



**CITY COUNCIL MEETING
AGENDA**

**May 15, 2024
7:00 PM
Civic Center**

The Granite Falls City Council will hold it's meeting in person. Comments in this meeting are encouraged and may be e-mailed to the city clerk in advance on the meeting or given in person.

	Pages
1. CALL TO ORDER (Via In Person & Online Via Zoom)	
2. FLAG SALUTE	
3. ROLL CALL	
4. CONSENT AGENDA	
4.a AB 051-2024 Approval of May 1, 2024 Minutes	3
4.b AB 052-2024 Approval of May 15, 2024 Claims Checks #414281 through 414330 and Two EFT's totaling \$1,428,026.20	8
4.c AB 053-2024 Approval of April 16, 2024 through April 30, 2024 payroll claims checks #27563 through 27566 and check #414280 and Twenty-Two EFT's totaling \$123,457.73	9
5. STAFF REPORTS	
5.a 05/15/2024 City Clerk Report	10
5.b 05/15/2024 Community Development Director Report	12
5.c 05/15/2024 Deputy City Manager/Passport Office Report	13
5.d 05/15/2024 Public Works Report	14
5.e 05/15/2024 Consultant Police Chief Report	17
6. PUBLIC COMMENTS/RECOGNITION OF VISITORS-NON-ACTION ITEMS (The public is encouraged to submit written comments prior to the meeting by emailing them directly to the city clerk at: darla.reese@ci.granite-falls.wa.us ; and should be submitted no later than 5PM. Public comment speakers can sign up prior to the meeting, or wait for the public comment section of the meeting to be open by the presiding officer. Individual comments shall be limited to three minutes. Group comments shall be limited to five minutes).	
7. NEW BUSINESS	
7.a AB 054-2024 Introduction, first Read and Review required by RCW 35A.47.040 - PSE Franchise Agreement - Ordinance No. 1051-2024	23

**7.b AB 055-2024 Consideration of Contract with Gray and
OsborneEngineering Inc for WWTP Outfall Receiving Water Study
Assistance**

38

8. CURRENT BUSINESS

**8.a AB 046-2024 Continued discussionof setting General Facility Charge
Rates for Water and Sewer**

45

9. MAYOR'S COMMENTS (5 minutes)

10. COUNCIL COMMENTS (15 minutes)

11. CITY MANAGER (5 minutes)

12. ADJOURNMENT

The City of Granite Falls strives to provide access and services to all members
of the public.



CITY COUNCIL AGENDA BILL

Subject: AB 051-2024

Approval(s): City Manager

Public Works

Finance

Planning

Attorney

Other: _____

Action Recommended: Approval of
consent agenda

Meeting Date: May 15, 2024

Date Submitted: May 1, 2024

Exhibit(s): 05/01/2024 Minutes

Originating Dept.: City Clerk

Budgeted Amount: N/A

BARS Code:

Summary Statement:

The city council minutes are the official action taken and direction given at the meetings of the city council. Any councilmember may remove item(s) from the consent agenda for discussion and the item(s) would be voted on separately from the other consent agenda items.

Background:

N/A

Recommended Motion:

- 1) Motion to approve the minutes as shown. This can be accomplished as part of the motion to approve the consent agenda.
- 2) Motion to amend the [state date] minutes and approve the minutes as amended.



**CITY COUNCIL
MEETING MINUTES**

**May 1, 2024
7:00 PM
Civic Center**

City Council	Councilmember Hartman, Councilmember Glenn, Councilmember Griggs, Councilmember FitzGerald, Councilmember Straughn
City Staff	City Clerk Darla Reese, City Manager Brent Kirk, Deputy City Manager Jeff Balentine
Consultants	Consultant City Attorney Thom Graafstra Consultant Police Chief Tom Dalton (S.C.S.O.)

1. CALL TO ORDER (Via In Person & Online Via Zoom)

Mayor Hartman called the City Council Meeting to order at 7:00pm.

2. FLAG SALUTE

Mayor Hartman led Council, Staff and Audience in the Pledge of Allegiance to the flag.

3. ROLL CALL

See Above.

4. CONSENT AGENDA

Deputy City Manager Balentine stated that there was a change made in the claims. A check was cut to Lyle Bjornson for per diem for a conference attended. This increased the 403 Sewer amount to \$8,923.74, a change of \$187.38. This makes the total amount in claims to \$399,446.51.

Resolution Number: Accept consent agenda with said changes.

Moved by: Councilmember Glenn

Seconded by: Councilmember Straughn

Carried

4.a AB 047-2024 Approval of April 17, 2024 Minutes

4.b AB 048-2024 Approval of May 1, 2024 claims checks #414253 through 414279 totaling \$399,259.13

4.c AB 049-2024 Approval of April 1, 2024 through April 15, 2024 payroll claims consisting of Nineteen EFT's totaling \$73,169.26

5. STAFF REPORTS

5.a 05/01/2024 City Clerk Report

City Clerk Reese had nothing additional to add to her report.

5.b 05/01/2024 Community Development Director Report

Community Development Director Jensen was absent from the meeting.

5.c 05/01/2024 Deputy City Manager/Passport Office Report

Deputy City Manager Balentine gave the following updates:

- Closed the month of April 2024 - reviewed highlights/fund health for the month
- Passport update
- Wastewater Treatment Plant project update
- Explained the claims change - Lyle Bjornson Conference - travel policy training

5.d 05/01/2024 Public Works Department Report

City Manager Kirk gave an update on the public works report including the following items:

- Stanley Streets project update, Complete Streets Grant Update - Schedule C Stanley, Alpine sidewalk fixes to be added, cost around \$800,000
- Alpine Overlay - TIB Grant by storage units - out to bid next week
- School Dist. - Impact Fee Study has been finished = looking at an impact fee of approximately \$7,000 per house effective in January 2025
- GFC rates on other cities - brought to Council at next meeting

5.e 05/01/2024 Consultant Police Chief Dalton Report

Consultant Police Chief Dalton gave an update which included the following discussion items:

- Current calls for service

- LES Secretary leaving - looking for a replacement
- Mt. Way Elementary School access yesterday

6. PUBLIC COMMENTS/RECOGNITION OF VISITORS-NON-ACTION ITEMS

No one from the audience chose to comment.

