GOLDENDALE CITY COUNCIL
SPECIAL MEETING
June 14, 2023
4:00 PM

NOTE: THIS MEETING IS BEING HELD IN PERSON OR CAN BE ACCESSED REMOTELY BY TELEPHONE AND ZOOM VIDEO. TO PARTICIPATE VIA ZOOM, YOU WILL NEED TO CALL 415-762-9988. THE MEETING ID NUBER IS 373 290 5204. YOU WILL BE ABLE TO CALL IN AT 4:50 PM. YOU CAN FIND THE INSTRUCTIONS FOR ZOOM ON THE WEBSITE.

A. Call to Order

B. Agenda
   1. Approval of Agenda - the purpose of this meeting is to conduct a council meeting workshop to evaluate the water and wastewater rate study with FCS Group.

C. Council Business
   a. Discussion with FCS Group and water and wastewater rate study findings.
   b. Provide Administration with consensus on how to proceed to public hearing.

D. Adjournment

City of Goldendale

Water and Sewer Utility Financial Plan & Rate Forecast

Follow up Workshop

Angie Sanchez Virnoche, Principal
June 14, 2023

FCS GROUP
Solutions-Oriented Consulting

Overview

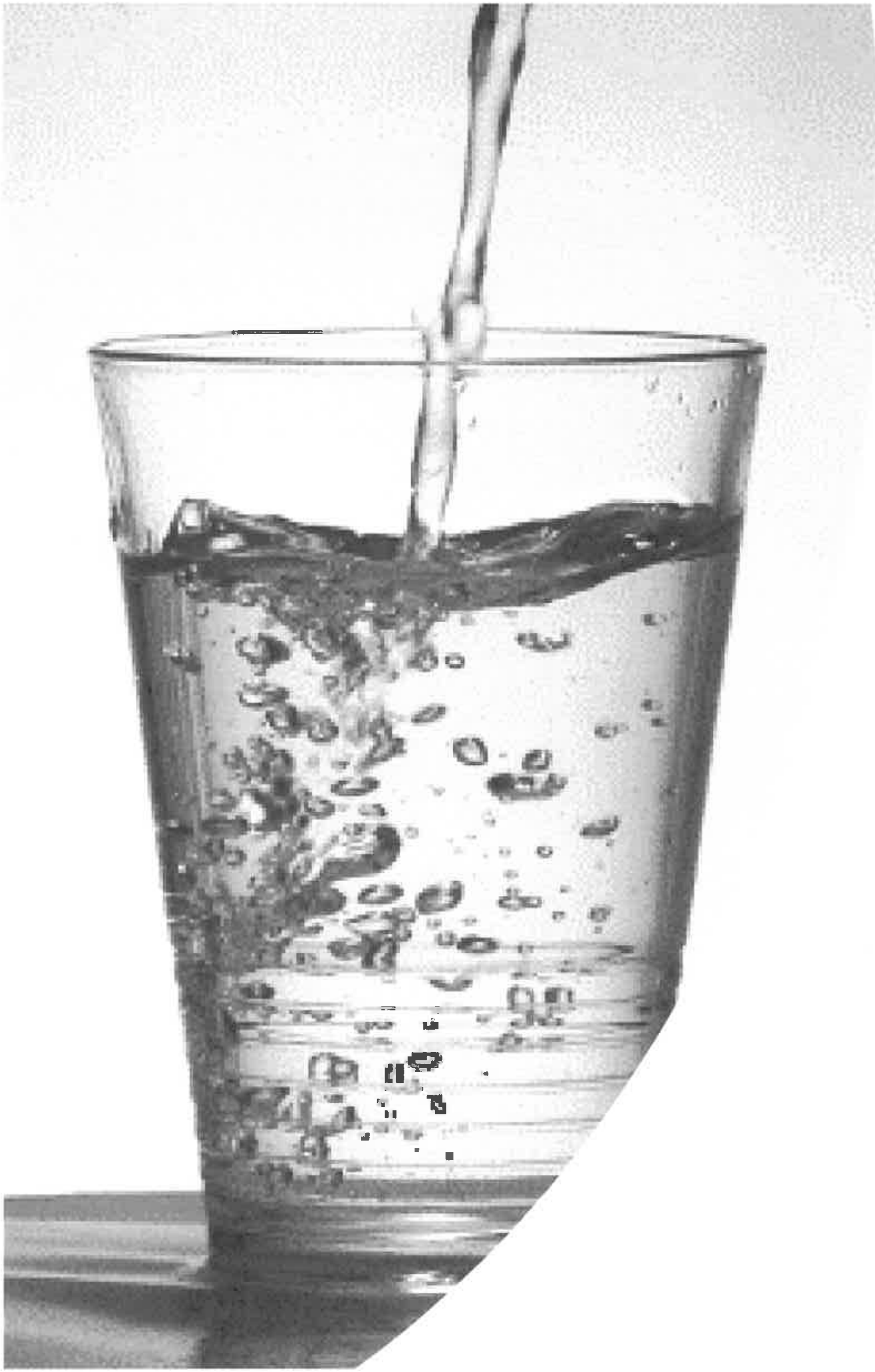
- **FCS GROUP retained to complete a water and sewer financial plan and rate forecast**
  - » 20-year plan provides a forward look of each system's operating and capital needs
- **Focus for today:**
  - » Present key data inputs and assumptions
  - » Summary of preliminary findings
- **Questions**
- **Next Steps**

