

**CITY COUNCIL AGENDA ITEM**  
CITY OF SHORELINE, WASHINGTON

<b>AGENDA TITLE:</b>	Discussion of the Update of the Wastewater Rate Study Project and Policy
<b>DEPARTMENT:</b>	Public Works and Administrative Services Departments
<b>PRESENTED BY:</b>	Sara Lane, Administrative Services Director Randy Witt, Public Works Director
<b>ACTION:</b>	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Discussion <input type="checkbox"/> 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.

On April 4, 2022, staff and FCSG discussed policy alternatives regarding capital funding tools, rate design, and low-income customer assistance options with Council. Council supported staff recommendations and directed staff to incorporate the options presented into the rate study for further analysis.

Tonight, staff will present an update and status on the wastewater rate study following the questions and guidance received at the April 4 Council meeting. Staff are seeking Council input and direction to inform the wastewater rate study, and related policy decisions, in advance of preparation of the 2023-2024 biennial budget later this year.

**RESOURCE/FINANCIAL IMPACT:**

There is no immediate resource or financial impact associated with tonight’s wastewater rate study discussion. Guidance received tonight will impact the wastewater rates that will be incorporated into the study and inform the 2023-2024 budget. Actual proposed rates may vary from those discussed in this report, depending upon the final proposed operating and CIP budget that will be presented to Council during the budget process.

**RECOMMENDATION**

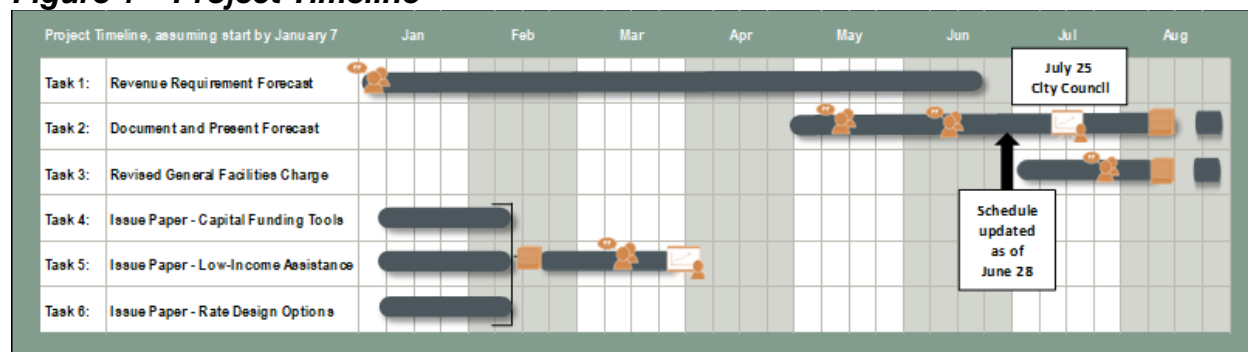
No action is required tonight. Staff recommends that the City Council provide input and guidance on the FCSG wastewater rate study and the policy questions associated with the study. The guidance received tonight will be incorporated into the 2023-2024 Budget Development process.

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) from current rates, or if a rate update is needed. In addition, FCSG has examined policy alternatives regarding capital funding tools, rate design, and low-income customer assistance options. The current schedule for this work is shown in Figure 1 – Project Timeline.

**Figure 1 – Project Timeline**



On April 4, 2022, staff and FCSG presented an update of the Wastewater Rate Study and discussed policy issue papers on capital funding, rate design, and low-income customer assistance options. At that meeting, Council supported staff recommendations and directed staff to complete the rate study and return with options based on those recommendations that would include:

1. Funding Tools: Developing a rate model 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.
2. Low Income Customer Assistance: Explore Level 3 (partnering with Seattle City Light (SCL) to issue credits to low income customers) and Level 4 (issuing direct annual rebate checks) for potential implementation in the future and include scenarios modeling discounts at the current level and a reduced discount level in their rate models.
3. Rate Design Option: Continue to charge single family customers a fixed monthly charge with no volumetric component.

The staff report for the April 4 Council discussion can be found here: [Update on the Wastewater Rate Study Project and Policy](#).

Additionally, staff are seeking policy guidance related to reinstating various fees that were suspended during the pandemic.