7. NEW BUSINESS

7.a AB 050-2024 Consideration of Approval of Amendment No. 2 to the Interlocal Agreement between the City of Granite Falls and Snohomish County Concerning Provision of Fire Investigation Services

This item to be brought back after verbiage changed by Snohomish County removing references to City of Granite Falls City Fire Department Chief. The change needs to reference Fire Dist. #17.

7.b Discussion of Tree Carving

Fred Cruger discussed the tree carving diagram and discussion had with the tree carver Hayden Wright.

Move to approve an expenditure not to exceed \$17,000 from the city's General Fund for artistic carvings of the tree stump behind the police station with a final design approvals to be made by city staff in consultation with interested citizens.

Moved by: Councilmember Straughn

Seconded by: Councilmember Glenn

Carried

8. CURRENT BUSINESS

There were no Current Business items on this agenda.

9. MAYOR'S COMMENTS (5 minutes)

Mayor Hartman discussed the following items:

- Attended Regional Apprentice Pathways Event for the 5th Year
- Chamber Meeting May 16th at 6pm @ Marcos
- Railroad Days Committee Meeting May 21st at 6:30pm @The Stoa
- Senior Center Breakfast May 11th

10. COUNCIL COMMENTS (15 minutes)

Councilmember FitzGerald had no comments.

Councilmember Glenn had no comments.

Councilmember Griggs gave a Show 'N Shine update.

Councilmember Straughn asked about tree replanting city rules.

11. CITY MANAGER (5 minutes)

City Manager Kirk discussed the following items:

- Attended Snohomish County Tomorrow Meeting - comprehensive plan
- Email issues last week

12. ADJOURNMENT

City Clerk Darla Reese, MMC

Mayor Matthew Hartman



CITY COUNCIL AGENDA BILL

Subject: AB 052-2024

Approval(s): ☒ City Manager

Public Works

☒ Finance

Planning

Attorney

Other: _____

Action Recommended: Approval of consent agenda

Meeting Date: May 15, 2024

Date Submitted: May 10, 2024

Exhibit(s): None

Originating Dept.: Deputy City Manager

Budgeted Amount: \$1,428,026.20

Fund(s):

001 Current Expense = \$25,470.84

101 Streets = \$8,789.98

303 Cif/Streets = \$16,020.13

401 Water = \$56,448.52

402 Cif/Water = \$13,622.32

403 Sewer = \$103,365.26

404 Cif/Sewer = \$1,201,552.22

405 Storm Drainage = \$1,906.18

630 Trust Agency = \$850.75

Summary Statement:

Claims are for May 2, 2024 through May 15, 2024.

Background:

N/A

Recommended Motion:

- 1) Motion to approve the claims as presented. This can be accomplished as part of the motion to approve the consent agenda.
- 2) Motion to amend the [state date] claims and approve the minutes as amended.



CITY COUNCIL AGENDA BILL

Subject: AB 053-2024

Approval(s): ☒ City Manager

Public Works

☒ Finance

Planning

Attorney

Other: _____

Action Recommended: Approval of consent agenda

Meeting Date: May 15, 2024

Date Submitted: April 30, 2024

Exhibit(s): None

Originating Dept.: Deputy City Manager

Budgeted Amount: \$123,457.73

Fund(s):

001 Current Expense = \$54,589.16

101 Streets = \$9,599.76

401 Water = \$20,007.78

403 Sewer = \$34,180.24

405 Storm Drainage = \$5,080.79

Summary Statement:

Payroll claims are for April 16, 2024 through April 30, 2024.

Background:

N/A

Recommended Motion:

- 1) Motion to approve the payroll claims as presented. This can be accomplished as part of the motion to approve the consent agenda.
- 2) Motion to amend the [state date] payroll claims and approve the minutes as amended.

City Clerk Staff Report May 15, 2024

Business Licenses (inside City):

Alexandra Lane Photography (Johnson, Alexandra Lane MRS)

309 W. Pilchuck St.
Granite Falls, WA 98252
Photographer

Advanced Notary Services (Warbis, Marlo)

17701 Mill Valley Rd.
Granite Falls, WA 98252
Notary Public

Yellowgummi Bear Designs (Cooley, Krista Ann)

506 Eagle View Drive
Granite Falls, WA 98252
All other general merchandise retailers, all other miscellaneous retailers

Dustless Dreams LLC

205 Wabash Ave.
Granite Falls, WA 98252
Cleaning service, janitorial, commercial, house cleaning

Business Licenses (outside City):

Bulljohnson Plumbing LLC

221 Russell Rd.
Snohomish, WA 98290
Journeyman plumber

Logan's Painting Northwest, LLC

7126-83rd Ave. SE
Snohomish, WA 98290
Painting-construction

Mireau's Grub on the Go LLC

12015 Marine Dr. #84
Tulalip, WA 98271
Barbecue

Grizzly Bar and Post Tensioning

22704-66th Ave. Ct. E.
Spanaway, WA 98387
Providing and installing reinforcing for concrete structures

-OVER-

Northwest Asphalt, Inc.