Purpose of Financial Plan

- **Multi-year financial plan for each utility**
- **Determines revenue needed to meet ongoing financial obligations**
  - » Operating costs
  - » Capital expenditures
  - » Debt service
  - » Fiscal policy achievement
- **Capital funding plan**
  - » Identify annual capital needs and funding (internal and external sources)
  - » Evaluate alternative capital considerations
  - » Maintain ongoing system reliability/sustainability
- **Evaluates sufficiency of current rates on a stand-alone basis**
- **Craft annual rate implementation strategy balancing financial needs and customer impacts**

Key Assumptions

- **Financial plan period (2022 – 2042)**
  - » Focus period 2023 – 2028
- **2023 budget used as baseline for annual revenue and expenses**
  - » Customer growth of ~1.0% per year applied to revenue
  - » Various inflation factors applied to budget expenses for future year
    - – General/labor 5% through 2024, 3% thereafter
    - – Benefits 5% per year
    - – Construction cost inflation 6% through 2024; 3.5% thereafter
- **Capital needs identified by staff and consulting engineer**
- **Fiscal policies:**
  - » Operating reserve: Target: 95 days of O&M
  - » Capital reserve: No policy target (avg. CIP or emergency repair)
  - » Rate funded capital: No policy target (repair & replacement needs)



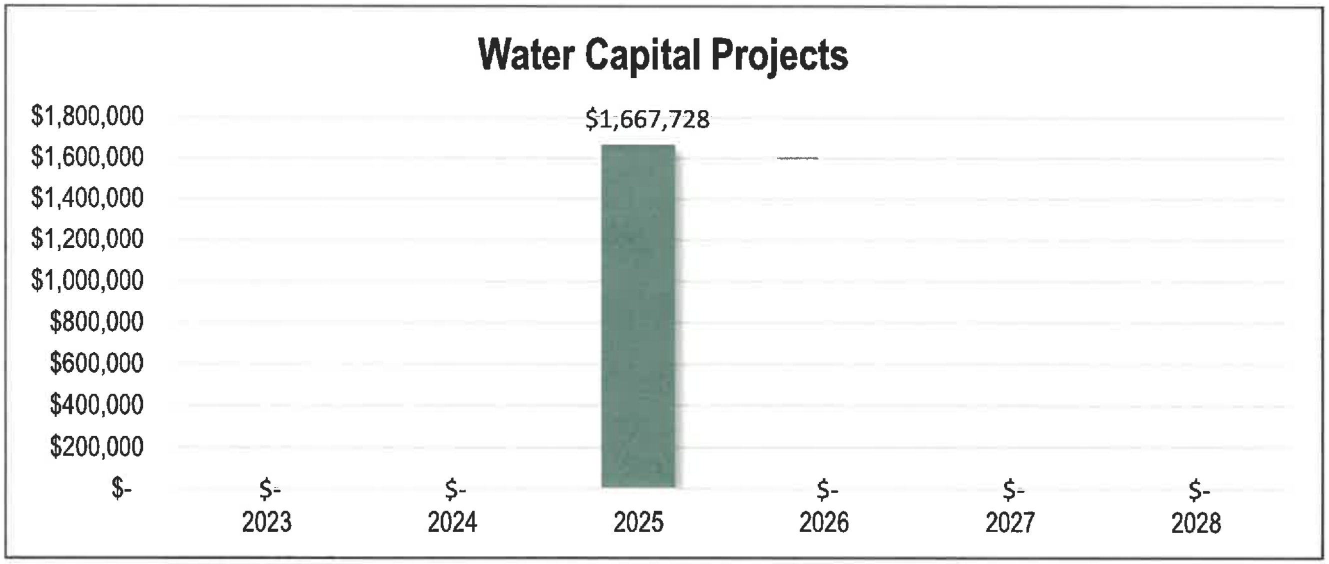
Water Revenue Requirement

Water Key Assumptions

- **Revenue evaluated at current rate levels**
  - Rate revenue ($1.4M) plus other revenue (~$30K)
- **O&M expenses include:**
  - Administration, training, maintenance, customer service & marketing, general
  - Vehicle replacements $83-$85K
  - State excise (5.029%) and B&O taxes (1.75%)
- **Existing debt:**
  - Five loans - $294K reducing to $210K by 2028
- **Fiscal policies:**
  - Operating reserve: Target: 95 days of O&M ($236K - 300K)
  - Capital reserve: No policy target (avg. CIP or emergency repair)
  - Rate funded capital: No policy target (repair & replacement needs)

