

Sewer, Saltwater, and Solid Waste Rate Study Preliminary Results

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Purpose of the Study

- Provide sufficient revenue to operate and maintain the sewer, saltwater, and solid waste utilities
- Review rate structures based on industry standard approaches
 - Evaluate rate class relationships
- Develop equitable, cost-based, and legally defensible rates

Overview of the Rate Setting Process

Revenue Requirement

Compares the revenues of the utility to its expenses to determine the overall level of rate adjustment

Cost of Service

Equitably allocates the revenue requirements between the various customer classes of service

Rate Design

Design rates for each class of service to meet the revenue needs of the utility, along with any other rate design goals and objectives



**Sewer Rate Study
Preliminary Results**

Sewer Revenue Requirement – Key Assumptions

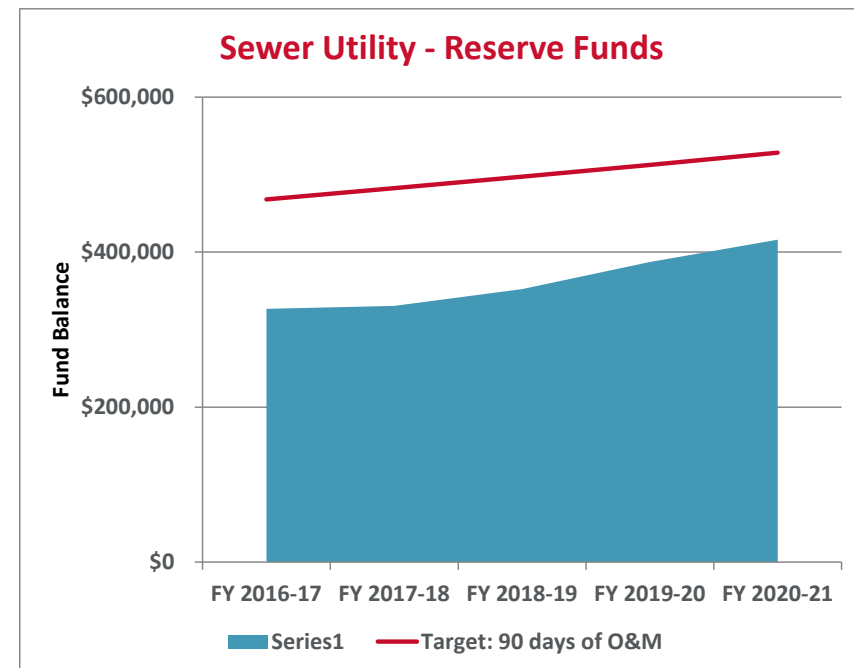
- Starting point was the adopted FY 2016-17 Budget
- Developed a 5-year financial plan
 - Rate revenues were calculated based on current rates and number of customers by type
 - O&M was escalated annually by inflationary factors for each line item
- Capital funding plan was developed
 - Reflects budgeted capital improvements and expected future improvement needs
- Maintain prudent financial criteria
 - Target minimum reserve levels
 - Renewal and replacement funding

Sewer Revenue Requirement – Preliminary Results (\$000s)

	<i>Budgeted</i>	<i>Projected</i>				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue						
Rate Revenues	\$2,422	\$2,422	\$2,422	\$2,422	\$2,422	\$2,422
Non-Operating Revenues	35	37	36	36	36	36
Total Revenues	\$2,458	\$2,459	\$2,458	\$2,458	\$2,458	\$2,458
Expenses						
Total O & M	\$2,007	\$1,898	\$1,957	\$2,017	\$2,079	\$2,143
Taxes / Transfers	0	0	0	0	0	0
Net Debt Service	0	0	0	0	0	0
Rate Funded Capital	475	600	625	650	675	700
Change in Working Capital	(24)	45	49	42	35	29
Total Expenses	\$2,458	\$2,544	\$2,631	\$2,708	\$2,789	\$2,872
Bal./(Def.) of Funds	\$0	(\$85)	(\$173)	(\$250)	(\$331)	(\$413)
Bal./(Def.) as a % of Rate Rev.	0.0%	3.5%	7.1%	10.3%	13.6%	17.1%
Proposed Rate Adjustment	0.0%	3.5%	3.5%	3.0%	3.0%	3.0%
Add'l Revenue from Adj.	\$0	\$85	\$173	\$250	\$331	\$413

Summary of the Sewer Revenue Requirement

- Rate adjustments are necessary to adequately fund the sewer utility (FY 2017-18 – FY 2021-22)
 - Provide adequate funding for capital improvement projects
 - Maintain prudent ending reserve fund levels
 - Sufficiently fund O&M expenses