## DISCUSSION

Staff have taken the direction received from Council at the April 4 meeting and made several updates to the wastewater rate study. Staff refined the rate design with the low-income customer assistance option for Council consideration tonight. In addition to a “no change” baseline, the following Monthly Rate Increase Alternatives have been developed:

- The “No Change” (base rate) scenario has four years of larger increases, adjusted for approximately the same dollar increase each year, followed by six percent rate increases per year to support CIP expenses, pay debt service, and support operational costs. This scenario assumes no change to the low-income discount.
- Two alternatives are shown for the rate impact of expanding the low-income discount program to adopt the Seattle City Light (SCL) criteria and administration. This increases the number of qualifying customers by about seven times. One approach keeps the existing 50% low-income discount, the other has a 25% low-income discount.

Additionally, the rate design assumed that the King County and Edmonds treatment charge would increase at same rate, there are no debt reserve requirements, and includes an 80% CIP execution factor.

Because the use of debt is new to the wastewater utility, policies surrounding the use of debt have not been needed. In developing the rate assumptions, FCSG assumed the adoption of best practice financial reserve policies related to the use of debt financing in all alternatives considered. These policies are detailed in Figure 2 below:

**Figure 2 – Financial Reserve Policies**

Financial Policy	Current Policy	Recommended Policy
Operating Reserve Target	20% of operations and maintenance costs excluding treatment	Maintain policy (\$1.1 million)
Capital Reserve Target	No current policy	1% of plant in service assets (\$500k)
Rate Funded System Reinvestment (RFSR)	No current policy	Target rate funding annual depreciation expense (\$1.1 million)
Debt Service Coverage (DSC)	No outstanding debt	Minimum: 1.25 coverage on bonded debt Target: At least 1.5 coverage

The impact of implementing these policies within each scenario are shown in Figure 3 – Monthly Rate Increase Alternatives.

**Figure 3 – Monthly Rate Increase Alternatives**

Year	No Change		Expanded, 25% Discount		Expanded, 50% Discount	
	% Increase	\$ Increase	% Increase	\$ Increase	% Increase	\$ Increase
2023	15.5%	\$2.70	17.7%	\$3.10	21.2%	\$3.70
2024	13.4%	\$2.70	15.1%	\$3.10	17.5%	\$3.70
2025	11.8%	\$2.70	13.1%	\$3.10	14.9%	\$3.70
2026	10.6%	\$2.70	11.6%	\$3.10	13.0%	\$3.70
2027	6.2%	\$1.75	6.2%	\$1.85	6.2%	\$2.00
2028	5.8%	\$1.75	5.8%	\$1.85	5.8%	\$2.00

\*Note that the rates presented here are based on early estimates for the operating and CIP budgets. Rates may need to be adjusted based upon the final proposed budget.

The primary drivers behind the four years of larger increases are the Capital Projects planned in the Comprehensive Sewer Plan (CSP) update performed by RWD prior to assumption and operational costs necessary to maintain the sewer system. The CSP update did not include development of a financing plan. The increases for the 25% and 50% Expanded Discount programs are driven by the desired expansion of that program to all low-income qualified residents, not just senior homeowner/occupants.

As the City gains experience with the utility, new information or practices will develop that will affect the level of service and rates. One example is an evaluation of how planned development aligns with actual development. When the 2021 CSP update was completed, the City’s hydraulic sewer model was developed with an understanding that the development occurring within the Station Areas land use designations would result in dwelling densities that resembled and corresponded with the zoning designations of MUR-70, MUR-45, and MUR-35. In early 2021, staff and the wastewater engineering consultant started a review of development permit applications for Station Areas and found that the number of dwelling units per acre being proposed by the developers in their permit applications was far more than the City’s hydraulic sewer model’s sanitary sewerage inputs represented (on the order of 2.5 times, 3.1 times, and 3.6 times the number of units anticipated for MUR-35, MUR-45, and MUR-70 respectively) which will result in modifications or additional projects in the CIP. Similarly, the City and King County are working on an ongoing inflow and infiltration (I&I) study, which may indicate that other new capital projects to address I&I will need to be added. Staff will evaluate this information for potential changes in the CIP and future wastewater rate.

Another example is the wastewater permit review fees. The City has so far maintained the review fees set by RWD. These fees do not align with the City’s hourly rate structure for setting permit fees and do not cover the cost of providing permitting services. Staff will recommend updating the wastewater permit fees to match how the other permit fees are established in the 2023-2024 budget. This will address a current gap and is in advance of the planned permit update in the next biennium. A draft updated permit fee schedule is included as Attachment A. Additionally, we anticipate additional costs associated with operational activities such as increased repair and maintenance activity

and higher costs and establishing a condition assessment program. These will be presented in the 2023-2024 budget and are beyond the rate study.