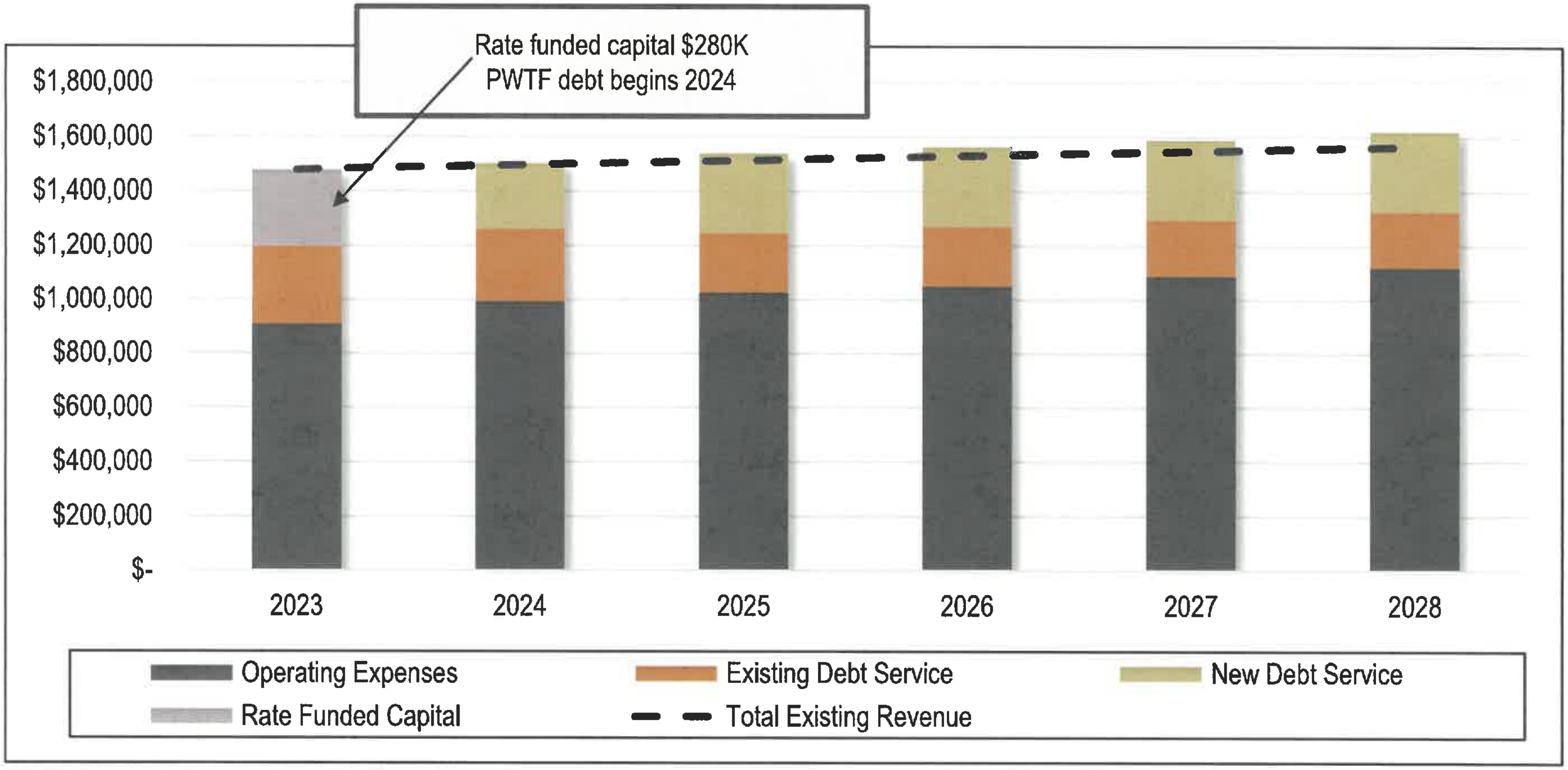
Description	Water 2023 - 2028
Existing Rate Revenue	$1.4 mil - $1.5 mil
O&M Expenses	$905K - $1.1 mil
Existing Debt Service	$294K - $210K
System Reinvestment	0.0%
Total CIP (2023-2028)	$1,667,728

Water – Capital Costs & Funding



- **Total CIP of $1.7M – lower reservoir replacement**
  - » Funded by existing reserves, cash generated from rates and new loan proceed
- **New debt: 20-year term; 4% interest**
  - » Secured $3.3 million Public Works Trust Fund Loan replacing last phase of distribution lines in the City
    - – Debt service begins 2024 @ ~$245K per year
  - » Lower Reservoir replacement – loan needed for $700K (partial funding)
    - – Debt service begins 2025 @ $52K/year

Water Revenue Requirement Summary



- **Current system revenues cover operating costs and existing/new debt service**
- **As debt service increases in 2024 (PWTF loan), no revenue capacity available for capital funding requiring rate increases to meet future capital needs**

Water Rate Forecast

Water Sample Bill	Existing	2023	2024	2025	2026	2027	2028
Proposed Increases	**$ 47.48**	**5.50%**	**5.50%**	**5.50%**	**2.50%**	**2.50%**	**2.50%**
Sample Residential Monthly Bill		$ 50.09	$ 52.84	$ 55.75	$ 57.14	$ 58.57	$ 60.03
Monthly Increase		*$ 2.61*	*$ 2.75*	*$ 2.91*	*$ 1.39*	*$ 1.43*	*$ 1.46*

