



Shelton City Council
Study Session Agenda
August 8, 2023 – 6:00 p.m.
Civic Center & Virtual Platform

A. Call to Order

B. Roll Call

C. Study Agenda

1. Water & Sewer Rate Study – Presented by Public Works Director Jay Harris

D. New Items for Discussion

E. Adjourn

The City of Shelton is committed to the non-discriminatory treatment of all persons in employment and the delivery of services and resources. If you require accommodation for your attendance at the City Council meeting, please call (360) 432-5103 at least 48 hours in advance of the meeting.



2023 Looking Ahead

(Items and dates are subject to change)

<p>Tues. 8/15 6:00 p.m.</p>	<p>Regular Meeting</p>	<p>Consent Agenda</p> <ul style="list-style-type: none"> • Vouchers/Payroll Warrants/Meeting Minutes Presentation • Forest Festival LTAC Report • June Financial Status Report • Water Use Efficiency Plan <p>Business Agenda</p> <ul style="list-style-type: none"> • Resolution No. 1286-0823 Civic Center Exterior Rehabilitation Project • Resolution No. 1279-0723 Consultant Services for Comprehensive Plan • Resolution No. 1281-0723 Signatory Authorization to Invest in Local Government Investment Pool • Resolution No. 1282-0723 Wastewater Comprehensive Plan • Resolution No. 1283-0723 Water Comprehensive Plan • Resolution No. 1284-0723 2023 Engineering Standards Manual <p>Action Agenda</p> <ul style="list-style-type: none"> • Resolution No. 1278-0723 Master Fee Schedule Update • Civic Center Rotating Art Gallery • Resolution No. 1285-0823 Front Street Paving Project <p>Administration Report</p> <ul style="list-style-type: none"> • 	<p>Packet Items Due: 8/4 @ 5:00 p.m.</p>
<p>Tues. 8/22 6:00 p.m.</p>	<p>Study Session</p>	<p>Study Agenda</p> <ul style="list-style-type: none"> • 2024 Budget Discussion 	<p>Packet Items Due: 8/18 @ noon</p>
<p>Tues. 9/5 6:00 p.m.</p>	<p>Regular Meeting</p>	<p>Consent Agenda</p> <ul style="list-style-type: none"> • Vouchers/Payroll Warrants/Meeting Minutes Presentation • <p>Business Agenda</p> <ul style="list-style-type: none"> • Public Hearing Ordinance No. 2003-0523 Adoption of 2021 International Fire Code • Public Hearing Ordinance No. 2004-0523 Adoption of 2021 International Building Code • Resolution No. 1280-0723 Contract for Animal Shelter Services • Ordinance No. 2010-0723 2024-2027 Sewer Rates Adoption 	<p>Packet Items Due: 8/25 @ 5:00 p.m.</p>

		<ul style="list-style-type: none"> Ordinance No. 2011-0723 2024-2027 Water Rates Adoption <p>Action Agenda</p> <ul style="list-style-type: none"> Resolution No. 1286-0823 Civic Center Exterior Rehabilitation Project Resolution No. 1279-0723 Consultant Services for Comprehensive Plan Resolution No. 1281-0723 Signatory Authorization to Invest in Local Government Investment Pool Resolution No. 1282-0723 Wastewater Comprehensive Plan Resolution No. 1283-0723 Water Comprehensive Plan Resolution No. 1284-0723 2023 Engineering Standards Manual <p>Administration Report</p> <ul style="list-style-type: none"> 	
Tues. 9/12 6:00 p.m.	Study Session	Study Agenda	Packet Items Due: 9/8 @ noon
Tues. 9/19 5:45 p.m.	SMPD Meeting	<p>Consent Agenda</p> <ul style="list-style-type: none"> Vouchers/Meeting Minutes <p>Business Agenda</p> <ul style="list-style-type: none"> <p>Action Agenda</p> <ul style="list-style-type: none"> <p>Administration Report</p> <ul style="list-style-type: none"> 	Packet Items Due: 9/8 @ 5:00 p.m.
Tues. 9/19 6:00 p.m.	Regular Meeting	<p>Consent Agenda</p> <ul style="list-style-type: none"> Vouchers/Payroll Warrants/Meeting Minutes <p>Presentation</p> <ul style="list-style-type: none"> July Financial Status Report <p>Business Agenda</p> <ul style="list-style-type: none"> <p>Action Agenda</p> <ul style="list-style-type: none"> Ordinance No. 2003-0523 Adoption of 2021 International Fire Code Ordinance No. 2004-0523 Adoption of 2021 International Building Code Resolution No. 1280-0723 Contract for Animal Shelter Services Ordinance No. 2010-0723 2024-2027 Sewer Rates Adoption Ordinance No. 2011-0723 2024-2027 Water Rates Adoption <p>Administration Report</p> <ul style="list-style-type: none"> 	Packet Items Due: 9/8 @ 5:00 p.m.
Tues. 9/26 6:00 p.m.	Study Session	Study Agenda	Packet Items Due: 9/22 @ noon
Tues. 10/3 6:00 p.m.	Regular Meeting	<p>Consent Agenda</p> <ul style="list-style-type: none"> Vouchers/Payroll Warrants/Meeting Minutes <p>Presentation</p>	Packet Items Due: 9/22 @ 5:00 p.m.

		<ul style="list-style-type: none">• Business Agenda• Action Agenda<ul style="list-style-type: none">• LTAC Tourism Grant Recommendations• Administration Report•	
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Other – TBD

- Water and Sewer Fee Schedule Revisions (Ordinance removing rates from SMC)
- Public Hearing Ordinance No. 1990-0522 Amending SMC 17.12
- Project and Funding Authorization for Wallace/Shelton Springs Intersection Improvements
- Property Maintenance Code

DRAFT



City of Shelton



**Council Study Session
Water & Sewer Rate Study
FCS GROUP
August 8, 2023**



Agenda

- **Revenue requirement**

“What revenue adjustments are needed to cover the water and sewer utility’s costs?”

- » Study period: 2023-2029
- » Comparative monthly rate survey

- **General Facilities Charge (GFC)**

“What is a defensible GFC for the water and sewer utilities that would allow for growth to help pay for growth?”

