to water usage data, we recommend that the City continue charging its single-family customers a fixed monthly charge, with no volumetric component. The fact that the King County wastewater disposal system bills the City a fixed amount for residential customers means that a large share of the City's costs (for treatment and transmission) are already fixed. In addition, the majority of the City's collection system costs are relatively fixed over time; they are sensitive to the capacity required—that is, the *potential* demand—but not to the *actual* water usage in any given month or year. Finally, the fact that the City does not have its own water customer billing data and would need to coordinate its data collection with two separate agencies raises a practical barrier to volume-based charges for the City's single-family sewer customers. For all of these reasons, we suggest that the current sewer rate design be retained.