Note: Assumes residential in-town 3/4" meter and 10 ccf (1,000 cf) monthly use

- **5.5% per year increases (2023 – 2025), followed by 2.5% increases needed to support new debt service obligations and fund upcoming capital needs**
  - » Future reservoir project will require partial external funding
- **Sample residential bill impact $2.61 - $1.46 per month**
- **City utility tax in addition to monthly bill shown (pass through)**

Affordability Index - Water

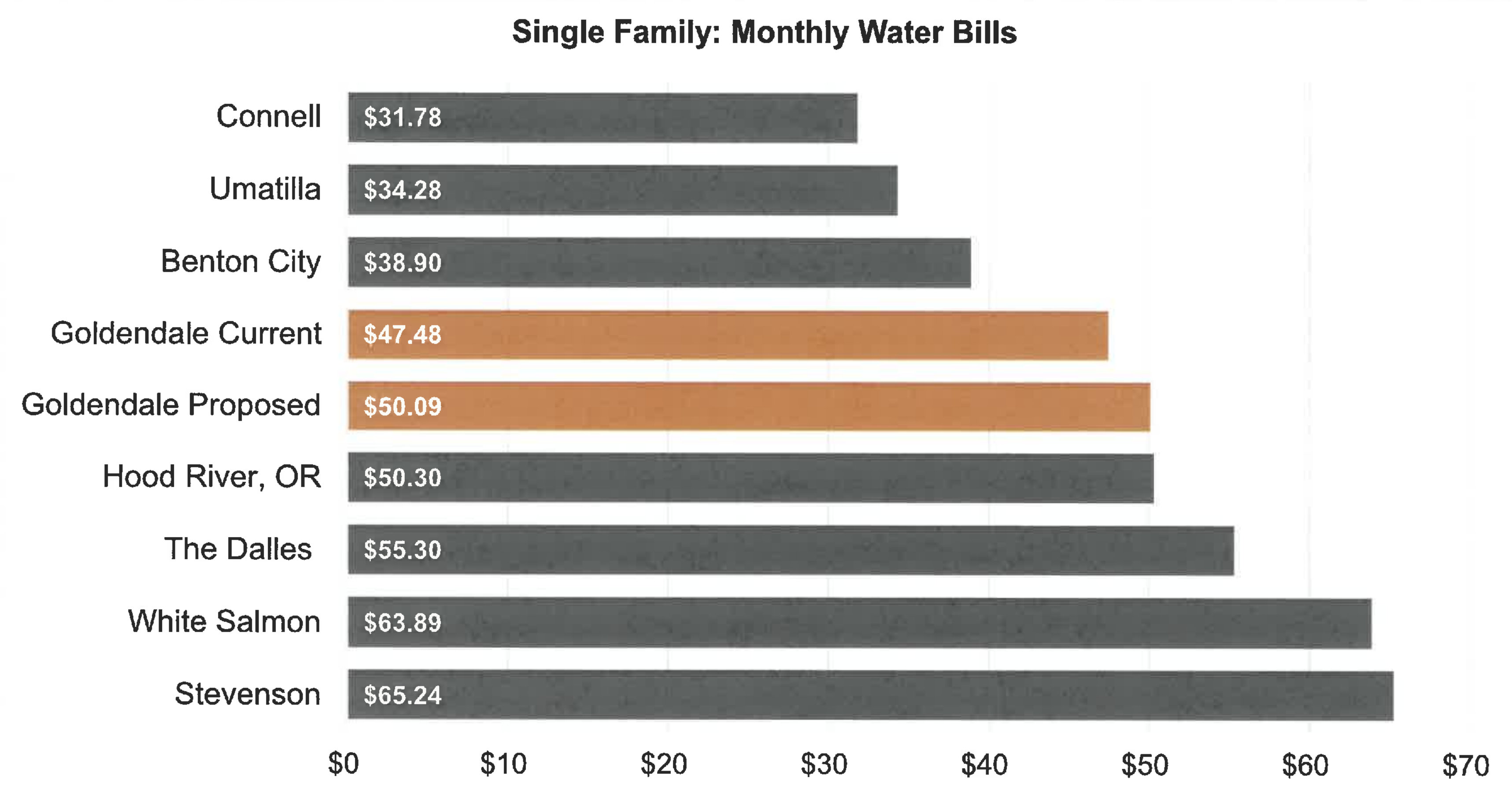
- **Lending agencies consider affordability using applicant's utility rates and median household income (MHI)**
  - » Systems are eligible for hardship funding (grant for forgivable loan) if rates rise above a certain affordability percentage
  - » Common to see eligibility range of 2.0% - 2.5% of MHI

- **Goldendale MHI: $48,462 – current single family rate $47.48 = 1.15% affordability index***
  - » 2.0% affordability index would equal a monthly rate of **$80.77**
  - » <2% not eligible for grant forgiveness, possible loan w/ lower interest

*3/4" meter with 10 hundred cubic feet (1,000 cubic feet) of water use

* Median household income (MHI) increased annually by CPI 10-year average of 2.48%

Water Jurisdictional Survey



Notes: Rates as published from websites as of April 2023

- Rates calculated for ¾" meter and 10 hundred cubic feet (1,000 cf) monthly usage
- Hood River rates note continuing 3% annual increases for foreseeable future
- White Salmon rates increasing 8% annually to 2027
- Stevenson rates increasing 5% annually to 2026, rate study currently underway