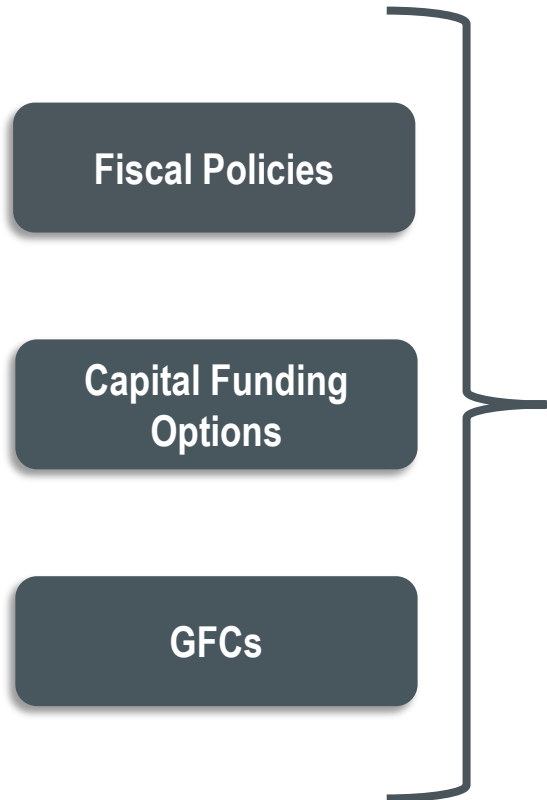
- » In progress, but have preliminary results
- » Comparative GFC survey



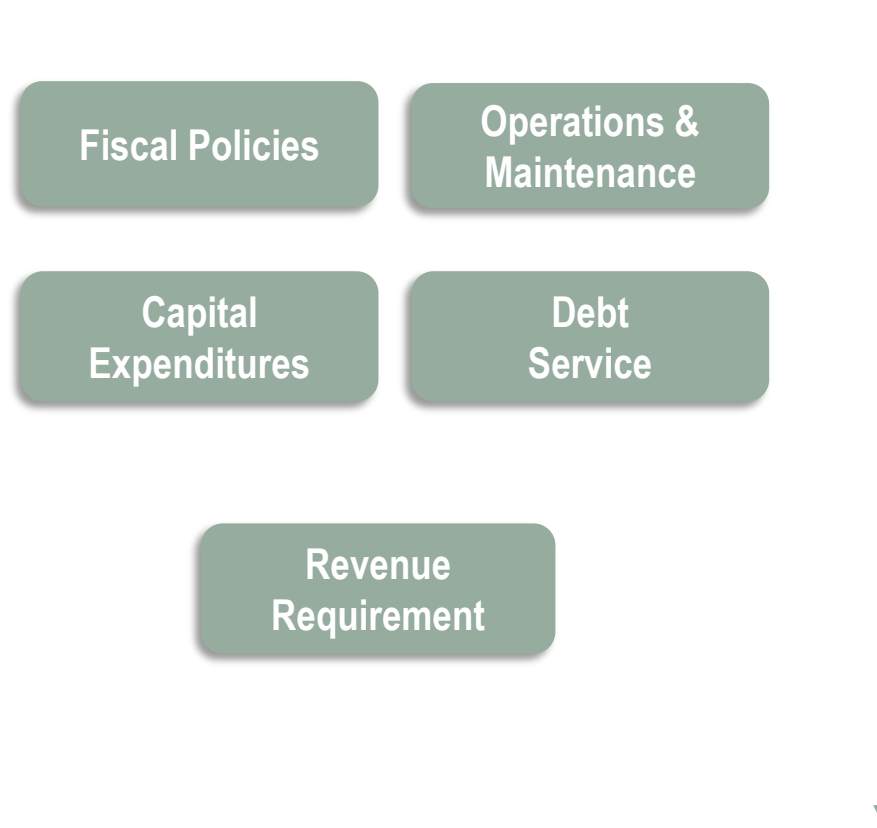


Rate Study Overview

Policy Framework



Revenue Requirement





Fees Fund the Water & Sewer Utility

- **Single-family rates shown below as an example; rates for other classes vary**

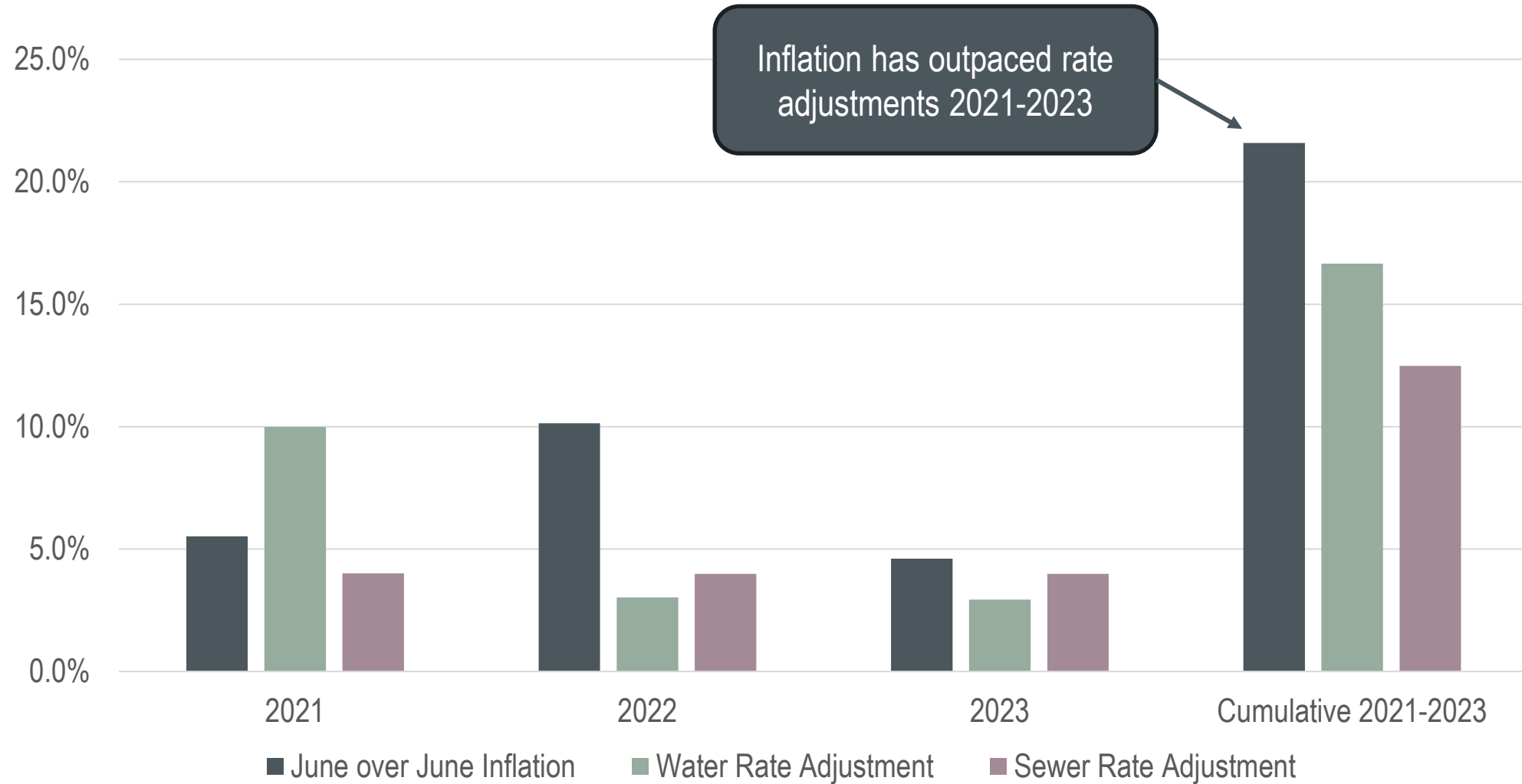
Water Utility	2023
Monthly Base Charge (3/4" meter size)	\$16.46
Per cubic foot of water use	
0-600 cubic feet	\$0.0345
601-1,500 cubic feet	\$0.0413
1,500+ cubic feet	\$0.0513
Plus: City utility tax of 11.63% on customer bill	

