

# City of Blaine

## 2007 Sewer Rate Review

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# Forecast Comparison: 2006 vs. 2007

October 2006	2007	2008	2009	2010	2011	2012	2013
Annual Rate Adjustment	6.53%	9.00%	8.70%	8.50%	8.38%	0.38%	0.00%
Residential Rate	\$59.80	\$65.19	\$70.86	\$76.88	\$83.32	\$83.64	\$83.64
General Facilities Fee	\$5,316	\$5,954	\$6,663	\$7,153	\$7,153	\$7,153	\$7,153

July 2007	2007	2008	2009	2010	2011	2012	2013
Annual Rate Adjustment	6.53%	9.00%	8.70%	8.50%	3.10%	3.10%	3.10%
Residential Rate	\$59.80	\$65.19	\$70.86	\$76.88	\$79.26	\$81.72	\$84.25
General Facilities Fee	\$5,316	\$5,677	\$5,677	\$5,677	\$5,847	\$6,023	\$6,203

November 2007	2007	2008	2009	2010	2011	2012	2013
Annual Rate Adjustment	6.53%	9.00%	8.70%	8.50%	8.38%	1.00%	0.00%
Residential Rate	\$59.80	\$65.19	\$70.86	\$76.88	\$83.32	\$84.16	\$84.16
General Facilities Fee	\$5,316	\$5,794	\$6,299	\$6,834	\$7,407	\$7,481	\$7,705

In all versions of the forecast, the increased GFF is phased in over three years to mitigate impacts to customers.

# Changes From Prior Review

We have been working with City staff to update various aspects of the forecasting model presented in July 2007. Noteworthy changes include:

- ❖ Updated forecast of existing and projected new debt service
  - ❖ Reconciling status of existing PWTF Loan proceeds and available balances leads to adjusted fund balances and borrowing needs.
- ❖ Updated various numbers driving the GFF calculation
  - ❖ Net Impact → 2010 target GFF increases from \$5,677 to \$7,287 per ERU
- ❖ Updated forecasted revenues and resources based on the City's recent experience and more recent expectations from staff
  - ❖ 2007 rate revenue  $\approx$  \$100,000 lower

# Capital Cost Projections

Capital Improvement Program	July 2007	November 2007	Change
Phase 1	\$3,472,000	\$3,472,000	\$0
Phase 2	\$36,747,000	\$36,615,000	(\$132,000)
Phase 3	\$5,105,000	\$5,105,000	\$0
Other	\$500,000	\$324,000	(\$176,000)
<b>Total</b>	<b>\$45,824,000</b>	<b>\$45,516,000</b>	<b>(\$308,000)</b>

# Capital Funding Review

Capital Funding Strategy	July 2007	November 2007	Change
PWTF Loans	\$19,584,000	\$21,757,000	\$2,173,000
PWTF Pre-Construction Loans	\$2,110,000	\$2,085,000	(\$25,000)
Centennial Clean Water Grant / Loans	\$5,000,000	\$5,516,000	\$516,000
Rural Development Loan	\$5,500,000	\$5,500,000	\$0
Revenue Bonds	\$1,693,000	\$0	(\$1,693,000)
Rural Development Grant	\$4,500,000	\$4,500,000	\$0
Rural Sales Tax (Grant)	\$0	\$0	\$0
Direct Federal Appropriations (STAG)	\$217,000	\$217,000	\$0
Capital Reserves ( <i>Costs – Other Sources</i> )	\$7,220,000	\$5,941,000	(\$1,279,000)
<b>Total Funding Sources</b>	<b>\$45,824,000</b>	<b>\$45,516,000</b>	<b>(\$308,000)</b>

# Sewer Rate Analysis

We developed cost-of-service sewer rates for 2008 to improve equity in cost recovery between the various customer classes. This included the following steps:

- ❖ Benchmark winter average residential water usage
  - ❖ Single-family:  $\approx 5.0$  ccf / month;  $\approx 5.4$  ccf / month accounting for vacancies
  - ❖ Multi-family & Senior:  $\approx 80\%$  of single-family usage
- ❖ Revise non-residential usage allowances to reflect single-family residential benchmark
  - ❖ Existing allowance of 3 ccf / month / ERU; should be higher based on residential usage
- ❖ Establish “medium-strength” non-residential class as part of BMP
  - ❖ Assumed to be 50% of current high-strength non-residential class
  - ❖ 1.45 multiplier applied to high-strength rates; 1.3 multiplier applied to medium-strength rates
- ❖ Develop fixed and volume charges to recover required revenue
  - ❖ Volume charges apply to non-residential usage above a specified allowance

# Key Rate Findings

- ❖ Equivalent residential usage embedded in fixed charges is too high
  - ❖ Existing rate structure implies single-family residential usage of  $\approx 6.5$  ccf / month
  - ❖ Multi-family & Senior:  $\approx 80\%$  of single-family usage
    - Multi-family currently pays  $\approx 92\%$  and seniors pay  $\approx 77\%$  of single-family rate
- ❖ Non-residential volume allowances are too low
  - ❖ Existing allowance is 3 ccf / month / ERU
  - ❖ Data shows that residences use  $\approx 5$  ccf / month



# Proposed 2008 & Estimated 2009 Sewer Rates: Residential

Residential	2007 Rates	Proposed 2008 Rates	
		Rate	Change
Single-Family:			
Inside-City	\$59.80	\$65.00	+8.70%
Senior / Disabled	\$45.93	\$48.75	+6.14%
Multi-Family	\$54.91	\$57.85	+5.35%



