



# CITY OF SNOHOMISH

*Founded 1859, Incorporated 1890*

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## NOTICE OF SPECIAL MEETING

### SNOHOMISH CITY COUNCIL

in the  
George Gilbertson Boardroom  
1601 Avenue D

**TUESDAY**  
**March 1, 2016**  
**6:00 p.m.**

## WORKSHOP AGENDA

- 6:00 1. **CALL TO ORDER**
2. **DISCUSSION ITEM** – Wastewater Utility System & Rate Analysis Update  
(P.1)
- 6:55 3. **ADJOURN**



## **DISCUSSION ITEM 2**

**Date:** March 1, 2016  
**To:** City Council  
**From:** Steve Schuller, Public Works Director  
**Subject:** **Council Workshop – 2017 to 2019 Wastewater Utility Rate Update**

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The workshop presentation will provide an update on the City's wastewater utility with a focus on four areas:

- 1) Environmental Compliance Improvements;
- 2) 10-year Capital Improvement Plan (CIP);
- 3) Wastewater Rate Options for 2017, 2018 and 2019; and
- 4) Next Steps, including Public Outreach and future Rate Resolution.

Our City's Wastewater Treatment Plant (WWTP) had a perfect year in 2015 with zero permit exceedences! This is the first time this has happened for our City in over 20 years. The Washington State Department of Ecology's online records go back to 1995, the same year our City's current plant configuration was built.

Over a four year period (2006 to 2009), the WWTP had 109 permit exceedences. In contrast, over the last four years (2012 to 2015), since the City installed innovative submerged fixed film (or "Bacteria Hotels") in 2012, the WWTP had only 3 permit exceedences. The innovative fixed film technology, never before used in Washington State, has made an amazing difference.

The City will continue to pursue performance improvements to outperform today's strict and demanding permit limits. These limits are set by federal (Environmental Protection Agency) and state (Department of Ecology) regulatory agencies, and the City is required by law to comply. Environmental regulations have grown significantly in the last decades and have consistently become more stringent in order to reduce pollution into our waterways.

At the workshop we will discuss in more detail our environmental compliance progress and how this continued advancement provides positive options for future wastewater rates, in particular as Council prepares to set utility rates for 2017, 2018 and 2019 in the coming year. The City Council will consider several options at the workshop for setting these rates. The next several years are critical if we want to continue the regulatory achievements and the associated long-term benefits it can provide to our ratepayers.

Based on our progress in recent years, the City Council was able to cancel a proposed 90% increase in wastewater rates which would have been required in order to send our wastewater to the City of Everett for treatment. In early 2014, the Washington State Department of Ecology Agreed Order requiring the City to send its waste to Everett was amended. Over the next year, the City met all the stringent conditions of the amended Agreed Order, and received a "Notice of Compliance" on March 10, 2015. This allowed the City to continue treating its wastewater at the

## **DISCUSSION ITEM 2**

current plant, and the City is no longer required to send its wastewater to Everett. Based on that successful advancement, the Council was able to adopt a 0% (zero) increase in wastewater rates for 2014, 2015 and again in 2016; allowing no change in the rate for 3 years.

Wastewater is one of the most expensive services provided by the City. Approximately one out of every four dollars of the City's annual operating expenses is for the wastewater utility. The presentation will compare our past, current and potential future wastewater rates with some of our neighboring jurisdictions including the City of Monroe, Lake Stevens Sewer District and the City of Everett. In 2013, the City of Snohomish's rate (based on average consumption) was the highest of the four. By keeping our wastewater rate flat, in just two years, the City of Snohomish wastewater rate in 2015 was cheaper than Monroe's. With continued improvements, we are on the heels of our other neighbors. More specifics on current and future rate comparisons will be reviewed at the workshop.

Over the next ten years, the City is planning to invest approximately \$16 million in capital improvements to the wastewater system. One of the more expensive projects is the Combined Sewer Overflow (CSO) separations. Currently, in the historic portion of the City, there is only one pipe in the street that conveys both sanitary sewer (from inside homes and businesses) and stormwater (from street catch basins) to the wastewater treatment plant. In December 2015, due to heavy rains, the wastewater treatment plant almost reached its design influent flow capacity of 2.8 Million Gallons per Day (monthly average). In perspective, this last December was the eighth wettest month on record. The City's long-term plan is to separate a portion of the storm flows from the wastewater plant, and convey them directly to the 25-acre storm lagoon (*a.k.a. the Riverview Wildlife Refuge*) for wetland treatment. The presentation will also provide an update on our progress to date on this project.