10430 Renton-Issaquah Rd. SE

Issaquah, WA 98027

Asphalt paving, seal coating, striping

Paragon Heating and Home Comfort Solutions, LLC

12208-56th Dr. NE

Marysville, WA 98270

Heating and Air Conditioning Equipment Service and Sales

Erie Home (Erie Construction Mid-West, LLC)

1000 SW 34th St., Ste. A

Renton, WA 98057

Specialty contractor, sales representative, solicitor, general sales

Earthbotics (Socoloski, Joseph)

13000 Admiralty Way, Apt. K205

Everett, WA 98204

Software applications that utilize artificial intelligence in stimulating human personality types for social improvement and game play

Building Permits Issued:

Snohomish County Fire Dist. #17

20217 Gun Club Rd.

New Fire Station

Building Permit #2024-012

Chris Connelly

805 Darwin's Way

Residential Forced Air Furnace

Building Permit #2024-022

Steven Seawell

506 N. Indiana Ave.

Residential heat pump

Building Permit #2024-023

Walter Laboda

705 N. Indiana Ave.

Residential Forced Air Furnace and A/C Unit

Building Permit #2024-024



Memo

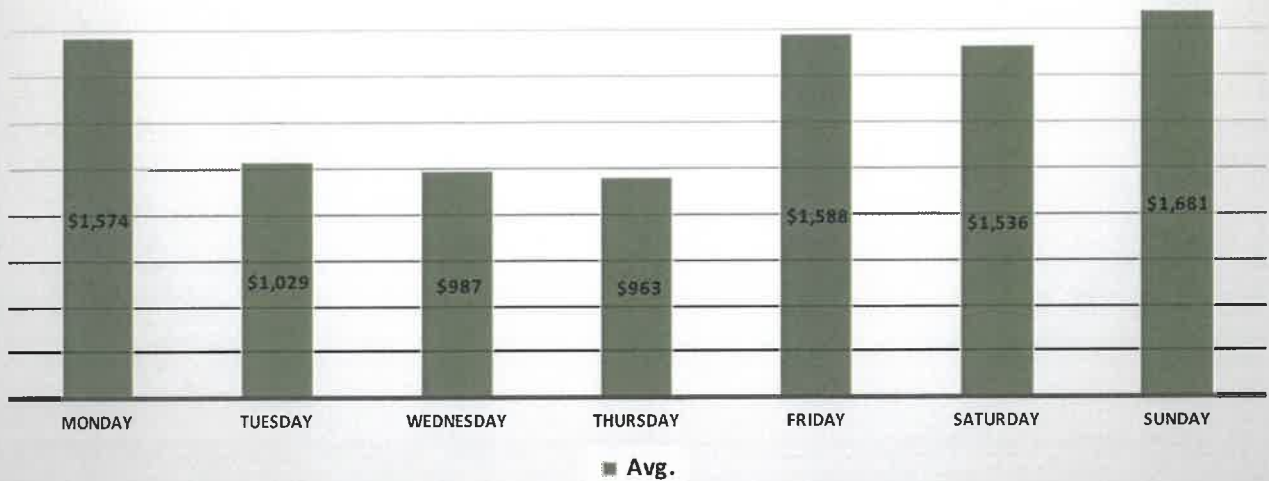
To: City Council
From: Eric Jensen, Community Development Director
CC: City Manager Brent Kirk
Date: May 9, 2024
Re: **Community Development Report to City Council**

Here is a summary of some recent activity in Community Development:

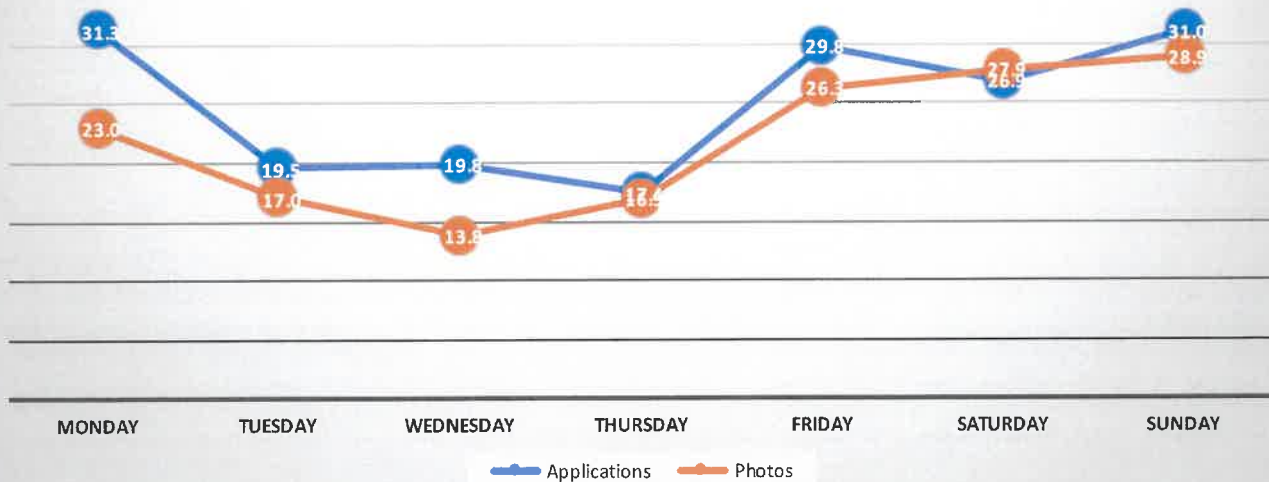
- Several permits and other planning-related applications/inquiries were recently received and reviewed. These include an adult family home, conversion of the appliance store, and a conversion of residence into a commercial gym.
- Work continues on preparing draft chapter updates for all Comp Plan elements with the Planning Commission reviewing the draft Utilities and Capital Facilities Elements at their next few meetings. The PC will also be holding a Public Hearing on a citizen initiated Comprehensive Plan Amendment and Zoning Map Amendment proposal (Miller Properties).
- A new draft Tribal Coordination Element chapter has been written to address tribal input in recognition with new State Legislation HB1717. This draft Element chapter will be reviewed by the OC at an upcoming meeting.
- A Conditional Use Permit application was received for the McDaniels Hardware store outdoor storage activity. This submittal will be preliminarily reviewed for determination of issuance of a Notice of Completion in the next couple of weeks before being distributed to other City departments for permit review and scheduling of a hearing in front of the City's Hearing Examiner in June/July.
- The Draft Snohomish County Tourism Plan has been released and will be adopted by reference into the City's Comprehensive Plan update effort as well as inclusion into the draft *Economic Development Element* chapter.
- The County announced today the latest Hazard Mitigation planning effort with all participating cities. I will provide updates as this work progresses.

