

## **CITY OF SULTAN COUNCIL WORKSHOP – March 3, 2022**

Mayor Wiita called the regular meeting to order at approximately 7:00 p.m. The meeting was a hybrid with attendees both in person at City Hall Council Chambers and via Zoom Internet Conference Service. Mayor Wiita called roll and the following were in attendance:

Councilmembers: Morgan, Aldrich, Dearborn, Hund, Sivewright, and Beeler

Councilmember Absent: Neigel

*Note: Councilmember Morgan arrived at 7:02 p.m. shortly before discussion items began.*

Staff: City Administrator Ibershof, Public Works Director Morgan, and City Clerk Pevey.

### **CHANGES/ADDITIONS TO THE AGENDA**

None Noted

### **DISCUSSION ITEMS**

#### **AB22-17 Utility Rate Study**

Ibershof began the discussion by providing background on the rate study conducted to date including the completed RFQ and introducing FCS Group, the consultant hired for the project.

Sergey Tarasov, FCS Group Senior Project Manager, provided a high-level review of the necessary elements to a successful rate study with the goal to include council input and objectives to ensure a successful outcome.

Areas reviewed included a system description; role of the rate study, overview of the rate setting process including revenue requirements, cost of service, rate design, general facility charges, and next steps. Tarasov provided a glossary of terms used throughout the presentation and process.

#### System overview

**Water** – 2,254 customers, 35 miles of pipes, 2 storage reservoirs, 1 booster pump station, 200 MM total gallons sold per year, 5.63 full time employees.

**Sewer** – 1,784 customers, 18.82 miles of collection mains; 1 lift station; own and operate 0.72 MGD treatment plant; 5.21 full time employees; pictures included the status of infrastructure underground.

**Stormwater** – 2,107 Residential units; 15.5 miles of storm drains; 900 catch basins; 5 city-maintained storm water ponds; 49 HOA maintained stormwater ponds; 21,000 feet of ditches; 1.67 full time employees.

Long-term financial planning reviewed including an overview of the rate setting process defined in three distinct steps:

**Step 1:** Revenue Requirement; **Step 2:** Cost of Service, and **Step 3:** Rate Design. Confirmed how many of the councilmembers are familiar with this process. Mayor Wiita confirmed two were involved in the last rate study; two were aware of the study, and three were totally new to the process.

Revenue Requirement Overview Focus is to determine the amount of annual revenue necessary to fund all financial obligations on a standalone basis; meet financial parameters and targets; evaluate revenue sufficiency over a multi-year period and develop a rate plan to balance financial needs and minimize capital needs. Fiscal Policy Achievement plus forecast of revenue at existing rates plus forecast of O&M, plus planned capital costs, plus existing and future debt service all equal the annual revenue requirement.

Role of Financial Policies includes a basis for financial performing and budgeting, a plan for weathering financial disruptions, a foundation for consistent financial/rate decisions, and documentation of management philosophy. The FCS Group provided examples of financial policies they like to include in the study such as operating reserve, capital contingency reserve, system reinvestment funding, and debt service coverage. They also provided the targets for each of these policies. Confirmed the city only has an operating reserve and inquired if council is interested in implementing the other three financial policies suggested. Councilmembers expressed interest in knowing more before deciding.

System Reinvestment Funding was discussed on a deeper more thorough level. Need to provide a resource for ongoing repair, replacement, and rehabilitation of the system and ways to pay for these needed aspects. The funding benchmark options discussed included depreciation expenses, the net of debt principal, or replacement/depreciation of assets. Council is leaning toward a replacement depreciation/asset management plan as this is a concept the city is familiar with but will require an adjustment moving forward. Recommendation to stay conservative on including the potential of grant funding in the event the city does not obtain a grant. Public Works Director Morgan advised council there is minimal to no grant availability and the city has previously relied on state provisos to help offset costs. Discussion on revenue considerations to include forecast of revenue generated by customer class, revenue from other operating fees/charges, and remain cautious to include one-time revenues that can hide rate evaluation. Two primary costs reviewed, including operating costs (recurring/ongoing) and capital costs (irregular/periodic). Capital Cost Considerations discussed included cash pay as you go; debt financing; or a hybrid of the two. Questioned council on capital cost consideration preference and confirmation on hybrid approach.

Revenue Requirement confirmed that sufficiency tests will be run to include cash flow including revenue sources to meet total cash outlays. Coverage would include allowable revenues equal to at least cash operating expenses plus multiple revenue bond service debt. Questioned council on preference of rate increases; Mayor confirmed historically the city implements annual increases but open to potential breaks in rate increases to compare other options. Interested in seeing how the unanticipated growth has impacted the rates. Mayor suggested considering these unanticipated growth revenues as one-time revenues since they came earlier than expected. Mayor then questioned whether council wants to be more aggressive in growth predictions. Ibershof provided some background to the growth and how it has escalated over the last three years at an average annual 25% growth rate. Brief discussion on the possibility Sultan may hit a development stall due to transportation improvement projects needed sooner rather than later and to take that into account during the process. Sergey also stated they will also look at growth increases in comparison to usage.