Sewer Rate Design – Key Assumptions

- Reviewed customer billing data with City staff
 - Revised data to more accurately reflect customers and billing units
- Maintained the current rate structure
 - Propose an additional class of service; combined shops/offices (\$/1,000 sq. ft.)
- Compared the rate structure, by customer type, to industry standard approaches
 - Resulted in adjustments to hotels and laundries
- Developed proposed rates to meet the revenue needs of the sewer utility

Review of Flow Estimates

Unit	Current Ratio	2005 EPA					Proposed Ratio to 1 EDU
		Metcalf & Eddy	Design Manual	WA - DOH	Ohio EPA	Average	
Residential							
<i>Per Living Unit</i>	1.00						1.00
Take-out Restaurant							
<i>Each</i>	1.52	1.56	1.30	2.08	2.10	1.76	1.52
Shops / Offices							
<i>Each</i>	1.00	0.80	1.04	1.20	1.60	1.16	1.00
Laundries							
<i>Per Wash Unit</i>	0.68	1.35	2.20	2.00	1.60	1.79	1.35
Bar / Restaurant (<100)							
<i># of Seats</i>	3.01	2.80	3.60	3.20	3.50	3.28	3.01
Bar / Restaurant (>100)							
<i># of Seats</i>	4.50	4.20	5.40	4.80	5.60	5.00	4.50



Preliminary Proposed Sewer Rates

	<i>Present Rates</i>	<i>Proposed Rates</i>				
		<i>FY 2017-18</i>	<i>FY 2018-19</i>	<i>FY 2019-20</i>	<i>FY 2020-21</i>	<i>FY 2021-22</i>
Residential	\$766.33	\$795.00	\$822.75	\$847.50	\$873.00	\$899.50
Commercial						
Public Shower	\$254.37	\$263.90	\$273.10	\$281.30	\$289.80	\$298.55
Hotel	384.78	437.25	452.50	466.15	480.15	494.75
Laundries	517.48	1,073.25	1,110.70	1,144.15	1,178.55	1,214.35
Shops / Offices	766.33	795.00	822.75	847.50	873.00	899.50
Other Combined Shops/Offices *	N/A	505.00	526.55	542.40	558.70	575.70
Take-out Restaurant	1,163.29	1,206.80	1,248.95	1,286.50	1,325.20	1,365.45
Churches	1,549.24	1,607.20	1,663.30	1,713.35	1,764.90	1,818.45
Bar / Restaurant (<100)	2,304.23	2,390.45	2,473.90	2,548.30	2,624.95	2,704.65
Bar / Restaurant (>100)	3,445.44	3,574.35	3,699.10	3,810.40	3,925.05	4,044.20

For multiple shops and/or office on a single parcel on a \$/1,000 sq. ft. basis

Summary of the Sewer Rate Study

- Revenue requirement shows a need for rate adjustments for FY 2017-18 – FY 2021-22
 - Adequately fund operating and capital needs
- Analysis reviewed the relationship between customers based on estimated flow ratios
- Maintained the current rate structure
 - Made modifications to the billing units
 - One new customer type added
- Developed proposed rates
 - Provides year 1 (FY 2017-18) rates, future years are adjusted by overall rate adjustment
- Bill impacts will vary from overall revenue adjustment for the utility



Saltwater Rate Study Preliminary Results

Saltwater Revenue Requirement – Key Assumptions

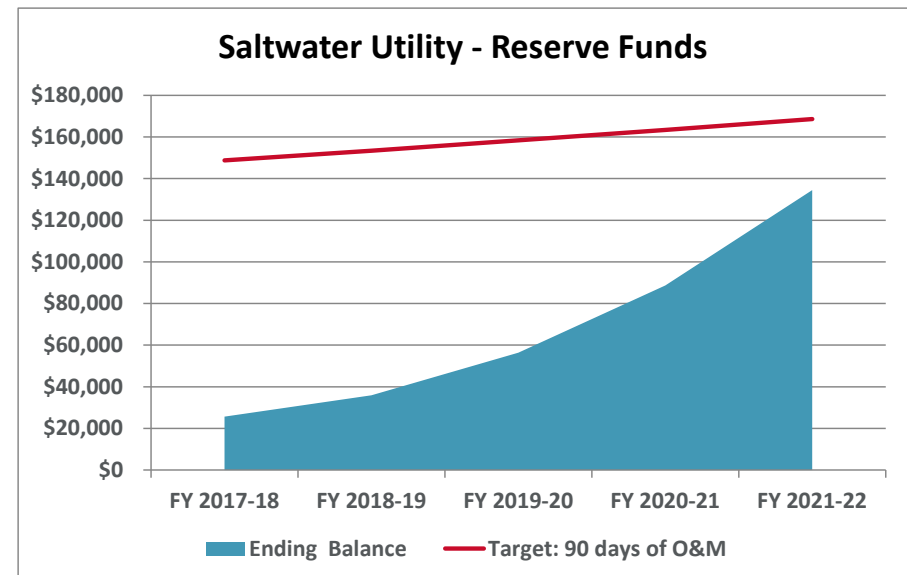
- The starting point was the adopted FY 2016-17 Budget
- Developed a 5-year financial plan
 - Rate revenues were calculated based on current rates and customer type
 - O&M was escalated by inflationary factors for each line item
- Developed capital funding plan
 - Based on the City's current budgeted capital
 - Fund renewal and replacement improvements