Sewer Utility	2023
Monthly Base Charge	\$54.14
Per cubic foot of water use	\$0.1084
Plus: City utility tax of 5% on customer bill	

Source: Shelton Municipal Code 14.28 (Sewer) and 15.28 (Water)

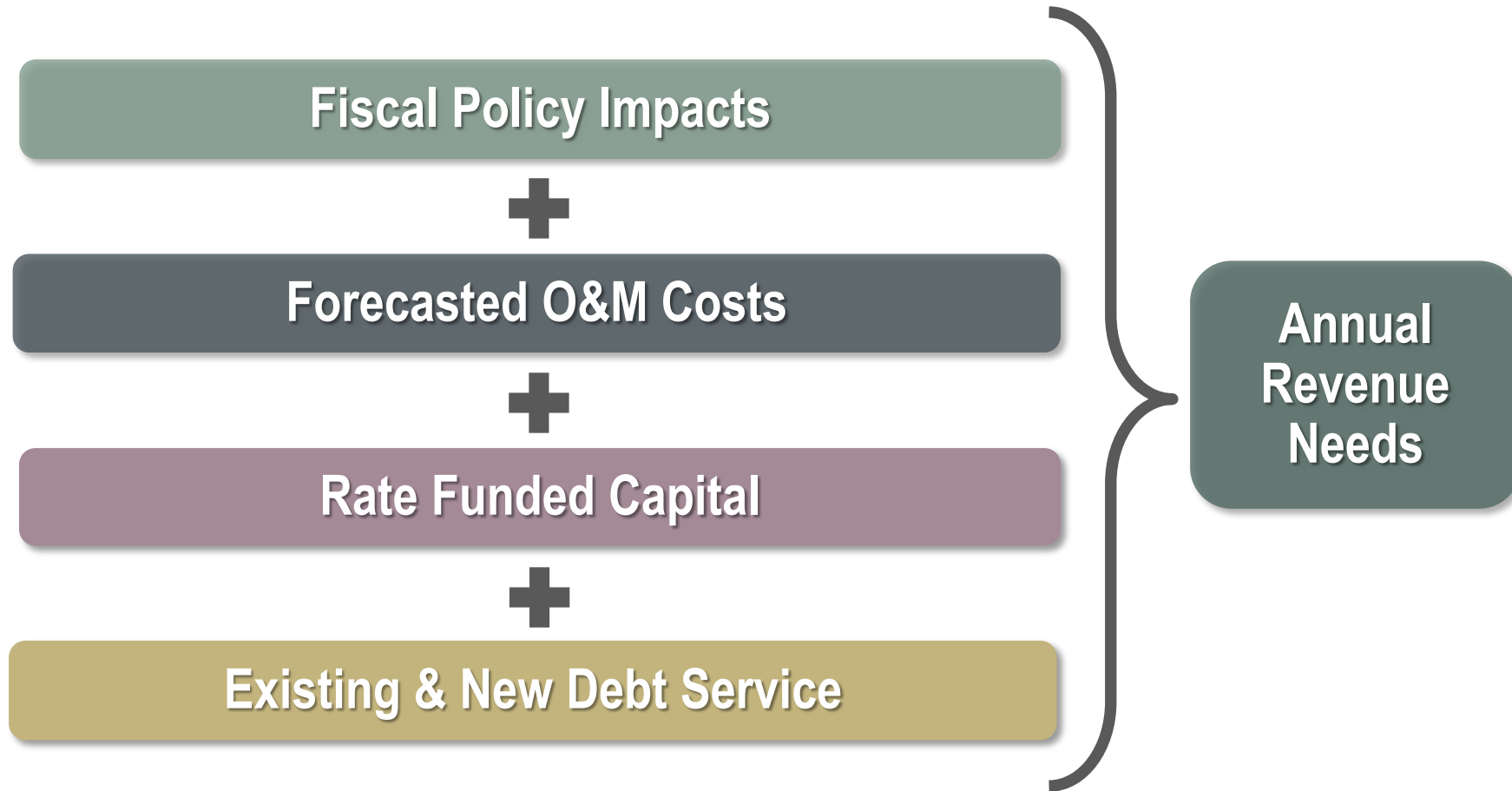


Actual Rate Adjustments vs. Inflation





How Much Revenue is Needed?