As of May 9, 2024

30-day Statistics By Day



30-day Application & Photo Processing By Weekday



	Revenue since 6-6-2022	Revenue YTD 2024	Gross Margin YTD 2024	
Total Revenue (since 6-6-2022)	\$ 884,928.05	\$ 194,821.32	\$ 94,314.20	
30-day Annualized Revenue Trend	\$ 546,998.32		48.4%	
	Gross Margin	% Sales		Revenue Change v prior year
Total Gross Margin (since 6-6-2022)	\$ 300,216.95	33.9%		\$ (53,465.83)
30-day Annual Projected Gross Margin	\$ 300,122.65	54.9%		-21.5%
	# Processed	Last 30 day Avg. per day	Break Even	
Total Passport Applications Processed	16,678	24.6	11.0	
Total Passport Photos Taken	14,592	21.5	9.7	

Public Works Staff Report

May 15, 2024

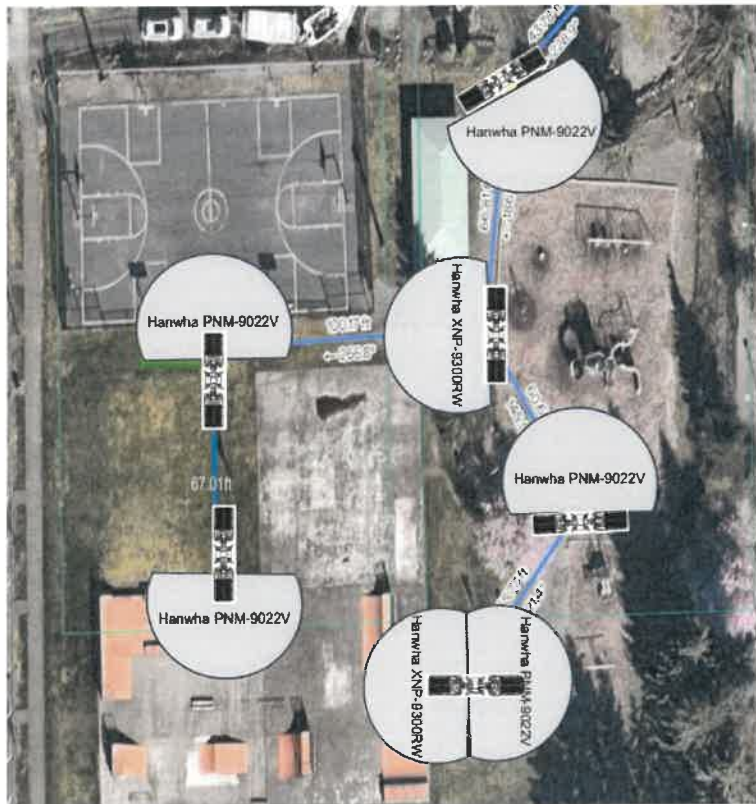
SEWER DEPARTMENT

PW Staff exposed and repaired a water leak at the WWTP. The line supplies potable water to the dewatering building.

PARKS

The Jim Holm lighting and CCTV improvement project is out for bid. The project is being solicited through the MRSC small works roster. The bid deadline is May 17, 2024, with an expected completion date of July 30, 2024, hopefully sooner to minimize park disruptions during summer break. The bid tabulation will be included in the agenda bill for council consideration at the June 5th meeting.

Proposed CCTV/Lighting Layout:



PW painted two ramps at the skate park that were tagged. We received additional paint for the ramps with the last order. Once the cameras are installed, additional touch painting will be done.

On May 23, the lake will be stocked with trout. A scope of work is being put together to replace the aging dock. We are targeting the potential replacement for the fall of this year.

STREET DEPARTMENT

Staff is working on updating the 6-year Transportation Improvement Plan (TIP). W. Stanley sidewalk improvements are on the TIP and will be completed this year. Re-channelization of 100th Street will be added to the plan.

Two new bulb covers were ordered to replace the ones on the old clock next to City Hall. One of the originals has gone missing.

Welwest Construction completed the sound wall installation on the Galena Street Extension. They are working on installing chain link fencing on top of the cut and fill walls and preparing for street light installation.

Galena street extension sound wall:



Staff review 90% plans for the W. Stanley sidewalk project. The project will be out to bid this week.

Precision concrete will be doing a no cost assessment for trip hazards on city owned sidewalks. Once completed, an estimate will be provided to grind down the hazards. This assessment was conducted in back in 2015.

STORMWATER DEPARTMENT

PW staff inspected stormwater catch basins and detention ponds. There are over 1,053 catch basins and 28 city-owned detention ponds within city limits. The city's NPDES permit requires each catch basin to be inspected once every 24 months. ~44 catch basins are inspected each month.

WATER DEPARTMENT

PW Staff exposed a leak at 104 Grand Ave. The leak ended up being on the customer's side. They were notified.

PW Staff repaired a water service leak at 504 Cascade. This copper service line has been repaired three times since 2018.