Saltwater Revenue Requirement – Preliminary Results (\$000s)

	<i>Budgeted</i>	<i>Projected</i>				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue						
Rate Revenues	\$654	\$654	\$654	\$654	\$654	\$654
Non-Operating Revenues	0	0	0	0	0	1
Total Revenues	\$654	\$654	\$654	\$654	\$654	\$654
Expenses						
Total O & M	\$689	\$603	\$622	\$642	\$663	\$684
Taxes / Transfers	0	0	0	0	0	0
Net Debt Service	0	0	0	0	0	0
Rate Funded Capital	0	85	95	105	115	125
Change in Working Capital	(36)	2	10	20	32	46
Total Expenses	\$654	\$690	\$728	\$768	\$810	\$855
Bal./ (Def.) of Funds	\$0	(\$36)	(\$74)	(\$114)	(\$156)	(\$201)
Bal./ (Def.) as a % of Rate Rev.	0.0%	5.5%	11.3%	17.4%	23.9%	30.7%
Proposed Rate Adjustment	0.0%	5.5%	5.5%	5.5%	5.5%	5.5%
Add'l Revenue from Adj.	\$0	\$36	\$74	\$114	\$156	\$201

Summary of the Saltwater Revenue Requirement

- Rate adjustments are required to adequately fund the saltwater utility (FY 2017-18 – FY 2021-22)
 - Provide adequate funds for the improvement projects
 - Maintain prudent ending reserve fund levels
 - Sufficiently fund O&M expenses



Saltwater Rate Design – Key Assumptions

- Reviewed customer billing data with City staff
 - Revised data to more accurately reflect customers
- Maintained the current rate structure
- Exception is commercial and hotel customers based on flow estimates
 - Commercial increases to 100% of the residential rate
 - Hotel decreases to 55% of the residential rate
- Developed proposed rates to meet the revenue needs of the sewer utility

Preliminary Proposed Salt Water Rates

	<i>Present Rates</i>	<i>Proposed Rates</i>				
		FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Residential (per unit)	\$211.86	\$226.15	\$238.60	\$251.75	\$265.60	\$280.21
Commercial (per toilet)	\$141.37	\$226.15	\$238.60	\$251.75	\$265.60	\$280.20
Hotel (per room)	\$141.37	\$124.40	\$131.25	\$138.45	\$146.10	\$154.10



Summary of the Saltwater Rate Study

- Revenue requirement shows a need for rate adjustments from FY 2017-18 – FY 2021-22
 - 5.5% annually to adequately fund operating and capital needs
- Analysis provides the unit costs for the rates
 - Provides year 1 (FY 2018) rates, future years are adjusted by rate transition plan
- Maintained the rate structure
 - Adjusted commercial & hotel rate relationship
- Bill impacts will vary from overall revenue adjustment for the utility



**Solid Waste Rate Study
Preliminary Results**

Solid Waste Revenue Requirement – Key Assumptions

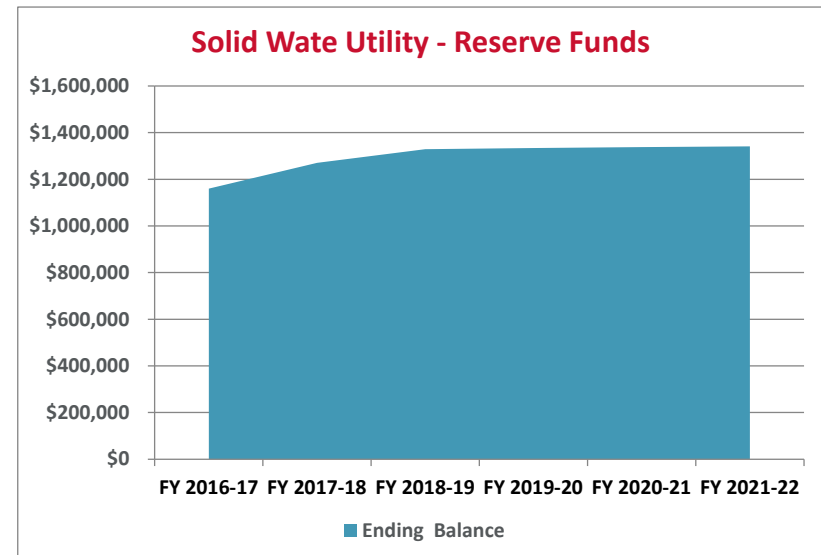
- The starting point was the adopted FY 2016-17 Budget
- Developed a 5-year financial plan
 - Rate revenues were calculated based on current rates and customer types
 - O&M was escalated by inflationary factors for each line item
- No anticipated future capital projects over the review period

