

2006 Sewer Rate Review

October 2, 2006

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Changes From Previous Analysis

- ❖ Updated construction costs and project schedule
 - ❖ Expecting higher construction cost inflation: 4%
 - ❖ Delaying Phase 2 construction to 2008, Phase 3 to 2011
- ❖ Revised grant and funding outlook
 - ❖ Reducing expected grants from Centennial Clean Water Fund by \$2.5 million
 - ❖ No longer including future \$2 million STAG
 - ❖ Added \$7 million from Rural Development program
 - ❖ Net \$1.4 million reduction in total grants
- ❖ Revised debt service forecast

Forecast Comparison: 2005 vs. 2006

❖ Last year, we recommended:

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	12.50%	12.00%	11.91%	0.00%	0.00%	0.00%
Residential Rate	\$ 56.14	\$ 63.15	\$ 70.73	\$ 79.15	\$ 79.15	\$ 79.15	\$ 79.15
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,357	\$ 6,357	\$ 6,357	\$ 6,357

❖ With updated information, we recommend:

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	9.00%	8.70%	8.50%	8.38%	0.38%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.19	\$ 70.86	\$ 76.88	\$ 83.32	\$ 83.64
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,153	\$ 7,153	\$ 7,153

Assuming 4% growth in 2006 median household income, a 2007 rate of \$55.56 will qualify the City for CCWF hardship status

Capital Program Review

Capital Costs (in thousands)									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
2005 Study	\$ 5,560	\$ 11,180	\$ 11,040	\$ 560	\$ 350	\$ 1,980	\$ 2,030	\$ 0	\$ 32,700
2006 Review	\$ 5,020	\$ 640	\$ 6,740	\$ 20,720	\$ 5,360	\$ 380	\$ 2,180	\$ 2,260	\$ 43,300
Change	(540)	(10,540)	(4,300)	+ 20,160	+ 5,010	(1,600)	+ 150	+ 2,260	+ 10,600

- ❖ Total cost of capital improvement program increased by \$10.6 million
- ❖ Increase in construction costs is somewhat offset by extended construction schedule
 - ❖ \$1.6 million decrease in 2006-2010 debt service expense
 - ❖ \$800,000 increase in projected capital reserves / fund balances

Capital Cost Increase

❖ Increase in capital cost due to high bids for Phase 2 construction

Project	2005 Cost	2006 Cost	Difference
<u>Phase 2</u>			
WWTP Relocation - Design/Bidding	\$ 2,010,000	\$ 2,040,000	+ 30,000
WWTP Relocation - Construction	21,540,000	32,100,000	+ 10,560,000
 <u>Phase 3</u>			
WWTP Relocation - Design/Bidding	450,000	490,000	+ 40,000
WWTP - Design	350,000	380,000	+ 30,000
WWTP - Construction	4,010,000	4,440,000	+ 430,000
 Other Projects	4,340,000	3,850,000	(490,000)
Total	\$ 32,700,000	\$ 43,300,000	+ 10,600,000

Capital Funding Review

Capital Funding

	<u>2005 Study</u>	<u>2006 Review</u>	<u>Change</u>
PWTF Loan Proceeds	\$ 16,016,000	\$ 21,641,000	+ 5,625,000
Centennial Clean Water Grant & Loan	\$ 10,000,000	\$ 7,500,000	(2,500,000)
Rural Development Loan	\$ -	\$ 3,850,000	+ 3,850,000
Rural Development Grant	\$ -	\$ 3,150,000	+ 3,150,000
PWTF Loan Pre-Construction Loans	\$ 1,000,000	\$ 2,090,000	+ 1,090,000
Capital Reserves	\$ 1,050,000	\$ 1,483,000	+ 433,000
Rural Sales Tax (grant)	\$ 500,000	\$ 500,000	+ 0
Direct Federal Appropriations (i.e., STAG)	\$ 2,217,000	\$ 217,000	(2,000,000)
Total	\$ 30,783,000	\$ 40,431,000	\$ 9,648,000

- ❖ Forecasted loan funding increased \$10.6 million
- ❖ Total grant funding has decreased \$1.4 million

Rate Forecast Review

- ❖ Last year's forecast for 2006-2013 operating expenses is on target
- ❖ One-year delay in \$500,000 increase in O&M costs related to new plant operation
- ❖ One-year delay in \$200,000 decrease in O&M related to retirement of old treatment plant

Total Operating Expenditures (in thousands)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
2005 Study	\$ 1,423	\$ 1,478	\$ 1,536	\$ 2,039	\$ 2,114	\$ 2,191	\$ 2,065	\$ 2,143	\$ 14,989
2006 Review	\$ 1,445	\$ 1,471	\$ 1,532	\$ 1,561	\$ 2,124	\$ 2,200	\$ 2,280	\$ 2,156	\$ 14,769
Change	+ 1.52%	(0.48%)	(0.26%)	(30.62%)	+ 0.47%	+ 0.41%	+ 9.43%	+ 0.60%	(1.49%)