CURRENT PROJECTS

H&H Market (gas station). Impact excavation has installed much of the water system for the project. They are currently waiting for an HDPE fitting to connect to the ductile iron water line to the bored water line under Stanley. Pressure testing and bacteriological testing will be done prior to connecting to the City's active line. This should be happening in the next few weeks.

McDaniel's Do It Center. The concrete stairs were poured last week that led down to the walking trail on the southside of the store. Accord Contractors is currently progressing with the water main installation.



City of Granite Falls
In Partnership with
Snohomish County Sheriff's Office



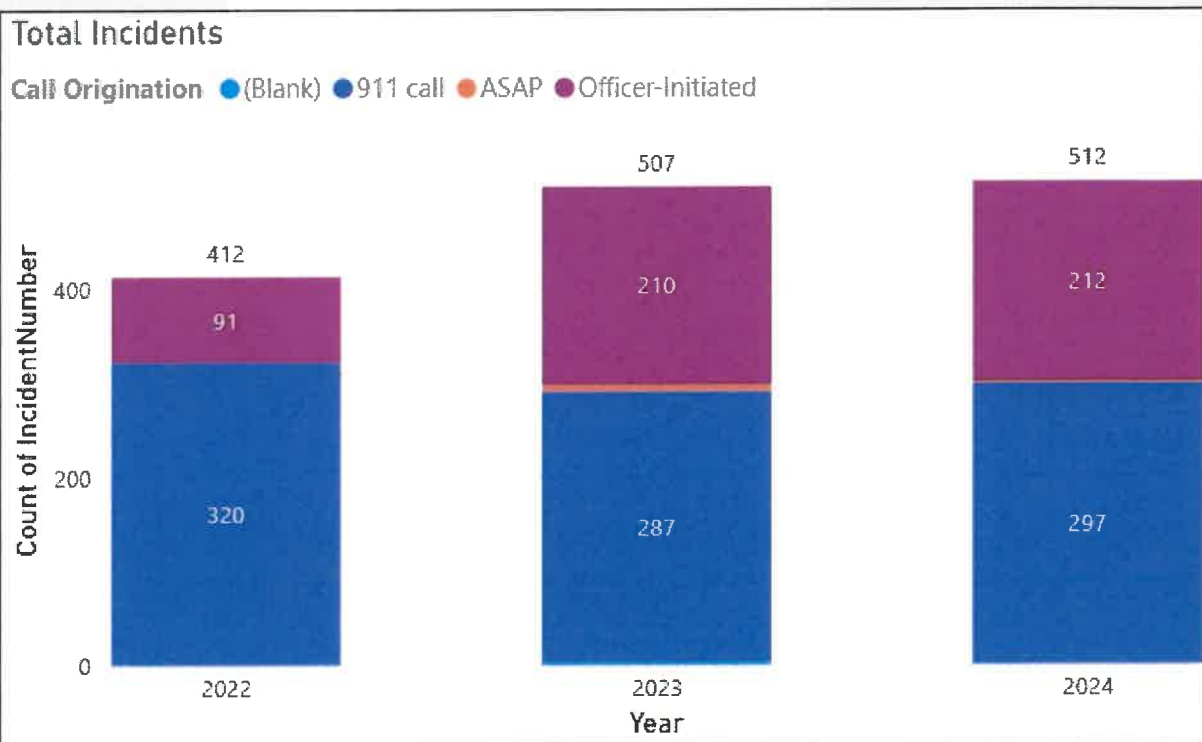
Sheriff Susanna Johnson

City Manager Brent Kirk

Council members,

April was a normal month as far as call loads went, compared to previous years. The Deputies continue to conduct "Officer initiated" activity, which is what we have been asking from them. The self-initiated activity is communicated amongst the criminal element we would like to keel from the city.

IN THE GRF BEAT



Alarm calls were again high this month. We cannot blame it on the schools this time, as they only accounted for five alarm calls. If you consider "county alarm calls" we responded to, the actual number of alarm calls was 29. The 22 shown in the chart was the city only.

Suspicious calls were way up, again partially due to the proactive work being done by the Deputies. Deputies continued with what we have asked them, to conduct more traffic stops. The Deputies conducted or responded to 86 traffic related stops. Of those, 34 resulted in citations being issued. The most common citation was for cell phone use, or distracted driving. I have attached a map, to give the council some context as to where we have issued these citations.



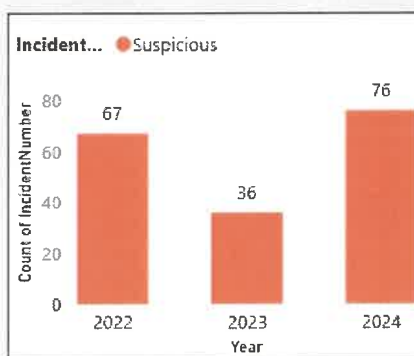
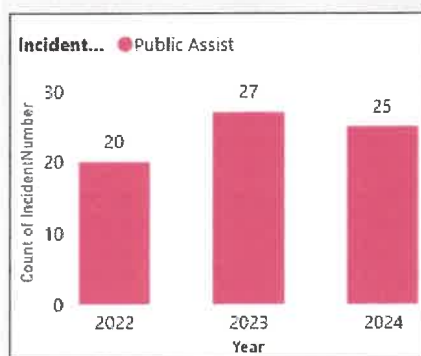
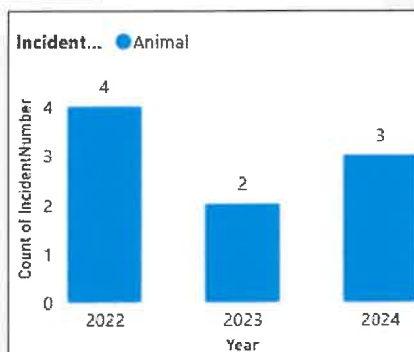
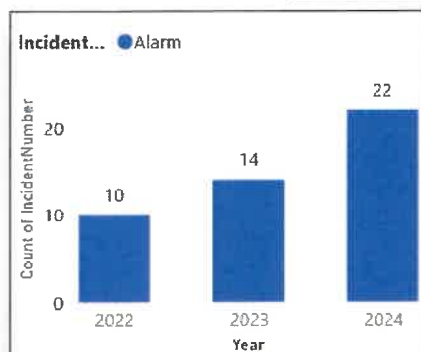
City of Granite Falls In Partnership with Snohomish County Sheriff's Office