Solid Waste Revenue Requirement – Preliminary Results (\$000s)

	<i>Budgeted</i>	<i>Projected</i>				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue						
Rate Revenues	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814	\$1,814
Non-Operating Revenues	109	114	115	115	115	115
Total Revenues	\$1,922	\$1,928	\$1,928	\$1,929	\$1,929	\$1,929
Expenses						
Total O & M	\$1,790	\$1,818	\$1,870	\$1,924	\$1,979	\$2,036
Taxes / Transfers	0	0	0	0	0	0
Net Debt Service	0	0	0	0	0	0
Change in Working Capital	133	110	59	5	4	3
Total Expenses	\$1,922	\$1,928	\$1,928	\$1,929	\$1,983	\$2,039
Bal./(Def.) of Funds	\$0	\$0	\$0	\$0	(\$54)	(\$110)
Bal./(Def.) as a % of Rate Rev.	0.0%	0.0%	0.0%	0.0%	3.0%	6.1%
Proposed Rate Adjustment	0.0%	0.0%	0.0%	0.0%	3.0%	3.0%
Add'l Revenue from Adj.	\$0	\$0	\$0	\$0	\$54	\$110

Summary of the Solid Waste Revenue Requirement

- Rate adjustments are necessary in the final two years of the review period (FY 2020-21 and FY 2021-22)
 - Sufficiently fund O&M expenses
 - Collection and disposal costs are outside the City's control
 - Maintained prudent ending reserve fund levels
- Reserves are needed for future landfill closure costs
 - Closure costs are estimated at \$5 million
 - \$2 million currently set aside in separate trust account



Solid Waste Rate Design – Key Assumptions

- Reviewed customer billing data with City staff
 - Revised data to more accurately reflect customers
- Challenges of billing for solid waste for the City’s customers
 - Customer are not “connected” to a specific dumpster
 - Multiple customers share dumpsters
- Maintained the current rate structure for residential customers
- Propose a revision to the commercial rate structure
 - Based on square footage of building and type of customer
- Developed proposed rates to meet the revenue needs of the sewer utility

Preliminary Proposed Solid Waste Rates

	<i>Present Rates</i>	<u>Proposed Rates</u>				
		FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Residential						
(per unit)	\$543.21	\$543.21	\$543.21	\$543.21	\$559.51	\$576.29
Res > 10 Units						
(per unit)	\$434.65	\$434.65	\$434.65	\$434.65	\$447.69	\$461.12
Hotel Room						
(per room)	\$207.02	\$207.02	\$207.02	\$207.02	\$213.23	\$219.63
Commercial						
(per unit)	\$858.40	N/A	N/A	N/A	N/A	N/A
Gathering Space						
(1,000 sq ft)	N/A	\$429.20	\$429.20	\$429.20	\$442.10	\$455.35
Shops / Office						
(1,000 sq ft)	N/A	\$858.40	\$858.40	\$858.40	\$884.15	\$910.68
Restaurants						
> 100	N/A	\$6,867.20	\$6,867.20	\$6,867.20	\$7,073.20	\$7,285.40
< 100	N/A	3,433.60	3,433.60	3,433.60	3,536.60	3,642.70
Take Out	N/A	1,716.80	1,716.80	1,716.80	1,768.30	1,821.35
Grocer						
(1,000 sq ft)	N/A	\$2,575.20	\$2,575.20	\$2,575.20	\$2,652.45	\$2,732.05
Grease Removal						
(acct.)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
(per gallon)	2.49	\$2.49	\$2.49	\$2.49	\$2.56	\$2.64

Summary of the Solid Waste Rate Study

- Revenue requirement shows no need for rate adjustments from FY 2017-18 – FY 2021-22
 - Maintained prudent reserve fund balances
- Maintained the rate structure for residential and hotel customers
 - Per account (single-family), living unit (multi-family), or room (hotel)
- Proposing a change to the method of assessing solid waste rates for commercial customers
 - Simplify the approach given the unique demographics of the City

Summary of the Utility Rate Study

- Rate adjustments are necessary for the sewer and salt water utilities
 - Maintain adequate reserve levels
 - Prudently fund capital improvements
- Reviewed the customer billing and propose adjustments to refine billing data and customer types
- Revised proportionality of several customer classes of service to reflect industry standard approaches
- Proposed modifications to various customer classes of service to reflect revisions in billing data and customer type
- Developed proposed rates to meet overall revenue needs of the utility

Questions and Discussion