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 this analysis will be presented at a future City Council meeting so that the outcome of Council's direction can be incorporated into the study.

#### Wastewater Fees Discontinued During the Pandemic

At assumption of the Ronald Wastewater District in 2021, the City adopted all of the policies and practices that were in place at the time. The Shoreline City Code, modeled after Ronald's practices, imposes a one-time 10% late fee (maximum allowed by RCW) and 8% interest per annum on late balances. In the adopted policies was Resolution 20-07 (March 24, 2020) which implemented the Governor's Proclamation 20-23 that prohibited, among other things, the imposition of late fees for utilities. That resolution stated that during the emergency, Ronald would not file new liens, would not institute collections or actions to foreclose, will waive late fees incurred in 2020, and will waive credit card processing fees. In August of 2020, recognizing administrative challenges of not filing liens, Ronald adopted Resolution 20-09 (Aug 11, 2020) which removed the lien prohibition. The Governor's moratorium on the imposition of late fees expired on September 30, 2021 and staff are seeking Council direction on the reimposition of late fees.

In regard to these fees, staff recommends that Council:

- *Reinstate the 10% late fee and remove the 8% interest charges.* This change would maintain some consequences for late payment but minimize the impact on both delinquent ratepayers, who are most likely struggling financially, as well as on City staff who would have to respond to questions about the frequently changing balances as a result of interest. As a reminder, the City Code provides for one annual waiver of the late payment fee and provides the Administrative Services Director authority to waive additional late fees for reasonable cause.
- *Reinstate the refund request processing fee (currently \$11).* This fee helps to cover the administrative costs of issuing a refund for customers who have a credit balance and are closing their account or don't wish to retain the credit balance to pay a future bill.
- *Do not reinstate the Credit Card Processing fee.* These costs have been calculated as a cost to the utility and are included in the rates presented in this report. The administrative effort of collecting these fees from the customer in the current processing model is significant. There are significant benefits to encouraging payment via credit-card and since this is becoming the primary method of payment, staff believes it is appropriate to continue to absorb these costs. Should the utility's future on-line payment tool offer other options, staff may recommend a change at that time.

Implementing the staff recommendations is anticipated to restore approximately \$163,000 in annual revenue to the Wastewater Fund which would effectively allow the monthly rates to be reduced by between seven (7) and 10 cents depending on the rate

option. Should Council provide input supporting the staff recommendation, staff will return with a minor code modification to strike the imposition of interest and revoke the prior Ronald Resolution.

### **Council Direction Needed**

Staff recommends that the Council provide input and guidance on the FCSG wastewater rate study and the policy questions associated with the study. FCSG will incorporate the guidance into their final report and staff will incorporate the guidance into the budget development process. Policy questions for Council's input are as follows:

1. Does the Council want to move forward with expansion of the low-income discount program, with implementation? Implementation would likely be in 2024.
  - a. If yes, at what level would Council like to implement the discount:
    - i. At the current 50% level; or
    - ii. At a reduced 25% level.
2. Is Council supportive of the other policy assumptions included in the rate study, including:
  - a. Financial Policies;
  - b. Use of Finance Tools, including use of fund balance, rate funded capital, issuing revenue bonds to be supported by rate increases; and
  - c. Assume an 80% CIP execution rate.
3. Is Council supportive of the staff recommendations to
  - a. Reinstate the imposition of the 10% late fee and eliminate the application of 8% interest on outstanding balances;
  - b. Reinstate the refund processing fee; and
  - c. Not reinstate the credit card processing fee.

### **Next Steps**

The next steps in the Wastewater Rate Study are

- General Facilities Charge (GFC) update planned for August 8, 2021;
- Study report to be drafted based on Council policy choices; and
- Final rates to be presented with 2023-2024 Biennial Budget in October.

### **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 immediate resource or financial impact associated with tonight's wastewater rate study discussion. Guidance received tonight will impact the wastewater rates that will be incorporated into the study and inform the 2023-2024 budget. Actual proposed rates may vary from those discussed in this report, depending upon the final proposed operating and CIP budget that will be presented to Council during the budget process.

## **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. The guidance received tonight will be incorporated into the 2023-2024 Budget Development process.