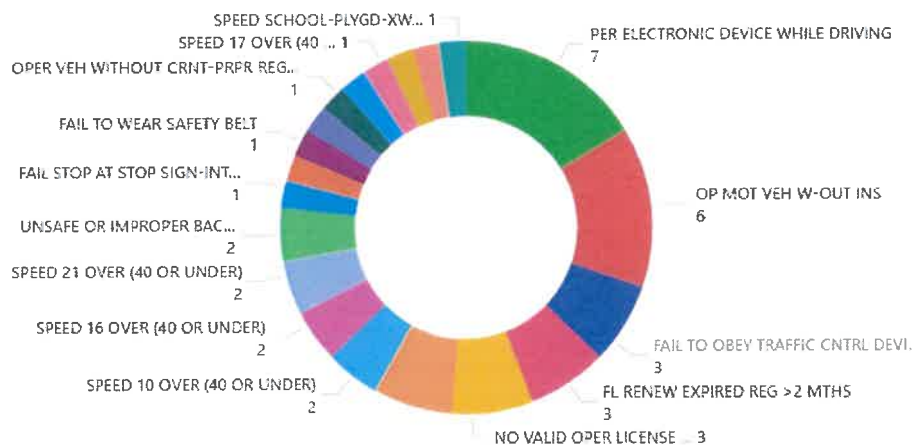
Sheriff Susanna Johnson

City Manager Brent Kirk

IN THE GRF BEAT



of Tickets By Description



Infraction - Total
Traffic

34 34

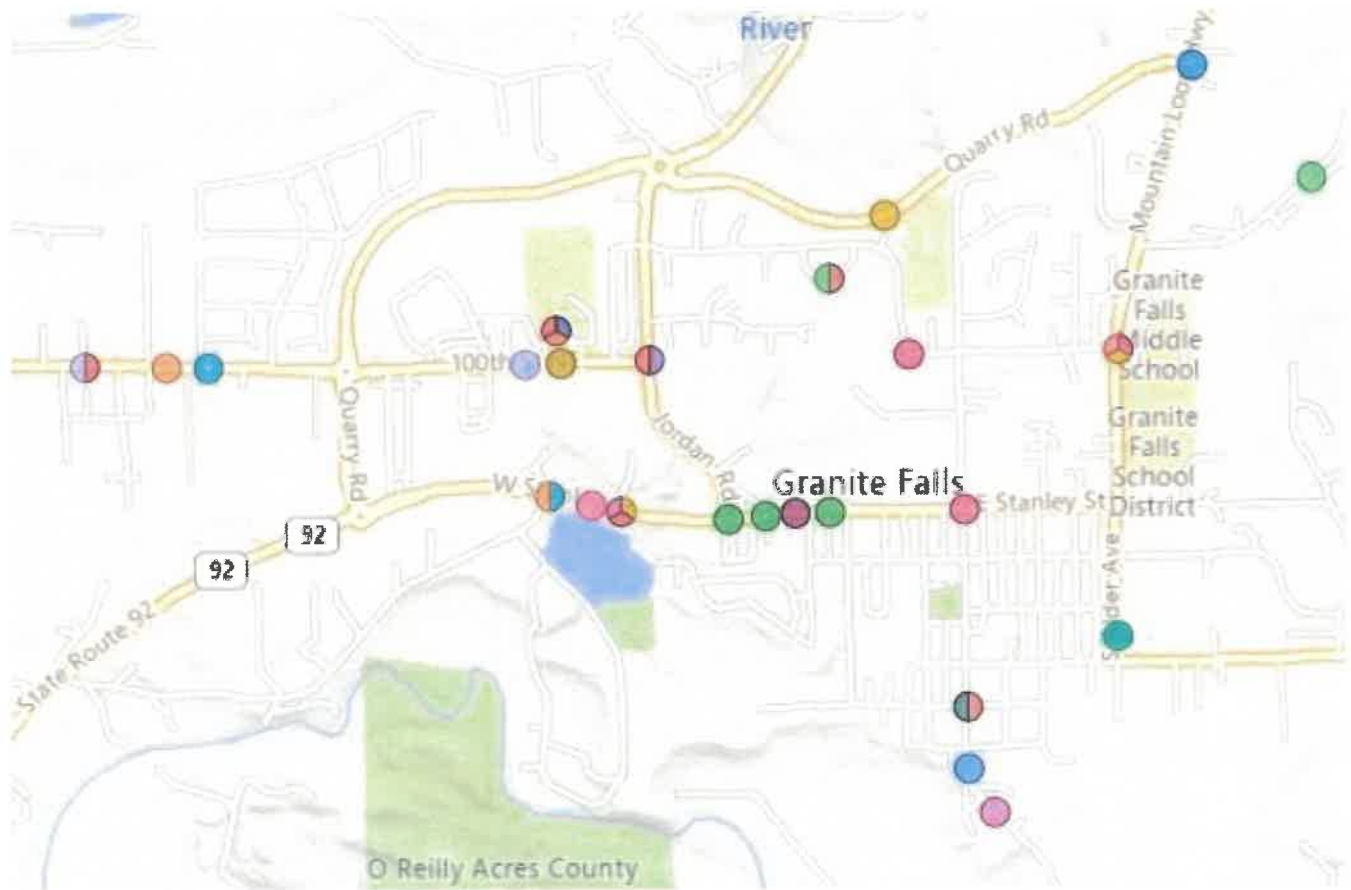


City of Granite Falls In Partnership with Snohomish County Sheriff's Office



Sheriff Susanna Johnson

City Manager Brent Kirk



Calls involving persons, such as Assault 4 DV and domestic disturbances we responded to, were up from 2023 but lower than 2022.