Recommendations

- ❖ Adopt 6.53% rate increase effective January 2007
 - ❖ Base rate increases to \$59.80 from \$56.14 monthly
 - ❖ Rate will be almost \$3.35 less than forecasted by 2005 study
- ❖ Maintain schedule of GFF increases
 - ❖ Adopt \$5,316 wastewater GFF, effective January 2007
 - ❖ \$671 higher than second-highest fee in the County
- ❖ Continue to review revenue requirements as costs and funding circumstances change

Sensitivity Analysis #1: Growth

❖ Base case: 3% growth

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	9.00%	8.70%	8.50%	8.38%	0.38%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.19	\$ 70.86	\$ 76.88	\$ 83.32	\$ 83.64
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,153	\$ 7,153	\$ 7,153

❖ Higher than expected growth: +1%

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	6.50%	6.20%	5.90%	5.48%	0.00%
Residential Rate	\$ 56.14	\$ 59.80	\$ 63.69	\$ 67.64	\$ 71.63	\$ 75.56	\$ 75.56
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,056	\$ 7,153	\$ 7,153

❖ Lower than expected growth: -1%

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	11.56%	11.36%	11.16%	11.08%	2.95%
Residential Rate	\$ 56.14	\$ 59.80	\$ 66.71	\$ 74.29	\$ 82.58	\$ 91.73	\$ 94.44
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,153	\$ 7,153	\$ 7,153

Sensitivity Analysis #2: Capital Cost

❖ Base case: 4% construction inflation

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	9.00%	8.70%	8.50%	8.38%	0.38%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.19	\$ 70.86	\$ 76.88	\$ 83.32	\$ 83.64
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,153	\$ 7,153	\$ 7,153

❖ Higher construction cost inflation: +1%

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	9.60%	9.25%	8.90%	8.55%	3.29%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.54	\$ 71.61	\$ 77.98	\$ 84.65	\$ 87.44
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,153	\$ 7,153	\$ 7,153

❖ Full GFF implementation: to \$7,153 in 2007

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	8.95%	8.65%	8.40%	8.34%	0.34%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.16	\$ 70.79	\$ 76.74	\$ 83.14	\$ 83.42
General Facilities Fee	\$ 4,725	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153

Sensitivity Analysis #3: Funding

❖ Base case

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	9.00%	8.70%	8.50%	8.38%	0.38%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.19	\$ 70.86	\$ 76.88	\$ 83.32	\$ 83.64
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,153	\$ 7,153	\$ 7,153

❖ Shortfall: \$1M Rural Development Grant shortfall becomes 5% Revenue Bond

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	9.00%	8.70%	8.40%	8.22%	3.74%
Residential Rate	\$ 56.14	\$ 59.80	\$ 65.19	\$ 70.86	\$ 76.81	\$ 83.13	\$ 86.23
General Facilities Fee	\$ 4,725	\$ 5,316	\$ 5,954	\$ 6,663	\$ 7,223	\$ 7,372	\$ 7,372

Local Improvement District

- ❖ Special assessments on benefiting properties fund debt service payments
- ❖ LID assessments replace all or part of future GFF payments
- ❖ Developers may benefit from lower-cost (5%) financing of capital projects
- ❖ Developers / city could include other infrastructure costs in LID assessments

Sensitivity Analysis #5 – 2007 LID⁽¹⁾

❖ 1,500 ERUs: annual assessments of \$850,000

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	5.56%	5.11%	4.66%	4.41%	4.38%
Residential Rate	\$ 56.14	\$ 59.80	\$ 63.13	\$ 66.35	\$ 69.44	\$ 72.50	\$ 75.67
General Facilities Fee	\$ 4,725	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153

❖ 2,000 ERUs: annual assessments of \$1.15M

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	3.71%	3.36%	3.01%	2.66%	2.43%
Residential Rate	\$ 56.14	\$ 59.80	\$ 62.02	\$ 64.10	\$ 66.03	\$ 67.78	\$ 69.43
General Facilities Fee	\$ 4,725	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153

❖ 2,500 ERUs: annual assessments of \$1.45M

	2006	2007	2008	2009	2010	2011	2012
Annual Rate Adjustment	12.50%	6.53%	1.91%	1.46%	1.01%	0.71%	0.49%
Residential Rate	\$ 56.14	\$ 59.80	\$ 60.94	\$ 61.83	\$ 62.45	\$ 62.89	\$ 63.20
General Facilities Fee	\$ 4,725	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153	\$ 7,153

(1) Assumes the above ERUs represent 75% of projected customer growth and do not pay GFF