Fiscal Policies Summary

Policy	Purpose	Policy Target
Operating Reserve	Cushion to accommodate cash flow fluctuations	Water: 20% of operating expenses* Sewer: 20% of operating expenses* <i>*Consistent with Citywide policy</i>
Capital Reserve	To meet emergency repairs, unanticipated capital, and project cost overruns	Water: 2% of original cost of assets Sewer: 1% of original cost of assets* <i>*Sewer system newer, lower target</i>
Debt Service Coverage (DSC)	Compliance with existing debt covenants and maintain credit worthiness for future debt	Minimum target: 1.25x (per utility)

Water Revenue Requirement



Water Utility – Capital Program (2023 \$)

- **\$15.3 million total; \$2.2 million / year average (\$17.2 million total; \$2.5 million / year average escalated)**
- **Storage deficiencies severely limiting growth; capital program helps address deficiencies**

#	Description	2023	2024	2025	2026	2027	2028	2029	Total
ST-04	High School Tank Recoating Design & Construction W/ Overflow Replacement			\$60,000	\$450,000				\$510,000
PS-01	Upper Angleside Pressure Zone Improvements	\$200,000	\$600,000	\$2,600,000	<i>\$1.8 million Legislative grant for PS-01 project</i>				\$3,400,000
S-02	Well 1 to HS Tank Pipe Pressurization Project		\$2,200,000		<i>\$2 million Commerce grant for S-02 project</i>				\$2,200,000
	Well 1 generator, chlorine, & security improvements		\$70,000	\$400,000					\$470,000
S-03, S-04	Well 3 & 4 Chlorine system improvements, evaluate generator replacement			\$80,000	\$550,000				\$630,000
	New 0.5 MG Tank Angleside Pressure Zone				\$500,000	\$5,000,000			\$5,500,000
	Railroad Avenue Waterline Replacement, 8th to Front						\$250,000	\$1,700,000	\$1,950,000
G-05	K Street Maintenance Facility Purchase (Laydown, Shop, Storage, Admin.)		\$220,000	\$200,000					\$420,000
	Water, Storm, & Wastewater Rate and GFC Study					\$40,000			\$40,000
	Automated Meter Infrastructure	\$75,000							\$75,000
	Emergency Generator Receptacle	\$30,000							\$30,000
	New Zero Turn Mower & Trailer	\$25,000							\$25,000
	Total	\$330,000	\$3,090,000	\$3,340,000	\$1,500,000	\$5,040,000	\$250,000	\$1,700,000	\$15,250,000



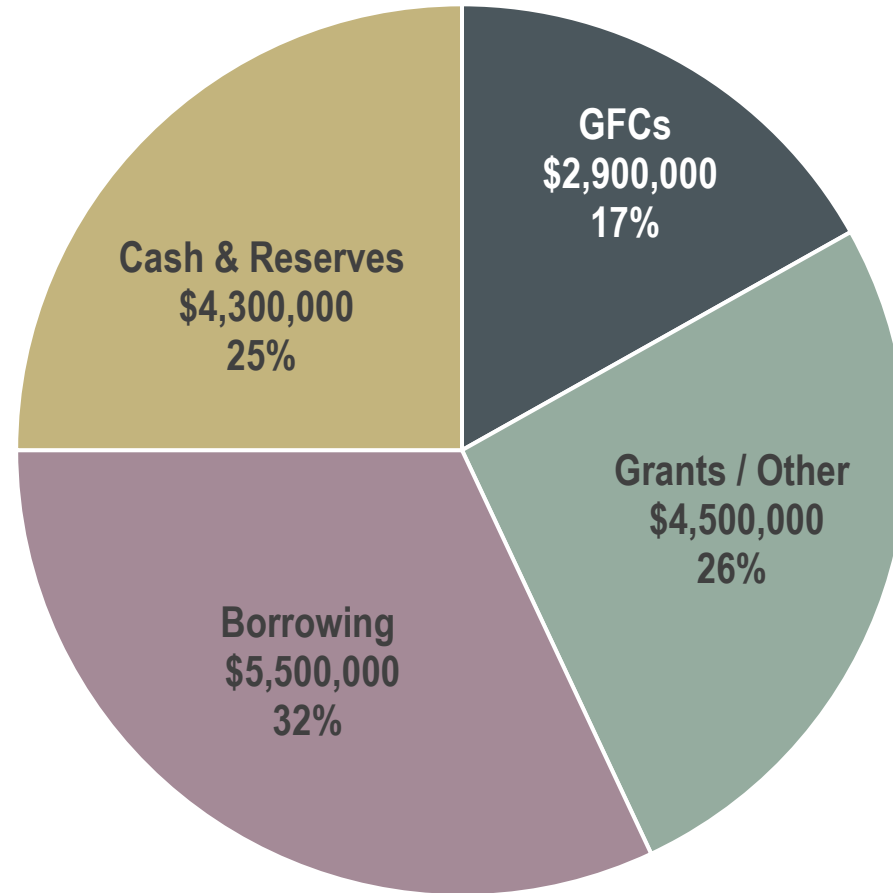
Water Utility – General Facilities Charge

- **General facilities charge revenue can be an important part of the capital funding strategy**
- **Current GFC**
 - » \$1,260 per single-family connection (assumes a ¾" water meter)
 - » Charges scale up based on meter size
- **Rate forecast**
 - » Assumes a GFC of \$3,000 for a ¾" water meter in 2024
 - » Preliminary GFC update calculations underway; initial indications: maximum defensible charge could be \$3,000-\$4,000 (fine tuning data / analysis)
- **Growth forecast for rate study**
 - » 200 units / year is \$250,000 per year under current GFC or \$600,000 per year under \$3,000 GFC

Per City Staff	2023	2024	2025	2026	2027	2028	2029
ERUs / Year	0	125	200	200	200	200	200



Water Utility – Capital Funding Strategy (\$3,000 GFC)