Year	2022	2023	2024
Statute Descript	April	April	April
ASSAULT 4 DV	4	1	4
CRIMINAL TRESPASS 1 DV			1
Domestic - No Assault	7	2	2
MALICIOUS MISCHIEF 3 DV [PRIVATE]			1
Total	11	3	8



City of Granite Falls
In Partnership with
Snohomish County Sheriff's Office

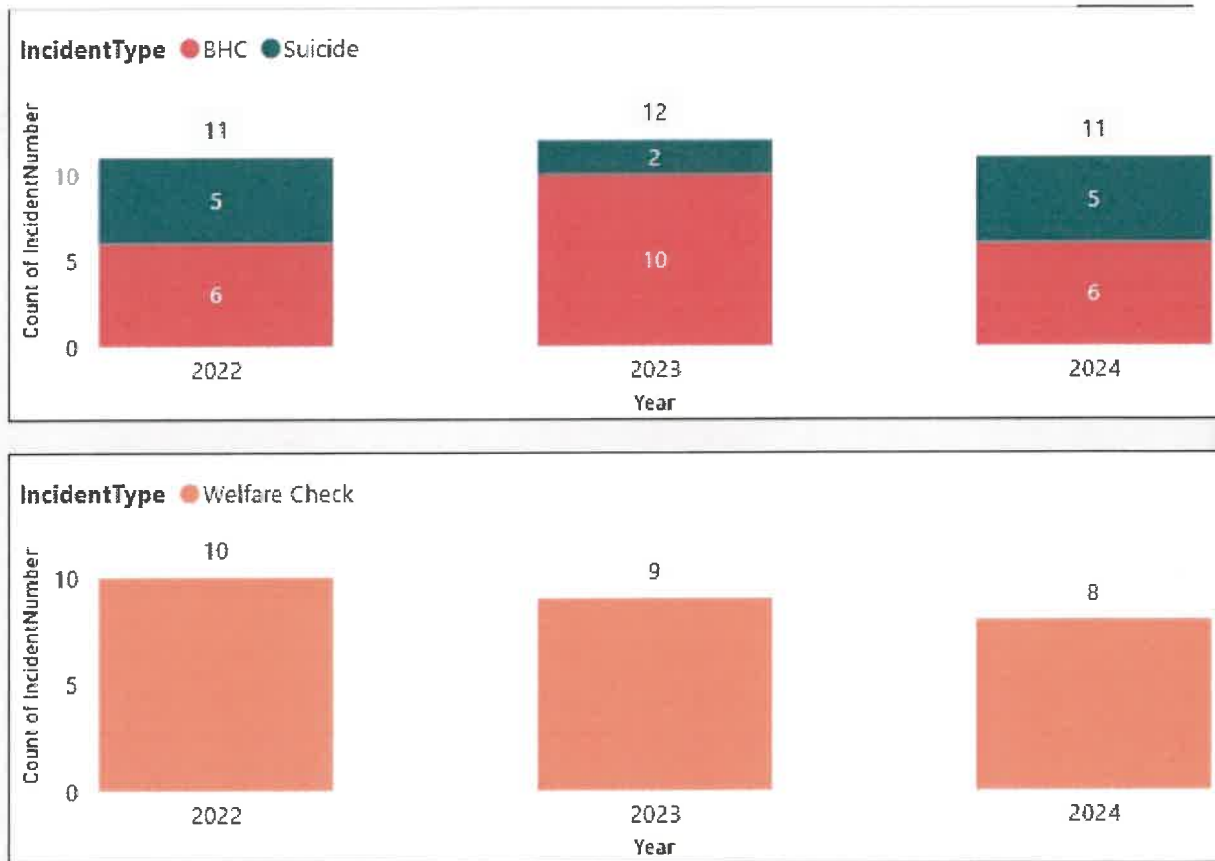


Sheriff Susanna Johnson

City Manager Brent Kirk

The mental health calls we responded to remain about the same as previous years.

IN THE GRF BEAT





City of Granite Falls In Partnership with Snohomish County Sheriff's Office

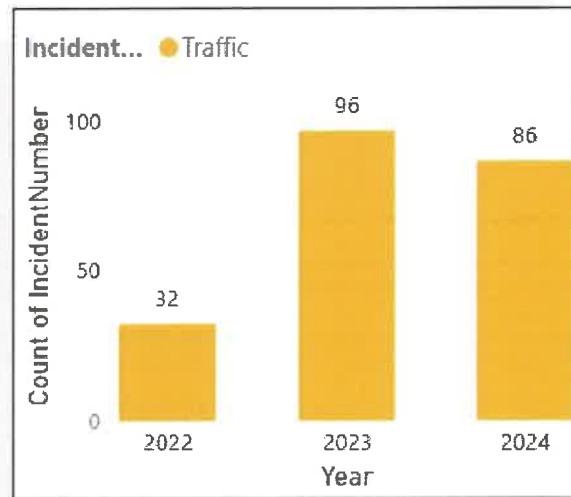
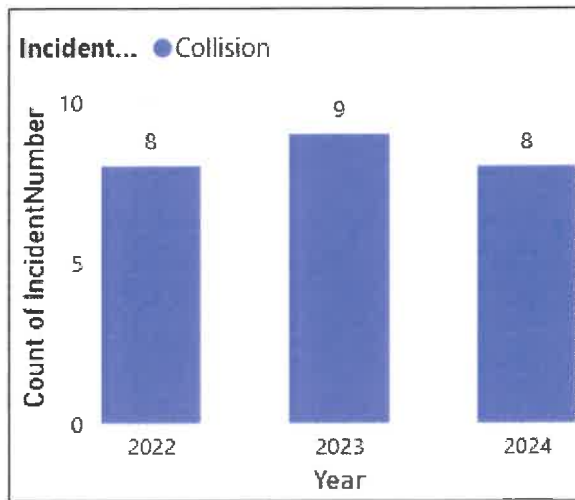