Sewer Revenue Requirement

Sewer Key Assumptions

- **Revenue evaluated at current rate levels**
  - » Rate revenue ($1.0M) plus other revenue ($5K)
- **O&M expenses include:**
  - » Administration, training, maintenance, customer service & marketing, general
  - » Vehicle replacements $81-$83K
  - » State excise (3.852%) and B&O taxes (1.75%)
- **Existing debt:**
  - » Five loans - $257K to $235K by 2028
- **Fiscal policies:**
  - » Operating reserve: Target: 95 days of O&M ($186K - $235K)
  - » Capital reserve: No policy target (avg. CIP or emergency repair)
  - » Rate funded capital: No policy target (repair & replacement needs)

Description	Sewer 2023 - 2028
Existing Rate Revenue	$1.0 mil - $1.1 mil
O&M Expenses	$716K - $900K
Existing Debt Service	$257K - $235K
System Reinvestment	0.0%
Total CIP (2023-2028)	$9,175,452

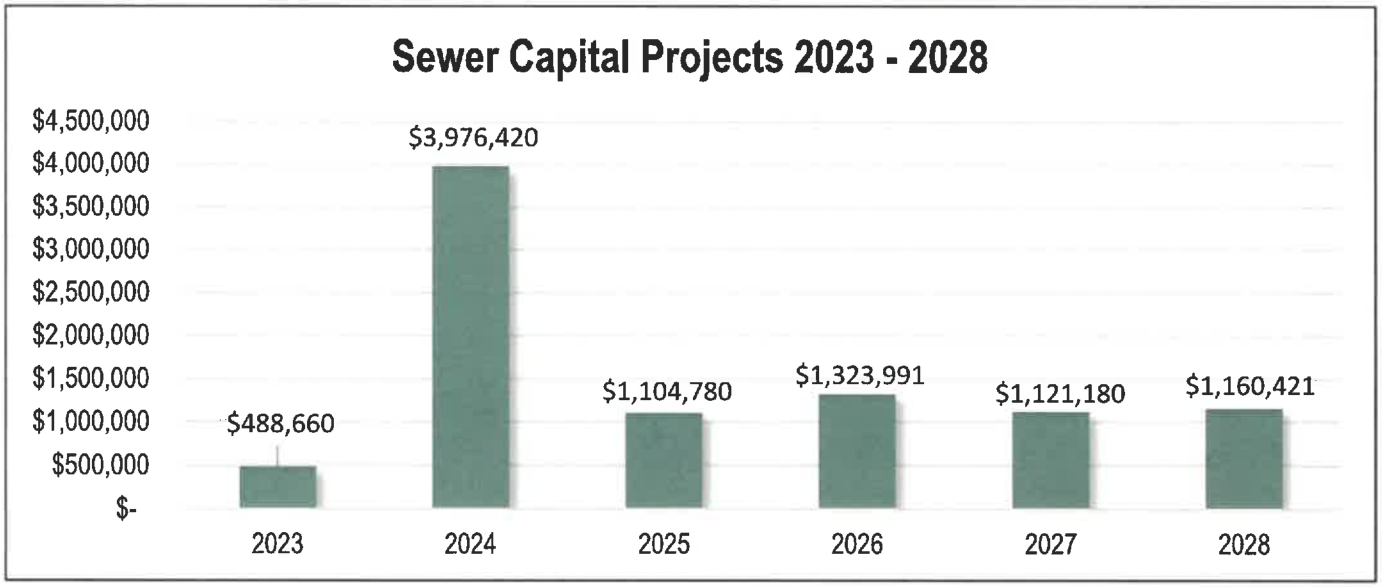
Sewer CIP Scenario 1 – Full CIP

	Total 2023-2028	Total 2029-2042	Total
Capital Improvement Projects			
WWTP Upgrade/Expansion	$ 4,465,080	$ 28,280,902	$ 32,745,983
Coll System Replacement	3,676,250	17,692,246	21,368,496
Other Replacement	735,250	3,538,449	4,273,699
Other Studies/Analysis	298,872	-	298,872
Total	**$ 9,175,452**	**$ 49,511,597**	**$ 58,687,050**

- **Capital Improvement Projects - $58.7M**
  - » Current WWTP Upgrades
  - » Temperature mitigation analysis $50K* (2025) & general sewer plan $200K* (2026)
  - » Collection pipe replacements $750K*/year starting 2025
  - » Annual repair/replacement $150K*/year starting 2025
  - » Second WWTP upgrade/expansion $15M* 2037-2042
- **Requires additional $33.2M in debt funding through 2042**