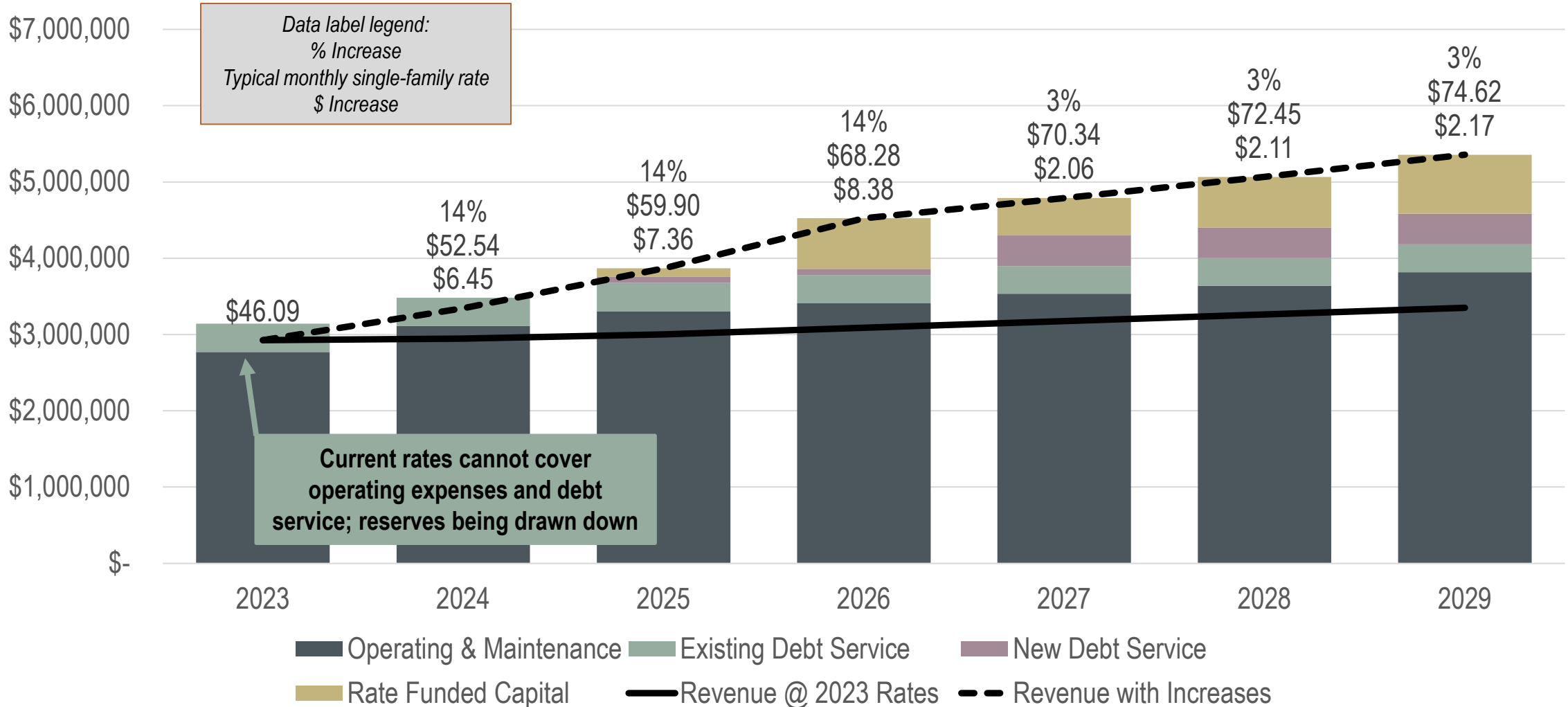


City staff have done a great job at applying for and getting project grants

Note: Grants / Other includes approximately \$800,000 from a 2023 property sale



Water Utility – Revenue Requirement (\$3,000 GFC)



The background of the slide is a photograph of a large, circular sewer tunnel. The tunnel walls are made of reddish-brown concrete with visible horizontal joints. At the far end of the tunnel, there is a circular opening or manhole. Through this opening, a bright, green, and somewhat blurry outdoor scene is visible, suggesting a natural environment. A black arrow-shaped graphic points from the left towards the right, containing the main title text.

Sewer Revenue Requirement



Sewer Utility – Capital Program (2023 \$)

- **\$32.3 million total; \$4.7 million / year average (\$37.8 million total; \$5.4 million / year average escalated)**

#	Description	2023	2024	2025	2026	2027	2028	2029	Total
LS3/LS1	Front Street Pipe Removal, Design & Construction.	90,000	\$120,000	\$500,000					\$710,000
P7	Basin 4 I&I Reduction Design and Construction		\$80,000	\$450,000	\$3,200,000				\$3,730,000
	Springs Road Sewer Extension to Port of Shelton		\$252,000	\$3,200,000		<i>\$3 million Community Project Funding Grant</i>			\$3,452,000
LS6	North diversion lift station and force main to WRP Design and Construction.				\$200,000	\$1,300,000	\$11,000,000		\$12,500,000
WW-2	CAAMP (State Conditionally Approved Area Management Plan) PH-1 valve & return flow system				\$250,000				\$250,000
WRP 1A	MBR Plant Headworks Capacity Upgrades	\$400,000	\$500,000	\$2,800,000		<i>\$3.2 million State Grant</i>			\$3,700,000
WRP 1B	MBR Filter Replacements, #1 and #2							\$5,005,000	\$5,005,000
WRP	Design and Construct 0.5 MG reclaimed water tank	\$300,000	\$2,012,000			<i>\$2 million Commerce Grant</i>			\$2,312,000
WRP	WRP Property Purchase		\$300,000						\$300,000
G-05	K Street Maintenance Facility Purchase (Laydown, Shop, Storage, Admin.)		\$220,000	\$200,000					\$420,000
	Water, Storm, and Wastewater Rate and GFC Study					\$40,000			\$40,000
	Automated Meter Infrastructure	\$75,000							\$75,000
	New Camera Van	\$177,000							\$177,000
	Total	\$1,042,000	\$3,484,000	\$7,150,000	\$3,650,000	\$1,340,000	\$11,000,000	\$5,005,000	\$32,671,000

