

Based on customer feedback, we updated Scenario Two by reducing the grinder pump replacements to two per year instead of three. It was requested to review a fourth scenario, where the homeowner would be responsible for the replacement of failed grinder pumps. Below is an explanation from Kristin Masteller, General Manager, why we cannot support that specific scenario.

From: Kristin Masteller <kristinm@mason-pud1.org>
Sent: Thursday, February 18, 2021 3:10 PM
To: Katie Arnold <karnold@mason-pud1.org>
Subject: RE: SEWER COSA

Katie,

Thanks for doing the work on these scenarios and for handling the customer feedback.

I am comfortable recommending Scenario 2 at the \$50/month. Although this predicts a more conservative pump replacement schedule, we can always recalibrate it in three years when we reevaluate the rates. I would feel comfortable taking that risk and recommending that to the board, because we would have reserves to cover us if necessary until we revisited rates.

I am still not comfortable with the Scenario 4, and I discussed it with our water/wastewater department yesterday and they are also uncomfortable with it. Not only does a piecemeal approach not fit with our service model at the PUD, we are ones who are ultimately responsible for the operations and maintenance of the system. I am uncomfortable abdicating any of that responsibility to an HOA or to individual customers, especially when it deals with untreated human waste that is adjacent to the Hood Canal, customer homes, and drinking water sources. HOAs also tend to have changeovers in leadership and our reliability would be tied to their ability to enforce the repairs and pay for the pumps.

I think it is good that you reevaluated it in response to feedback you received from the customers, but it is still not an option that I can support and given the feelings of the commission at the last meeting, I doubt they will either. There are too many variables that we aren't able to control and the liability ultimately lies with the PUD to ensure the entire system meets state and environmental standards and operates safely and correctly.

Thanks,

Kristin

SCENARIO 1 - NO INCREASE						
\$25.10 Per Month						
	2021 Budgeted	2022 Projection	2023 Projection	2024 Projection	2025 Projection	2026 Projection
Sewer Sales - Madrona	5,421.60	5,421.60	5,421.60	5,421.60	5,421.60	5,421.60
Total Revenue from Operations	5,421.60	5,421.60	5,421.60	5,421.60	5,421.60	5,421.60
Total Cost of Sewer Service	6,969.78	7,979.28	8,167.88	8,356.04	8,535.16	8,719.65
Operating Margins	(1,548.18)	(2,557.68)	(2,746.28)	(2,934.44)	(3,113.56)	(3,298.05)
Non Operating Margins - Interest	60.00	45.00	45.00	45.00	45.00	45.00
Patronage Capital or Margins	(1,488.18)	(2,512.68)	(2,701.28)	(2,889.44)	(3,068.56)	(3,253.05)
	2021 Budgeted	2022 Projection	2023 Projection	2024 Projection	2025 Projection	2026 Projection
Operating - Margin	(1,548.18)	(2,557.68)	(2,746.28)	(2,934.44)	(3,113.56)	(3,298.05)
Non Operating - Margin	60.00	45.00	45.00	45.00	45.00	45.00
Funds Available for Debt Service, Reserves & CWP	(71.94)	(262.68)	(451.28)	(639.44)	(818.56)	(1,003.05)
Total CWP	10,650.00	7,800.00	7,800.00	10,650.00	7,800.00	7,800.00
Balance to Carry Forward General Fund	(1,582.43)	(9,645.11)	(17,896.39)	(29,185.84)	(37,804.40)	(46,607.44)
Emergency Reserves	10,917.57	1,272.46	-	-	-	-

Scenario 1:

This scenario demonstrates the impact on the sewer system's inability to capture sufficient operating and reserve costs through rates if we did not implement a rate increase.

Cost of Service: Annual cost of maintaining the Sewer system increases 3% per year, following trends in inflation for materials, supplies and labor. Costs associated are actual expenses to maintain the system; not allocating any administrative overhead.

By law, we must set rates that ensure a positive net operating margin. We cannot carry a deficit.

Emergency Reserves should be \$12,500 to account for Days Cash on Hand goal of \$4,500. The other \$8,000 is set aside for unplanned emergency repairs to the system. The fund is depleted by 2022.