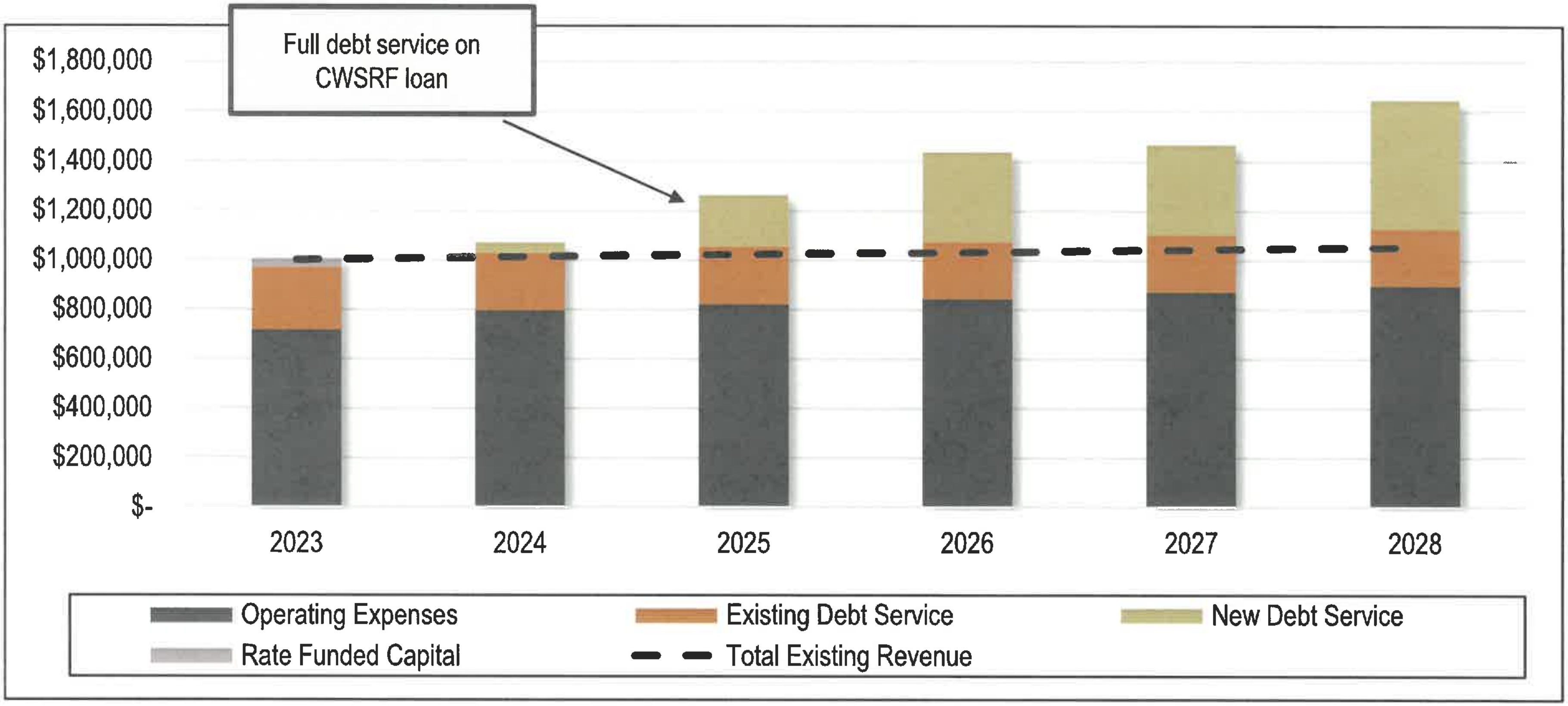
* Projects listed in today's dollars, table values in escalated dollars

Sewer Capital & Funding – Full CIP



- **Total CIP of $9.175M (escalated to year of construction)**
- **Capital Funding –**
  - » WWTP funded with CWSRF from Ecology $4.0 M loan
    - – Loan reduced by loan forgiveness of $205.5K and $250K Klickitat County Grant
    - – Debt service begins 2024 interest only, full payment 2025 @ ~$210K per year
  - » $3.5M assumed new debt $1.75M in 2026 & 2028
  - » Other funding existing reserves and cash generated from rates
- **Completion of sewer plan will confirm future capital project needs**

Sewer Revenue Requirement Summary



- **Current system revenues cover operating costs and existing debt service**
- **Funding deficiency as new debt is added in 2024 and beyond**
- **Rate increase required to fund new debt service needed to execute capital program ($9.175M for 2023-2028)**

Sewer Rate Forecast – Full CIP

Sewer Sample Bill	Existing	2023	2024	2025	2026	2027	2028
Proposed Increases	**$ 46.50**	**15.75%**	**15.75%**	**15.75%**	**9.00%**	**9.00%**	**9.00%**
Sample Residential Monthly Bill		$ 53.82	$ 62.30	$ 72.11	$ 78.60	$ 85.68	$ 93.39
Monthly Increase		*$ 7.32*	*$ 8.48*	*$ 9.81*	*$ 6.49*	*$ 7.07*	*$ 7.71*

Note: *Assumes residential in-town base charge includes 1,000 cubic feet*

- **15.75% per year increases for 2023 – 2025 followed by 9% per year increases through 2028**
- **Average Residential bill $93.39 in 2028**
  - » $7.81 per month average residential bill impact for time period
- **Capital program and funding**
  - » Current WWTP Upgrades
  - » Temperature mitigation analysis $50K* (2025) & general sewer plan $200K (2026)
  - » Collection pipe replacements $750K*/year starting 2025
  - » Annual repair/replacement $150K*/year starting 2025 Includes
  - » Debt service to support new debt service requirements (Ecology loan and additional $3.5M debt)