## **ATTACHMENTS**

Attachment A – Proposed Wastewater Permit Fee Update

**ATTACHMENT - A****Wastewater Rate Schedule**

This schedule provides information on the proposed 2023 wastewater rate schedule. This schedule will adjust the current wastewater rate schedule which was carried over from Ronald Wastewater District at assumption and do not align with the City's hourly rate structure that aligns the fees with the City's hourly rate structure and expected time for intake, review, issuance and inspection.

	<b>Type of Permit Application/Fee</b>	<b>2022 Adopted</b>	<b>2023 Proposed</b>
			Amounts are based off the 2022 hourly rate of \$217.00 and will be adjusted per the 2023 CPI.
<b>A. Side Sewers - Permits and Applications</b>			
<b>Single Family:</b>			
	New Connection	\$315.00	\$651.00
	Repairs or Replacement of Existing Side Sewers	\$158.00	\$434.00
	Capping-Off of Side Sewer	\$158.00	\$434.00
	Renewal	\$26.00	\$217.00
	No Notification Penalty Fee	\$158.00	\$217.00
	Single-Family Pump	\$315.00	\$1,085.00
<b>Multi-Family Residence:</b>			
	First Connection	\$315.00	\$651.00
	Each Additional Connection per Building	\$105.00	\$217.00
	Repairs or Replacement of Existing Side Sewers	\$158.00	\$434.00
	Capping-Off of Side Sewer	\$158.00	\$434.00
	Renewal	\$26.00	\$217.00
	No Notification Penalty Fee	\$158.00	\$217.00
<b>Commercial Building:</b>			
	One Business Entity, First Connection	\$315.00	\$651.00
	Each Additional Connection per Building	\$105.00	\$217.00
	Each Surfaced Clean-Out	\$53.00	
	Repairs or Replacement of Existing Side Sewers	\$158.00	\$434.00
	Capping-Off of Side Sewer	\$158.00	\$434.00
	Renewal	\$26.00	\$217.00
<b>B. Rework Main/Grafting Saddle</b>		\$315.00	\$651.00



	Type of Permit Application/Fee	2022 Adopted	2023 Proposed
<b>C. Surcharges</b>			
	Industrial Waste Surcharge	See Section G	See Section G
	Additional surcharges may be imposed on any account type or area based on the additional cost of serving those properties beyond costs generally incurred for properties served by the public wastewater system	Actual surcharge determined pursuant to Section 7 of the Wastewater Revenue and Customer Service Policy, City Policy# 200-F-08	
	Additional Inspection (1) during normal working hours	\$79.00	\$217.00
	Overtime Inspection other than normal working hours	\$420.00	\$434.00
<b>D. Flushing Permit</b>			
	Flushing not to exceed 20,000 gallons or 2,674 cubic feet of water	\$211.00 (Includes City Fee \$158.00 + Treatment Charge \$53.00)	\$270.00 (Includes City Fee \$217.00 + Treatment Charge \$53.00)
	Flushing not to exceed 50,000 gallons or 6,684 cubic feet of water	\$300.00 (Includes City Fee \$158.00 + Treatment Charge \$142.00)	\$359.00 (Includes City Fee \$217.00 + Treatment Charge \$142.00)
<b>E. Special Permits</b>			
The Public Works Director shall have the authority to establish a minimum deposit of \$500.00 for those installations not covered in the permit fee schedule. The inspection fees and other pertinent costs are to accrue against this deposit. The owner will receive either a refund or billing for additional charges within sixty (60) days from approval of the installation.			
<b>F. Review Fees</b>			
	Certificate of Sewer Availability	\$158.00	\$217.00
	Single-Family Pump	\$368.00	\$217.00
	Developer Extension Application	\$788.00	
	Developer Extension Application for a Pump Station (Additional Fee)	\$788.00	
	Developer Extension	Actual Costs Incurred by City for Outside Consultants Plus 15% for City Administrative Costs	
	Apartment/Multi-Family Plan Review	\$368.00	\$217.00

	Type of Permit Application/Fee	2022 Adopted	2023 Proposed
<b>G. Industrial Discharge Permit</b>			
	Permit Issuance Fee	\$211.00	\$651.00
	Industrial Waste Surcharge	As Determined by King County	
	Monthly Inspection, Monitoring and Treatment Fee	\$158.00	\$217.00
	No Notification Penalty Fee	\$158.00	\$217.00