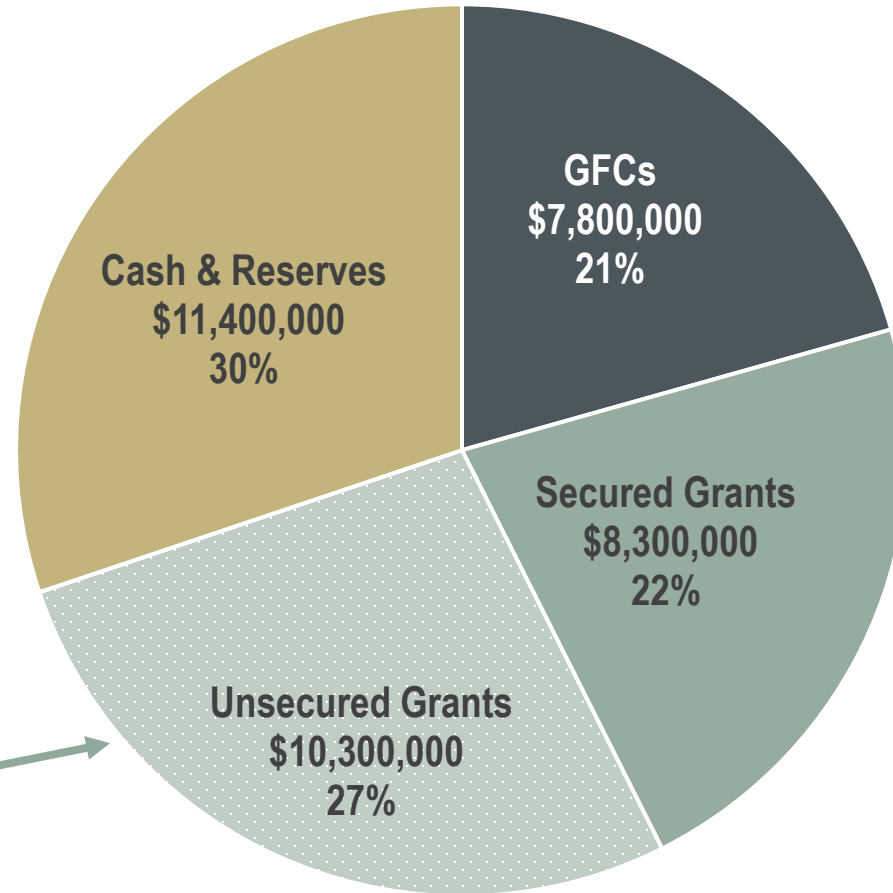


Sewer Utility – General Facilities Charge

- **Sewer utility has two GFCs (regular sewer and reclaimed water)**
 - » Recommended combining into one GFC
 - » Comprehensive Plan alludes to “dynamic system”, flexing flows to reclaimed water plant to free up capacity
- **Current GFC**
 - » Regular sewer: \$3,258 per single-family connection, \$1,629 in Grandview Heights (assumes a ¾” water meter)
 - » Reclaimed water: \$335 per ¾” water meter connection
 - » Charges scale up based on meter size
- **Rate forecast**
 - » Assumes a GFC of \$8,000 for a ¾” water meter
 - » Preliminary GFC update calculations underway; initial indications: maximum defensible charge could be \$12,000-\$15,000 (fine tuning data / analysis)
- **Growth forecast for rate study**
 - » 200 units / year is \$650,000 per year under current GFC or \$1.6 million per year under \$8,000 GFC



Sewer Utility – Capital Funding Strategy (\$8,000 GFC)

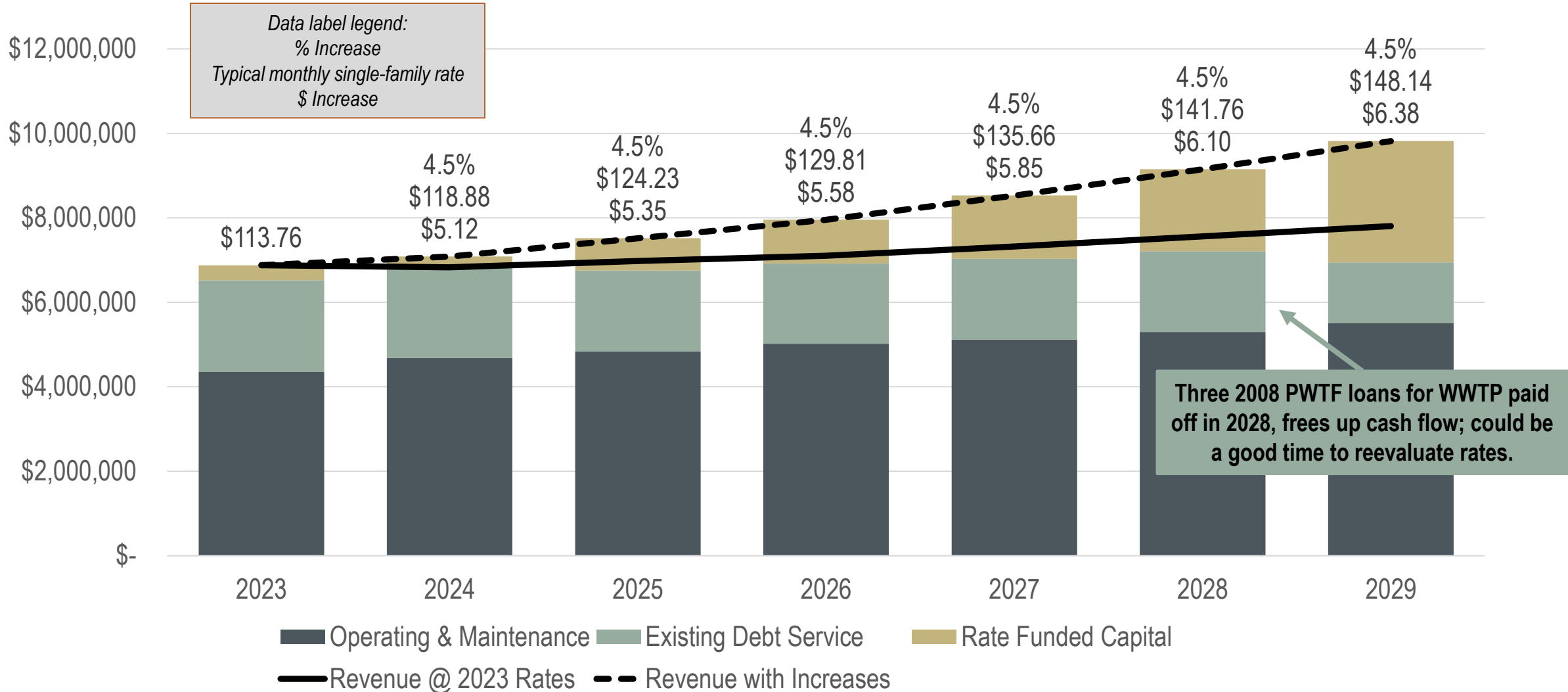


Unsecured grants associated with projects that have flexible schedules, can be pushed out if funding does not come through

Like in Water, City staff have done a great job at applying for and getting project grants



Sewer Utility – Revenue Requirement (\$8,000 GFC)