Sewer Capital Project Scenarios

- **City's sewer utility requires continued repair, replacement and improvements**
- **Three scenarios developed for sewer utility capital**
  - **Option 1** – Full CIP presented (Est. $58.7 million incl. 2nd WWTP upgrade/expansion)
  - **Option 2** – Min CIP (Current WWTP upgrade project and minor studies)
  - **Option 3** – Phased CIP (sustain annual $1.2 - $1.5M for repair/replacement)
- **Capital project costs escalated to year of construction**
  - 6% per year for 2023 & 2024, back to 3.5% per year in 2025 and beyond

Sewer Scenario 2 – Min CIP

	Total 2023-2028	Total 2029-2042	Total
Capital Improvement Projects			
WWTP Upgrade/Expansion	$ 4,465,080	$ -	$ 4,465,080
Coll System Replacement	-	-	-
Other Replacement	-	-	-
Other Studies/Analysis	298,872	-	298,872
Total	**$ 4,763,952**	**$ -**	**$ 4,763,952**

- **Capital Improvement Projects - $4.7M**
  - » Current WWTP Upgrades
  - » Temperature mitigation analysis $50K* (2025) & general sewer plan $200K* (2026)
- **No new debt assumed**
- **Annual 7.5% increases in 2023-2025, followed by 2.0% annual increases thereafter**
  - » Average residential monthly bill $61.30 in 2028

* Projects listed in today's dollars, table values in escalated dollars

Sewer Scenario 3 – Phased CIP

	Total 2023-2028	Total 2029-2042	Total
Capital Improvement Projects			
WWTP Upgrade/Expansion	$ 4,465,080	$ -	$ 4,465,080
Coll System Replacement	1,869,731	17,692,246	19,561,977
Other Replacement	373,946	3,538,449	3,912,395
Other Studies/Analysis	298,872	-	298,872
Total	**$ 7,007,630**	**$ 21,230,695**	**$ 28,238,325**

- **Capital Improvement Projects - $28.2M**
  - » Current WWTP Upgrades
  - » Temperature mitigation analysis $50K* (2025) & general sewer plan $200K* (2026)
  - » Collection pipe replacements $150K*/year in 2025 increasing to $750K*/year in 2029
  - » Annual repair/replacement $30K*/year in 2025 increasing to $150K*/year in 2029
- **No new debt assumed**
- **Annual 15.0% increases 2023-26, 9.0% per year through 2030, followed by 2.0% annual increases thereafter**
  - » Average residential monthly bill $96.63 in 2028

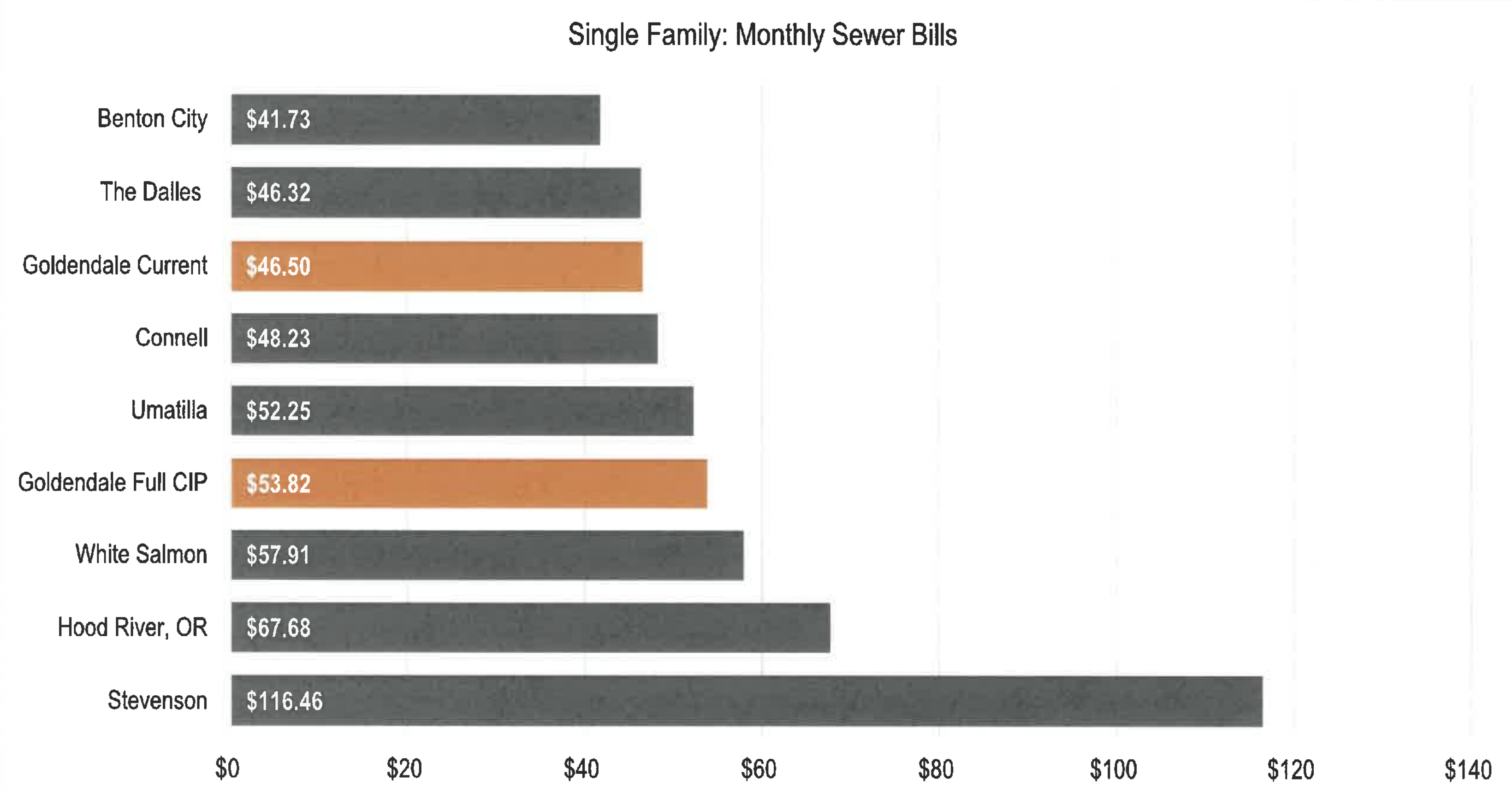
* Projects listed in today's dollars, table values in escalated dollars