Four rate options will be detailed for review at the workshop:

- 1) **Increase rates by the cost of inflation (about 2%) each year.** This would calculate to 2% in 2017, 2% in 2018 and 2% in 2019. This will leave the City with an estimated ending fund balance amount reserved for capital of \$8,069,202 at the end of 2019, and available for future wastewater capital infrastructure improvements. Because of an approximate \$2 million WWTP filtration upgrade project planned for 2020, the ending fund balance amount reserved for capital drops to \$6,240,940 at the end of 2020.
- 2) **Keep rate increases at 0% (zero).** This would reflect 0% in 2017, 0% in 2018 and 0% in 2019. This is the recommendation of the *FCS Group* rate study and City Council workshop conducted in January 2014. This will leave the City with an estimated ending fund balance amount reserved for capital of \$7,804,502 at the end of 2019, and available for future wastewater capital infrastructure improvements. Because of the planned filtration project, the ending fund balance amount reserved for capital drops to \$5,887,972 at the end of 2020.
- 3) **Rate Reduction of 5% in 2017.** This calculation would be -5% in 2017 (*5% reduction in rates*), 0% in 2018 and 0% in 2019. This will leave the City with an estimated ending fund balance amount reserved for capital of \$7,142,754 at the end of 2019, and available

## **DISCUSSION ITEM 2**

for future wastewater capital infrastructure improvements. Because of the planned filtration project, the ending fund balance amount reserved for capital drops to \$5,005,641 at the end of 2020.

- 4) **Rate Reduction of 10% in 2017.** This would be -10% in 2017 (10% *reduction in rates*), 0% in 2018 and 0% in 2019. This will leave the City with an estimated ending fund balance amount reserved for capital of \$6,481,006 at the end of 2019, and available for future wastewater capital infrastructure improvements. Because of the planned filtration project, the ending fund balance amount reserved for capital drops to \$4,123,310 at the end of 2020.

The Washington State Public Works Trust Fund (PWTF) loan program has been gutted in recent legislative sessions. This has been a key source of capital funding for the City. We currently have five outstanding PWTF loans for the wastewater system that allowed us to build three key capital improvements: 1) The 2007 Trunkline that connects Snohomish Station, Bickford Ford and many others to the north; 2) The 2011 CSO Improvements; and 3) The 2012 “Bacteria Hotels.” The interest rate over the last decade has been very low (0.5%). Without this source of loan funding, the City’s available funds for future capital upgrades become much more critical.

Below is a summary of our current debt within the wastewater utility:

- Starting in 2017, there is no “bonded” debt;
- Remaining debt obligations as of December 31, 2015 is \$7,944,372 through five remaining PWTF Loans. Principal and interest payments due in 2016 total \$1,028,618:
  - Trunkline (3 loans): Completed in 2007 from the treatment plant to the Snohomish Station/Bickford Ford area;
  - Combined Sewer Overflow (CSO) Project (1 loan): Completed in 2011; and
  - Innovative “Bacteria Hotels” (1 loan): Installed in 2012.
- Starting in 2017, principal and interest payments average \$740,125 until 2023 when the annual debt obligations start to mature and are paid in full. In 2029, all current wastewater debt is scheduled to be paid.

Each of the four rate options provides a balance of risk and reward. With a higher rate, the City will be better positioned to complete the CSO separations, sustain a high level of environmental compliance, response to new regulations (such as FEMA’s levee and floodplain changes or Ecology’s new fish consumption rule, both due later this year), and complete critical capital upgrades. With a lower rate, our ratepayers (both businesses and residences) are able to keep more of their funds in 2017, 2018 and 2019. For 2017, a 10% rate reduction would save the average single family home about \$18.71 every two months or \$112 per year (based on 1200 cubic feet average use, *FSC Group 2014 Rate Study*). A major part of the workshop will be to review the risk vs. reward components of each option.

## **DISCUSSION ITEM 2**

Another key discussion for the workshop will be how to provide citizen outreach, education and full transparency of this complex and challenging subject, and just as important, how to share our good news, regarding both our extensive improvements to our environmental record and the resulting positive impact on current and future rates.

Based on the City Council's direction tonight, staff will prepare a utility rate resolution for Council evaluation and adoption later in the year that would set rates for the next three year period (2017, 2018 and 2019). The future resolution will also include water and stormwater utility rate determinations for the same period. Updates and rate options for those two utilities will be discussed at meetings in the coming months.

**STRATEGIC PLAN REFERENCE:** Not applicable

**RECOMMENDATION:** That the City Council **DISCUSS** the wastewater utility update and provide **DIRECTION** on the preferred 2017 to 2019 wastewater rate option.

**ATTACHMENT:** None