

SANITARY SEWER RATE STUDY

Grandview, MO

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McClure Project No. 2022000970-000

Report For:

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EXECUTIVE SUMMARY

McClure Engineering Company (MEC) was hired by the City of Grandview, MO to review and analyze the existing rate structure for their sanitary sewer utility. A Request for Information (RFI) was developed by McClure and submitted to City of Grandview project team members to obtain necessary information to complete the sewer rate analysis. In response to the RFI, the following information was provided by the city to complete the analysis: current water rates, number of Residential and Commercial users, sales data, audited and unaudited financials, and past and current budget information.

The purpose of this Sanitary Sewer Rate Study is to develop a proposed plan for the City of Grandview to assist in the evaluation and determination of current and proposed future sewer rates.

Based on the City's Capital Improvement Plan (CIP), the city plans to invest an estimated \$4,084,000 worth of capital improvements to the sanitary sewer system over the next 5 years (FY 2024-2028).

To present the effects of future rate adjustments on Sanitary Sewer revenues and cash balances, the following scenarios were developed:

- o Scenario 1: Proposed CIP, Declining Staggered Adjustment
- o Scenario 2: Proposed CIP, Single Large Adjustment
- o Scenario 3: Proposed CIP, Yearly Even Adjustment

If the City proceeds with the proposed CIP investments and no rate increases are enacted, it is projected that by end of Fiscal Year 2023, the cash balance reserve will fall below the \$6,000,000 minimum reserve balance that was identified by City staff .

To make planned capital improvements to the City's sanitary sewer system and to maintain a \$6,000,000 cash balance for the next 5 years, it is recommended to implement Scenario 3: Proposed CIP, Yearly Even Adjustment.

1.0 INTRODUCTION

1.1 Purpose & Scope

The City of Grandview, Missouri (City) engaged McClure Engineering Co. (MEC) to complete a wastewater rate study to analyze the potential need for adjustments in the existing rate structure. This report documents the resultant findings, analyses, and proposed changes that were developed as part of this effort.

This study strives to ensure a sufficient revenue stream to meet operational and maintenance costs, as well as the capital needs of the City's wastewater systems. It also strives to prevent rate spikes due to unforeseen events by making sure that there are enough reserves to cover such potential costs without impacting users.

Following receipt of the RFI, the following data was provided by the City and used by McClure for the development of this report:

- Current Sewer Ordinance
- Current and Projected Budgets
- Sanitary User Inventory
- Significant Sewer User List
- Sewer Sales Records
- Audited Utility Financials
- Past Sewer Studies
- Sewer Utility Capital Improvement Plan

For the purpose of model development and completion of this report, Grandview staff provided unaudited financials for FY 2022, as well as FY 2023 budgeted financials. The City's fiscal year begins on October 1st and ends on September 30th.

1.2 Assumptions Used in the Study

While developing the model and analyzing wastewater rates, several guiding principles, which were developed with and confirmed by Grandview staff, were used to determine proposed rate adjustments.

The first of these principles are that there will be no rate increase during the current budget year for FY 2023. Due to the timing of the completion of this study and when the fiscal year began, all potential rate increases will take effect no earlier than the beginning of FY 2024.

Next, demand growth was estimated to be 0.5% annually. This growth rate keeps in line with the growth scenario provided in a previous rate study, as well as in line with the average number of active user accounts between FY 2017 and FY 2022.

Additionally, expenses were projected to increase 5% annually. A previous rate study assumed 3% for most expense categories. However, based on the historical trend in expenses over the past 5 years, a 5% projection is in line with the historical trends experienced by the sewer utility.

Lastly, cash reserves should not fall below \$6,000,000. This recommended minimum cash reserve amount was provided to McClure by City staff. Due to the potential of a large sanitary sewer project for a proposed future project, the City wishes to keep sewer cash reserves at this minimum amount to offset costs, should the project come to fruition.

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The goal of this study is to keep rates reasonable and affordable to users as time progresses. It is possible for the City to keep rates artificially low by not investing heavily in the maintenance and improvement of their systems. However, over time, systems assets deteriorate which may lead to significant and expensive repairs in the future. If not planned for properly, those unexpected repairs could be costly and lead to a large, unexpected rate increase to users at the time of future repair/replacement.