# Proposed 2008 & Estimated 2009 Sewer Rates: Domestic-Strength Non-Residential

Domestic-Strength Non-Residential	2007 Rates		Proposed 2008 Rates	
	Allowance	Rate	Allowance	Rate
3/4"	3.00 ccf	\$59.80	4.00 ccf	\$65.00
1"	7.00 ccf	\$149.44	10.00 ccf	\$152.43
1-1/2"	15.00 ccf	\$298.90	20.00 ccf	\$304.88
2"	24.00 ccf	\$478.20	32.00 ccf	\$487.76
3"	48.00 ccf	\$956.41	64.00 ccf	\$975.54
4"	75.00 ccf	\$1,494.41	100.00 ccf	\$1,524.30
6"	150.00 ccf	\$2,988.77	200.00 ccf	\$3,048.55
8"	240.00 ccf	\$4,782.04	320.00 ccf	\$4,877.68
Volume Charge per ccf		\$8.84		\$9.74
Estimated % of Volume Charged		68.94%		61.25%

Increasing the allowance decreases the volume that is subject to the volume charge, requiring higher rates to generate the same revenue. The proposed rate structure phases the allowance increase in to mitigate rate impacts to non-residential customers.

# Proposed 2008 & Estimated 2009 Sewer Rates: High-Strength & New Medium-Strength Non-Residential

High-Strength Non-Residential	2007 Rates		Proposed 2008 Rates (High-Strength)		Proposed 2008 Rates (Medium-Strength)	
	Allowance	Rate	Allowance	Rate	Allowance	Rate
3/4"	3.00 ccf	\$76.95	4.00 ccf	\$94.25	4.00 ccf	\$84.50
1"	7.00 ccf	\$192.40	10.00 ccf	\$200.10	10.00 ccf	\$181.03
1-1/2"	15.00 ccf	\$384.79	20.00 ccf	\$400.18	20.00 ccf	\$362.06
2"	24.00 ccf	\$615.66	32.00 ccf	\$640.29	32.00 ccf	\$579.28
3"	48.00 ccf	\$1,231.34	64.00 ccf	\$1,280.59	64.00 ccf	\$1,158.57
4"	75.00 ccf	\$1,923.96	100.00 ccf	\$2,000.92	100.00 ccf	\$1,810.27
6"	150.00 ccf	\$3,847.91	200.00 ccf	\$4,001.83	200.00 ccf	\$3,620.52
8"	240.00 ccf	\$6,156.62	320.00 ccf	\$6,402.88	320.00 ccf	\$5,792.80
Volume Charge per ccf		\$12.47		\$14.12		\$12.66
Estimated % of Volume Charged		79.46%		72.78%		72.78%

# 2008 & 2009 Bill Impacts: Domestic-Strength Non-Residential

Domestic-Strength Non-Residential	2007 Rates		Proposed 2008 Rates	
	Rate		Rate	Change
3/4"				
5 ccf	\$77.48		\$74.74	-3.54%
20 ccf	\$210.08		\$220.84	+5.12%
1"				
5 ccf	\$149.44		\$152.43	+2.00%
10 ccf	\$175.96		\$152.43	-13.37%
20 ccf	\$264.36		\$249.83	-5.50%
50 ccf	\$529.56		\$542.03	+2.35%
2"				
10 ccf	\$478.20		\$487.76	+2.00%
25 ccf	\$487.04		\$487.76	+0.15%
50 ccf	\$708.04		\$663.08	-6.35%
100 ccf	\$1,150.04		\$1,150.08	+0.00%

# 2008 & 2009 Bill Impacts: High-Strength & New Medium-Strength Non-Residential

High-Strength Non-Residential	2007 Rates		Proposed 2008 Rates (High-Strength)		Proposed 2008 Rates (Medium-Strength)		Savings On Bill	
	Rate		Rate	Change	Rate	Change	Amount	
3/4"								
5 ccf	\$101.89		\$108.37	+6.36%	\$97.16	-4.64%	\$11.21	
20 ccf	\$288.94		\$320.17	+10.81%	\$287.06	-0.65%	\$33.11	
1"								
5 ccf	\$192.40		\$200.10	+4.00%	\$181.03	-5.91%	\$19.07	
10 ccf	\$229.81		\$200.10	-12.93%	\$181.03	-21.23%	\$19.07	
20 ccf	\$354.51		\$341.30	-3.73%	\$307.63	-13.22%	\$33.67	
50 ccf	\$728.61		\$764.90	+4.98%	\$687.43	-5.65%	\$77.47	
2"								
10 ccf	\$615.66		\$640.29	+4.00%	\$579.28	-5.91%	\$61.01	
25 ccf	\$628.13		\$640.29	+1.94%	\$579.28	-7.78%	\$61.01	
50 ccf	\$939.88		\$894.45	-4.83%	\$807.16	-14.12%	\$87.29	
100 ccf	\$1,563.38		\$1,600.45	+2.37%	\$1,440.16	-7.88%	\$160.29	

# Recommendations

- ❖ Near-Term Rate Strategy:
  - ❖ Adopt rates proposed for 2008
  - ❖ Anticipate original (October 2006) strategy of increases for 2009 – 2011
  - ❖ Anticipate inflationary adjustments thereafter
- ❖ Revise GFF phasing target to \$7,287 to reflect the updated GFF calculation
  - ❖ Phase increase in, limiting increases to those applied to rates:
    - 2007: \$5,316  $\Rightarrow$  2008: \$5,794  $\Rightarrow$  2009: \$6,299  $\Rightarrow$  2010: \$6,834  $\Rightarrow$  2011: 7,407
- ❖ Continue to review revenue requirements as costs and funding circumstances change, considering increases above inflation if necessary
- ❖ Pursue additional grants: \$1 million grant  $\Rightarrow \approx$  \$1.00 - \$1.25 rate reduction
- ❖ Pursue LID financing of GFF costs for new developments
- ❖ Adopt “medium-strength” rate class for high-strength customers complying with BMP program