Conclusion

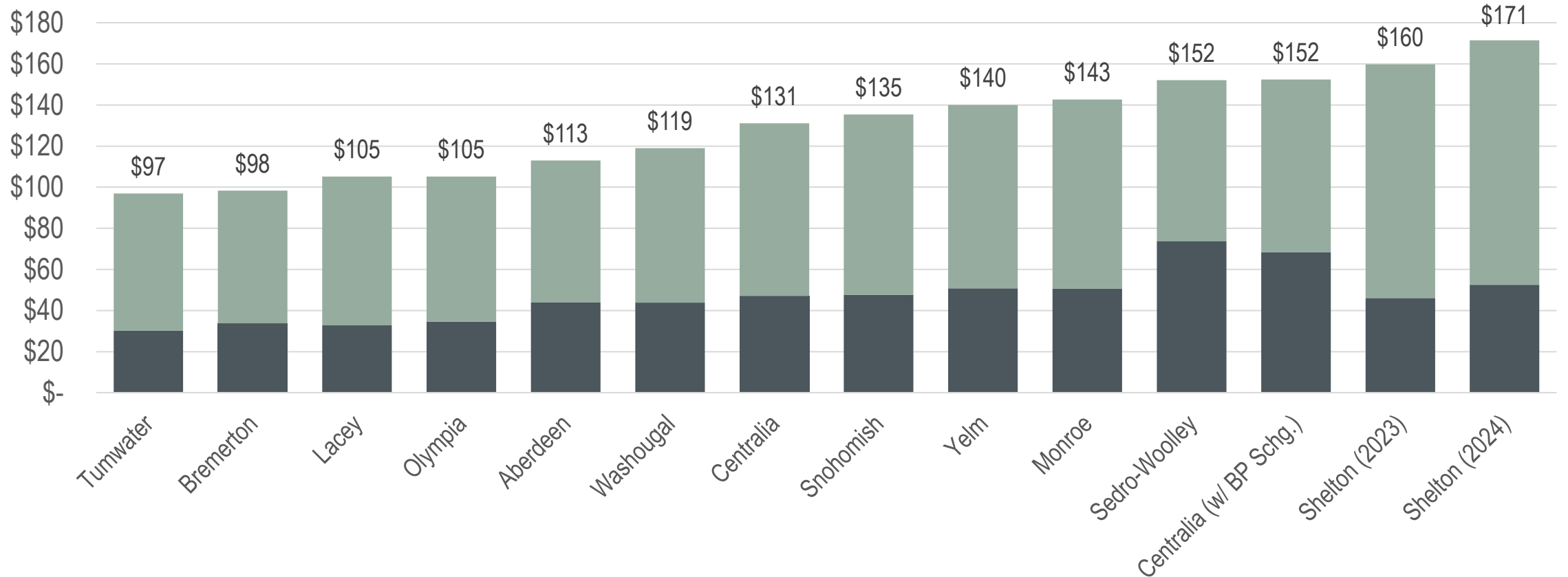


Monthly Single-Family Rate Survey

- **Mix of regional and / or “comparable” utilities; City on the high-end of monthly rates**



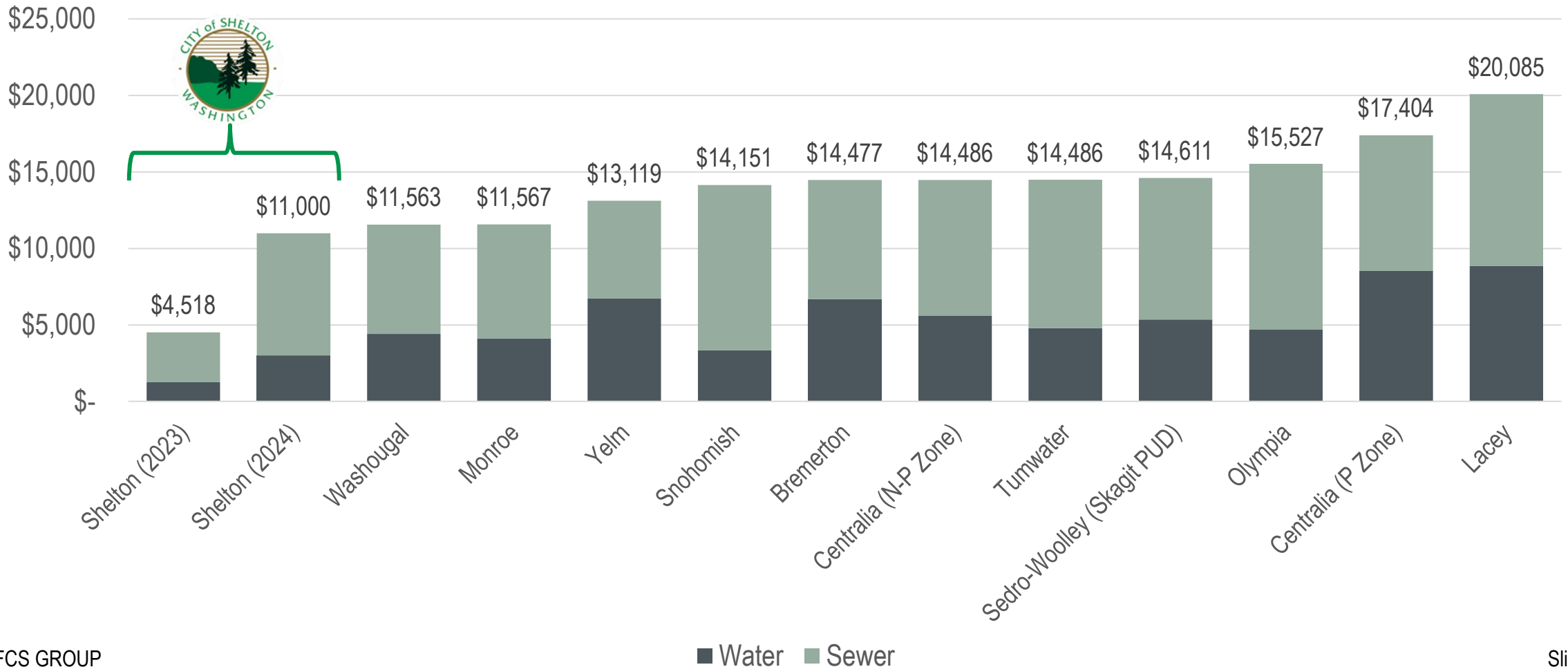
Note: Water assumes 7 ccf / month, sewer 5 ccf / month





Single-family GFC Survey (3/4" meter)

