

Financial Analysis

8-1. INTRODUCTION

Washington Administrative Code (WAC) 173-240-050) requires a general sewer plan (GSR) to discuss the cost of sewer service in order to demonstrate the financial viability of funding debt service and operation and maintenance costs. In 2014, the City hired FCS Group to prepare a sewer rate study and the results were presented at City Council meetings and public hearings. The FCS Group presentation summarizing the results of the rate study is included as **Appendix O**.

In addition, the City explored inflationary based rate increases for all utilities, including sewer. A memorandum outlining the various rate increase options was prepared by FCS Group and is also included in **Appendix O**.

In executing this financial planning effort, the historical financial condition of the utility was documented; capital funding options were identified and evaluated; and the feasibility and impact of funding the capital improvement program (CIP) was evaluated.

8-2. CAPITAL FUNDING OPTIONS

The City may fund the sewer CIP from a variety of sources. In general, these sources can be summarized as: (1) governmental grant and loan programs; (2) publicly issued debt; and (3) cash resources and revenues. In addition, there are numerous system improvements, primarily in the form of system extensions that are required of developers as a condition of service. Since there is no impact to rates stemming from these improvements, they are not addressed in this analysis.

8-3. FISCAL POLICIES

Critical to the long-term financial health and performance of the sewer utility is the development of sound fiscal policies to guide the financial performance of the utility. The key policies incorporated into this financial plan include:

- Maintaining a minimum operating reserve balance.
- Maintaining a minimum capital reserve.
- System reinvestment funding through rates, using depreciation expense as the benchmark for the appropriate level of funding. The annual contribution is based on “net depreciation funding” from rates, which equals the annual depreciation expense less annual principal payments. This benchmark is roughly equivalent to “break-even” performance from a balance sheet perspective. Given the current and proposed level of sewer utility debt, additional funding would not be required from rates.

8-4. RATE ASSESSMENT

The rate assessment includes a review of projected rate levels and affordability, as well as a discussion of the effectiveness of the current rate structure to address conservation.

CHAPTER 8

8-5. RATE LEVELS

The City's existing rates and charges in 2014 were not adequate to support the cost of the improvements identified in this GSP. Therefore, the council adopted new rates that are adequate, and which are presented in **Table 8-1**.

**Table 8-1
Sewer Rates**

Baseline Rates	Existing (2010)¹	2015	2016	2017	2018	2019	2020
Annual Rate Increase		31.0%	10.0%	6.0%	6.0%	6.0%	4.0%
Monthly Residential Rate	\$42.01	\$55.03	\$60.54	\$64.17	\$68.02	\$72.10	\$74.98
Change From Prior Year		\$13.02	\$5.51	\$3.63	\$3.85	\$4.08	\$2.88
Indexed Adjusted Rates	Existing (2010)¹	2015	2016	2017	2018	2019	2020
Annual Rate Increase		45.0%	4.7%	4.7%	4.7%	4.7%	4.7%
Monthly Residential Rate	\$42.01	\$60.91	\$63.39	\$65.97	\$68.66	\$71.45	\$74.36
Change From Prior Year		\$18.90	\$2.48	\$2.58	\$2.69	\$2.79	\$2.91

¹Sewer Rates have not been raised by the City since 2010