2.0 REVENUES AND EXPENSES

2.1 Historical Revenues and Expenses

As illustrated in Table 2.1 the City of Grandview has historically brought in sufficient revenues to cover expenses of the Wastewater Utility. According to the unaudited FY 2022 financials, there is only a \$370,775 difference to the benefit of the City between revenues and expenses. If rate adjustments are not made, the City will soon have a negative trend as it relates to the sanitary sewer budget.

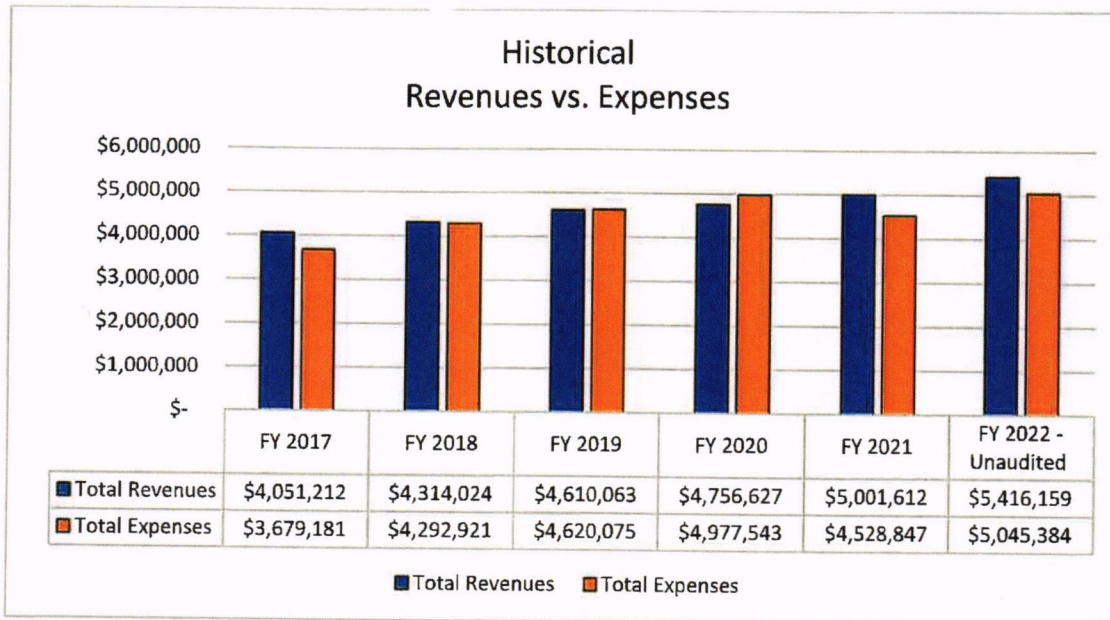


Table 2.1 Historical Revenues vs. Expenses

2.2 Proposed Revenue and Expenses

As illustrated in Table 2.2, if the City moves forward with the recommended rate adjustments, the sewer utility will maintain its desired \$6,000,000 minimum cash balance. The utility will also continue to build additional reserves to cover all planned Capital Improvement Projects, as well as reserves to help offset other unexpected maintenance costs that may occur.