- Mix of regional and / or “comparable” utilities; City on low-end of GFCs





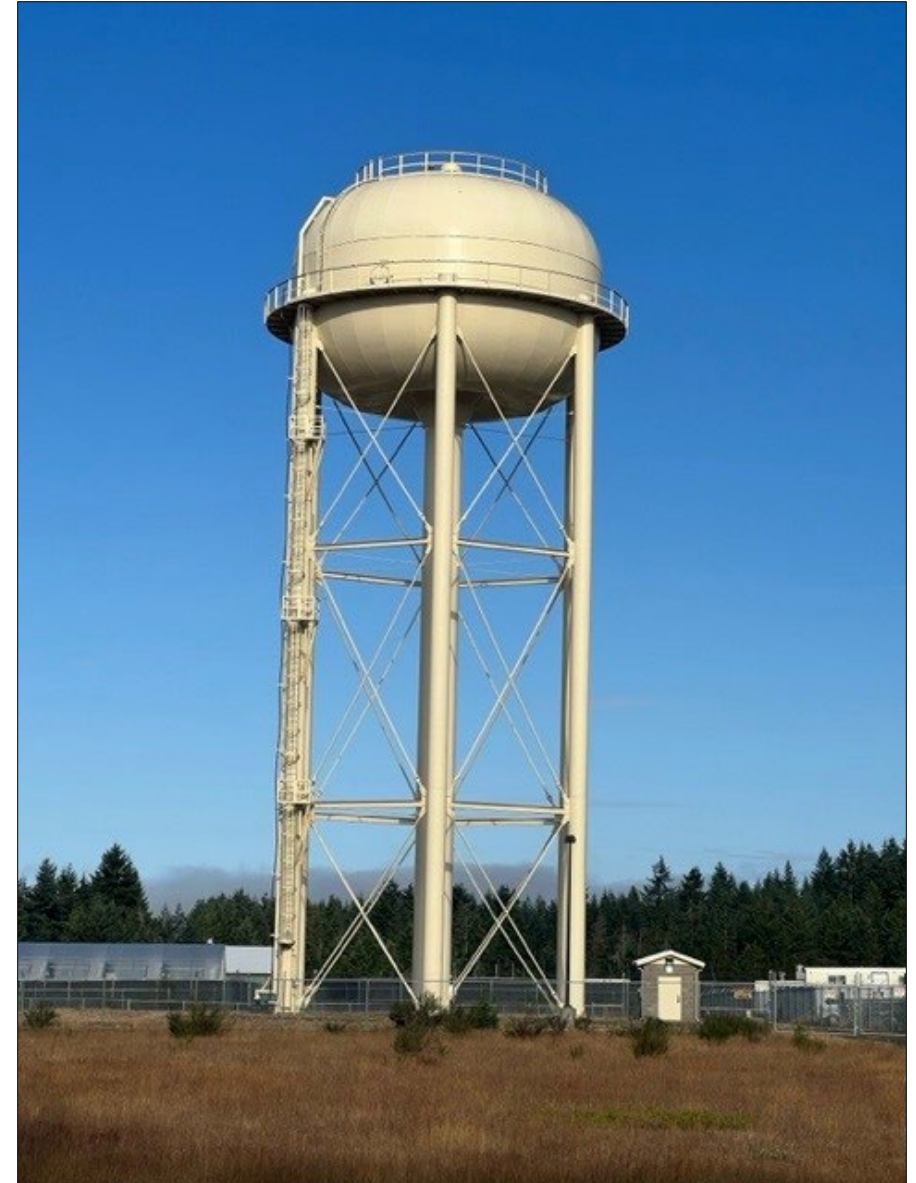
Summary

- **Revenue requirement**

- » Adopt a multi-year rate adjustment strategy
- » Water utility: 14% per year 2024-2026
- » Sewer utility: 4.5% per year 2024-2026
- » Revisit in a few years to reevaluate growth, project, & grant assumptions

- **GFCs**

- » Adopt a \$3,000 water utility GFC for 2024
- » Adopt a \$8,000 sewer utility GFC for 2024 (combined sewer / reclaimed water)
 - Eliminate reclaimed water only GFC
- » Consider phasing towards maximum defensible GFC in each utility over multiple years



Questions? Scenarios?

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Backup Slides



About FCS Group



- Utility rate and fee consulting
- Utility management consulting
- Financial planning and analysis
- Economic services



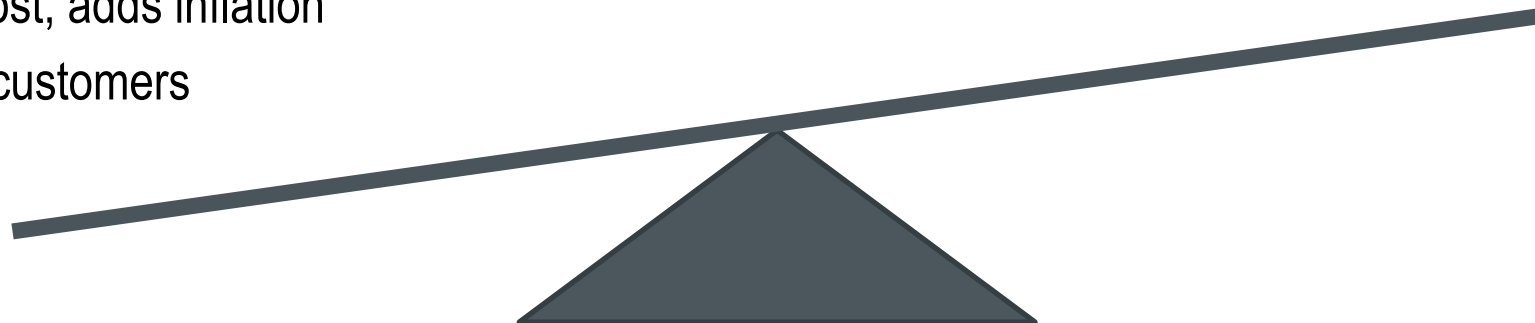
Cash Funding vs. Debt Financing

Cash

- Good for ongoing repair and replacement
- Must plan in advance to avoid rate spikes
- Avoids interest cost, adds inflation
- Burdens current customers

Debt

- Good for large, one-time projects
- Smooths rates (paid back over time)
- Allows for 'catchup' on deferred maintenance
- Adds interest cost, reduces effects of inflation
- Spreads costs to current and future customers





Introduction to Ratemaking

- **Utility rates are set to recover the cost of providing service**
- **Financial policies**
 - » Operating & capital reserves
 - » Rate funded capital
 - » Debt service coverage
- **Operating costs (regular / ongoing)**
 - » Employee salaries and benefits
 - » Routine asset / equipment repair and maintenance
 - » Supplies and materials
 - » Regulatory compliance
 - » Bill processing
- **Capital costs**
 - » Repair and replacement
 - » Capital improvement projects