#### Cost of Service Overview:

Described the three-step process: Step 1: Allocate total utility costs to cost pools; Step 2: Develop allocation factors using class specific information; and Step 3: Allocate costs to customer classes. Question on how businesses are incorporated into the analysis and explained we also need to review policy versus cost analysis. Discussion on specific policies applied to specific businesses and confirmed it should be reviewed during this process to understand the impacts to the utility systems. Provided a visual cost of service process and cost of service classification to include base, peak, fire, customer, and meters & services. Important to review customer class designations and that the rate study evaluates the existing classes of service for each utility. Requested council input: Council expressed their preference to review changes to include commercial sectors, but not interested in a proximity to water plant rate basis. Results of this review would indicate whether various class groups are paying more than they should or if they need to pay more than they currently pay. Council questioned cost-of-service implementation options.

Discussion: Commercial versus residential, council prefers a phase in overtime approach; implemented base rate plus additional usage and prefer to stay in play to keep water conservation efforts at the forefront of customers minds; interested in seeing the impacts of the lowered base rate and where is the base rate level now to determine the average customer use with the suggestion to pull information from specific areas such as new home developments to see their usage. Further discussion included inflation costs impacting customers, analyzing changing the base rate, and keeping the single residence versus the larger family ratio. A "pay for your cost" scenario suggestion of a base fee plus usage would ensure no one is subsidizing other customers. Confirmation that 70% of customers are utilizing more than the current 300 cubic foot base rate. Council confirmation to be careful on variable rates and helping customers from obtaining a surprise bill.

#### Rate Design:

Development of fixed and variable charges assessed to customers and consists of fixed and variable charges. Under consideration is the complexity of rates, how to ensure they are understandable and implementable, rate impacts, revenue stability and predictability, and social objectives including affordability, conservation, etc. Existing rate

structures for water, sewer, and stormwater were reviewed. Discussion followed on why customers outside of the city limits are being charged 1.5 times more than those within the city limits and scenarios were presented on why Sultan implemented this higher rate. Consideration amongst council to consider whether this is still fair for those customers. Discussion on winter averaging for residential customers and vetting in the summer months for the sewer rate. Stormwater rate recommendation to evaluate on the per ERU basis versus the current 1-5 rate structure. Discussion on how the stormwater current rate structure was implemented. Council consideration to review and discuss value judgements to be made to the community as a whole. Ibershof reminded council stormwater is the only utility struggling and the need to review the policy decisions on what should be included in charges to the stormwater utility. Discussion of HOA maintained ponds versus city-maintained ponds and a review of that cost to determine how it would affect the rate structure.

Rate Design Policy Considerations:

- Discussion on the amount of water we have versus purchasing water from the City of Everett and if Sultan has enough water to maintain the growth. Lake 16 has a limited amount of water usage under the city water rights. Also, incorporate a calculation for obtaining water from Everett during the water plant upgrades.
- Factor in inflating construction costs.

General Facility Charges (GFC):

Brief review of GFC as one-time charges imposed on new developments or expanded connection to the system as a condition of service consisting of two parts including existing and future cost basis. Reviewed the current GFC charges and will review the impact of changes being considered as the study continues.

Council questioned annual inflation cost applied to GFC each year and confirmation from staff that currently, no inflation cost is being passed on to customers.

Discussion continued regarding NPDES requirements for stormwater maintenance and confirmation that currently, the city doesn't document HOA maintenance efforts. The city is considering phasing towards a monitoring and documenting process sooner rather than later. Discussion on retention ponds managed by HOAs and can foresee it becoming an issue in the future. What is the incentive to the HOA community to fix retention/stormwater pond issues and concerned about the cost increase? Council requested a longer conversation on this topic to review public outreach needs. Discussion on city's obligation and how they would handle maintenance needed in a failing stormwater pond emergency. Also, discussion on locations of city owned ponds. Further discussion on maintenance and assuring long-term life of ponds. Suggestion of resources for HOA's to include businesses that manage this service, costs included, etc. to provide education. The Mayor confirmed staff can review the possibility of taking on HOA owned ponds into the maintenance schedule to review this issue. Suggestion of future workshop on this topic.

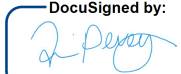
Preliminary schedule presented thru 2022 for the rate study to have it lined up for Budget and implementation in 2023.

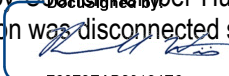
**COMMENTS FROM THE PUBLIC**

Written comments received from Matthew Brock, Loves Hill Drive, Sultan asking the council to coordinate a volunteer effort for Ukrainian refugees.

**ADJOURNMENT**

On a motion by Councilmember Aldrich, seconded by Councilmember Hund, the council meeting was adjourned at approximately 9:19 p.m. The Zoom meeting connection was disconnected shortly thereafter.

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Tami J. Pevey, City Clerk

DocuSigned by:  
  
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Russell Wiita, Mayor