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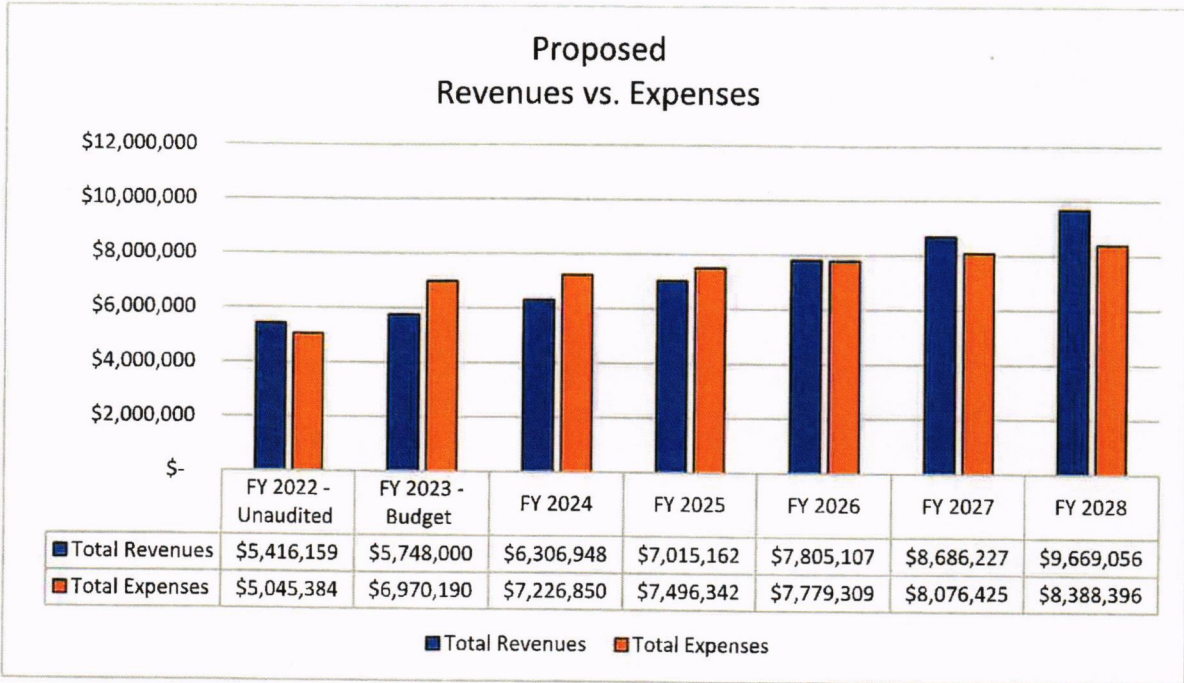


Table 2.2 Proposed Revenues vs. Expenses

2.3 Revenue and Expense Conclusions

In conclusion, if expense trends continue and rate adjustments are not made, expenses will outpace revenues for by the FY 2023 budget year as shown in Table 2.2. To continue to properly maintain the current wastewater systems, make additional improvements, and to cover all projected expenses, it is recommended that the City make reasonable and affordable rate adjustments.

3.0 CAPITAL IMPROVEMENTS

3.1 Sewer Utility Capital Improvements Plan

The City's Capital Improvement Plan, as detailed below in Table 3.1, includes sewer relining and repairs, vehicle replacements, and improvements to segments of the existing sanitary sewer. As the existing system continues to be utilized, it is important to properly maintain and make necessary upgrades. A \$4.08 million dollar capital improvement budget has been allocated through fiscal year 2027.

3.2 Additional Projected Expenses

In addition to the planned Capital Improvement Plan, there is a proposed large project that could significantly affect the cash reserves of the sewer utility. The proposed project would require a sanitary sewer extension project to be completed, and the current estimate of that project is \$6,000,000. An exact timeframe for this large project is not immediately known. However, it is the desire of the City and sanitary utility to maintain reserves to help offset the costs of this future City investment.

3.3 Revenue Requirements

All the costs outlined above in this analysis equal the total revenue requirements of the City's sewer system. They can be categorized into the following:

- Operating Expenses: Operation and maintenance expenses for day-to-day operations of the utility.
- Capital Improvements: Larger expenditures required for the rehabilitation, replacement, or expansion of the utility.

City of Grandview						
Comprehensive List of Projects and Estimated Costs						
Sanitary Sewer System Capital Improvements Plan						
Project Description	Estimated Cost	Fiscal Year				
		2023	2024	2025	2026	2027
Annual Sanitary Sewer Evaluation Survey	\$ 700,000	\$ 100,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
Annual Sanitary Sewer Relining Program	\$ 900,000	\$ 100,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Annual Sanitary Sewer Repair Program	\$ 450,000	\$ 50,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Annual Sanitary Sewer Study Program	\$ 450,000	\$ 50,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Annual Sanitary Sewer Vehicle Replacement	\$ 384,000	\$ 124,500	\$ 124,500	\$ 75,000	\$ 30,000	\$ 30,000
Sanitary Sewer Improvements at 120th Terr./Bennington	\$ 700,000	\$ 700,000	\$ -	\$ -	\$ -	\$ -
Falkirk Circle Sanitary Sewer I & I Improvements	\$ 500,000	\$ 185,000	\$ -	\$ -	\$ 315,000	\$ -
TOTAL	\$4,084,000	\$1,309,500	\$ 674,500	\$ 625,000	\$ 895,000	\$ 580,000

Table 3.1 Sanitary Sewer System Capital Improvement Plan