Summary of Sewer CIP Scenarios

	Current	2023	2024	2025	2026	2027	2028	2042
	$46.50							
Scenario 1 - Full CIP - Debt	**$58.6M - 100% CIP Plan**	15.75%	15.75%	15.75%	9.00%	9.00%	9.00%	
Sample Mo. Residential Bill		$ 53.82	$ 62.30	$ 72.11	$ 78.60	$ 85.68	$ 93.39	$ 241.61
Difference		$ 7.32	$ 8.48	$ 9.81	$ 6.49	$ 7.07	$ 7.71	$ 195.11
Scenario 2 - Min CIP	**$4.7M - 8% Full CIP Plan**	7.50%	7.50%	7.50%	2.00%	2.00%	2.00%	
Sample Mo. Residential Bill		$ 49.99	$ 53.74	$ 57.77	$ 58.92	$ 60.10	$ 61.30	$ 80.89
Difference		$ 3.49	$ 3.75	$ 4.03	$ 1.16	$ 1.18	$ 1.20	$ 34.39
Scenario 3 - Phased CIP- Cash	**$28.2M - 48% Full CIP Plan**	15.00%	15.00%	15.00%	15.00%	9.00%	9.00%	
Sample Mo. Residential Bill		$ 53.48	$ 61.50	$ 70.72	$ 81.33	$ 88.65	$ 96.63	$ 145.60
Difference		$ 6.97	$ 8.02	$ 9.22	$ 10.61	$ 7.32	$ 7.98	$ 99.10

- **Scenario 1 – Full CIP**
  - » Use of debt (2026 & 2028) to moderate rate increases (incl. WWTP phase 2 upgrade estimate)
  - » Additional debt required in future
- **Scenario 2 – Min CIP; completion of 8% of full CIP**
  - » Does not include future capital needs for R&R or WWTP
- **Scenario 3 – Phased CIP; completion of 48% full CIP**
  - » Phase in repair & replacement funding 2025 – 2029 (begins to address replacement needs)
  - » Cash funded, no additional debt
  - » Debt financing could decrease rate impacts

Sewer Jurisdictional Survey



Notes: Rates as published from websites as of April 2023

- All sewer rates flat basic fee
- Hood River rates note continuing 3% annual increases for foreseeable future
- White Salmon rates increasing 5% annually to 2027
- Stevenson rates increasing 5% annually to 2026, rate study currently underway

Affordability Index - Sewer

- **Goldendale MHI: $48,462 – current single family rate of $46.50 = 1.12% affordability index**
  - 2.0% affordability index would be monthly rate of $**80.77**
  - <2% not eligible for grant forgiveness, possible loan w/ lower interest

- **Highest rate scenario (phased – cash CIP funding) single-family rate in 2028 estimated at $96.63 = 2.02% affordability index**

* Median household income (MHI) increased annually by CPI 10-year average of 2.48%

Summary

- **Water**
  - » 5.5% per year increases (2023 – 2025), followed by 2.5% increases needed to support new debt service obligations and fund upcoming capital needs
    - – Includes new debt service and lower reservoir replacement
    - – No other capital needs identified
- **Sewer**
  - » Rate impact dependent on CIP scenario selected – 7.5% to 15.75%
  - » Full CIP Includes replacement and second WWTP upgrade/expansion estimate
  - » Min CIP Only covers current WWTP upgrades – does not address replacement needs.
  - » Phased CIP – begins to address replacement needs, no second WWTP upgrade

- **2023 rate increase assumes mid-year increase followed by additional January 2024 rate increase.**
  - » Due to timing likely no 2023 increase. Will require higher increase in 2024 to make up for lost timing.
  - » 18 months to next rate increase (Jan 2025)

Next Steps

- Questions
- Council input on rate scenarios
- Other?


Social Media
Teamwork
80%
30%
Questions/Discussion

Thank you!

Angie Sanchez Virnoche
Vice President/Principal
425.336.4157
angies@fcsgroup.com

www.fcsgroup.com

FCS GROUP
Solutions-Oriented Consulting