SCENARIO 2 - Updated for 2 grinder pump replacements each year						
\$50 per month, with annual % increase						
		3%	3%	3%	3%	3%
	50.00	51.5	53.05	54.64	56.28	57.96
	2021 Budgeted	2022 Projection	2023 Projection	2024 Projection	2025 Projection	2026 Projection
Sewer Sales - Madrona	9,007.20	11,124.00	11,457.72	11,801.45	12,155.50	12,520.16
Total Revenue from Operations	9,007.20	11,124.00	11,457.72	11,801.45	12,155.50	12,520.16
Total Cost of Sewer Service	7,059.42	8,121.84	8,318.79	8,515.54	8,703.51	8,897.11
Operating Margins	1,947.78	3,002.16	3,138.93	3,285.91	3,451.99	3,623.05
Non Operating Margins - Interest	60.00	45.00	45.00	45.00	45.00	45.00
Patronage Capital or Margins	2,007.78	3,047.16	3,183.93	3,330.91	3,496.99	3,668.05
	2021 Budgeted	2022 Projection	2023 Projection	2024 Projection	2025 Projection	2026 Projection
Operating - Margin	1,947.78	3,002.16	3,138.93	3,285.91	3,451.99	3,623.05
Non Operating - Margin	60.00	45.00	45.00	45.00	45.00	45.00
Funds Available for Debt Service, Reserves & CWP	3,424.02	5,297.16	5,433.93	5,580.91	5,746.99	5,918.05
Total CWP	8,050.00	5,200.00	5,200.00	8,050.00	5,200.00	5,200.00
Balance to Carry Forward General Fund	1,913.53	2,010.69	2,244.62	(224.46)	322.52	1,040.57
Emergency Reserves	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500

Scenario 2:

Scenario 2 starts the base rate at \$50/month and then evaluates if that is sufficient to capture enough revenue to cover expenditures to operate and maintain the system, as well as fund the emergency reserves.

Cost of Service: Annual cost of maintaining the Sewer system increases 3% per year, following trends in inflation for materials, supplies and labor. Costs associated are actual expenses to maintain the system; not allocating any administrative overhead.

Meets requirement for a positive net operating margin.

The revenue is adequate to cover the Construction Work projects, such as pumping, and replacing 2 grinder pumps each year at \$2,600 each. The emergency fund remains stable.

SCENARIO 3 - Staff Recommended						
<i>\$60 per month, with annual percentage increase</i>						
	3%	3%	3%	3%	3%	3%
	60.00	61.80	63.65	65.56	67.53	69.56
	2021 Budgeted	2022 Projection	2023 Projection	2024 Projection	2025 Projection	2026 Projection
Sewer Sales - Madrona	10,447.20	12,960.00	13,608.00	14,288.40	15,002.82	15,752.96
Total Revenue from Operations	10,447.20	12,960.00	13,608.00	14,288.40	15,002.82	15,752.96
Total Cost of Sewer Service	7,095.42	8,167.74	8,372.54	8,577.71	8,774.69	8,977.93
Operating Margins	3,351.78	4,792.26	5,235.46	5,710.69	6,228.13	6,775.03
Non Operating Margins - Interest	60.00	45.00	45.00	45.00	45.00	45.00
Patronage Capital or Margins	3,411.78	4,837.26	5,280.46	5,755.69	6,273.13	6,820.03
	2021 Budgeted	2022 Projection	2023 Projection	2024 Projection	2025 Projection	2026 Projection
Operating - Margin	3,351.78	4,792.26	5,235.46	5,710.69	6,228.13	6,775.03
Non Operating - Margin	60.00	45.00	45.00	45.00	45.00	45.00
Funds Available for Debt Service, Reserves & CWP	4,828.02	7,087.26	7,530.46	8,005.69	8,523.13	9,070.03
Total CWP	10,650.00	7,800.00	7,800.00	10,650.00	7,800.00	7,800.00
Balance to Carry Forward General Fund	3,317.53	2,604.79	2,335.25	(309.07)	414.06	1,684.09
Emergency Reserves	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500

Scenario 3:

Scenario 3 starts the base rate at \$60/month and then evaluates if that is sufficient to capture enough revenue to cover expenditures to operate and maintain the system, as well as fund the emergency reserves. At \$60/month, it is sufficient to cover operational expenditures at the rate of inflation, as well as fund operating and emergency reserves and planned capital/maintenance activities.

Cost of Service: Annual cost of maintaining the Sewer system increases 3% per year, following trends in inflation for materials, supplies and labor. Costs associated are actual expenses to maintain the system; not allocating any administrative overhead.

Meets requirement for a positive net operating margin.

The revenue is adequate to cover the grinder pump replacements, pumping services done every three years, and maintain the emergency reserves at required level, which covers 180 Days Cash on Hand, and \$8,000 for unplanned repairs. (\$8k was calculated based on 10 year historical data.)