Sheriff Susanna Johnson

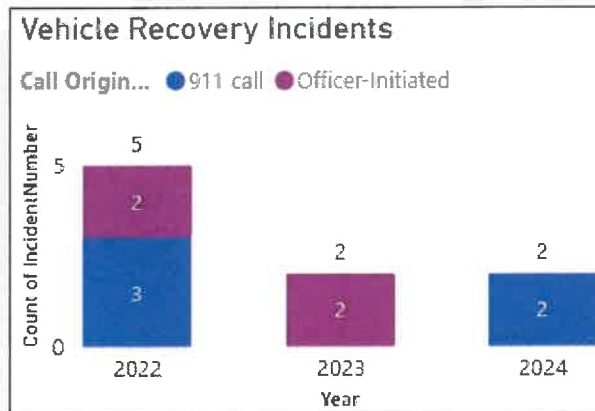
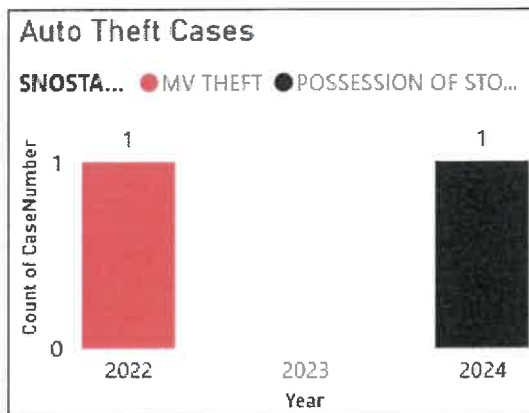
City Manager Brent Kirk

Calls involving vehicles, such as vehicle recoveries, collisions and the like were about the same as previous years. The recoveries were down from 2022 but the same for 2023.

IN THE GRF BEAT



IN THE GRF BEAT



I have been working with the Prosecuting Attorney's Office LEAD program. They had been using the program in South County and are beginning to work East and have offered this service to our Deputies.

LEAD stands for *Law Enforcement Assisted Diversion* program. The program can be used for prebooking events as well as social contacts. What this program does, simply, is holds the subjects' hand through



**City of Granite Falls
In Partnership with
Snohomish County Sheriff's Office**



Sheriff Susanna Johnson

City Manager Brent Kirk

the entire process to reduce recidivism. Most subjects who qualify have committed the law violations due to behavioral health issues to include addiction, mental illness and/or extreme poverty.

Currently the program offers services from 0700 to 2100 hours Monday through Friday. They are working on 7 days a week service and possibly extending the hours, as funding increases. If the event is prebooking, they can respond to the Deputy and take over with diversion. If it is a social contact, The LEAD program would like a "referral" and will contact the subject within 48 hours.

Hopefully, once we begin to utilize this service, we will be able to offer just one of many social services to try and correct the behavior verses only booking the person, over and over.

As always, thank you for your continued support. We could not be as successful to the public without it.

Respectfully submitted,

Tom Dalton #1508

Chief Tom Dalton



CITY COUNCIL AGENDA BILL

Subject: AB 054-2024

Action Recommended: Introduction, first read and review required by RCW 35A.47.040

Meeting Date: May 15, 2024

Date Submitted: May 6, 2024

Exhibit(s): Franchise Agreement

Originating Dept.: City Manager

Approval(s): ☒ City Manager

☐ Public Works

☐ Finance

☐ Planning

☒ Attorney

☐ Other: _____

Budgeted Amount:

Fund(s):

Summary Statement:

Consideration of Franchise Agreement with Puget Sound Energy

Background:

The City's previous 25-year Gas Franchise Agreement with PSE expired in 2017. This new agreement is for another 25-year term granting Puget Sound Energy, Inc., a Washington corporation, its successors and assigns, the right, privilege, authority and franchise to set, erect, lay, construct, extend, support, attach, connect, maintain, repair, replace, enlarge, operate and use Facilities in, upon, over, under, along, across and through the Franchise Area to provide for the transmission, distribution, and sale of gas for power, heat, light, and such other purposes for which gas may be used.

This Agreement is modeled after a similar agreement structured recently with the City of Snohomish and has been reviewed by Granite Falls Legal Counsel. Details include items such as complying with City's Public Works Standards for restoration of roadways. Complete details are in the attached agreement recommended by staff for approval.

Recommended Motion:

- 1) No motion, first read only. Will be brought back to the Council at the June 5, 2024 meeting for consideration.

**CITY OF GRANITE FALLS
GRANITE FALLS, WA**

Ordinance No. 1051-2024

AN ORDINANCE granting Puget Sound Energy, Inc., a Washington corporation, its successors and assigns, the right, privilege, authority and franchise to set, erect, lay, construct, extend, support, attach, connect, maintain, repair, replace, enlarge, operate and use Facilities in, upon, over, under, along, across and through the Franchise Area to provide for the transmission, distribution, and sale of gas for power, heat, light, and such other purposes for which gas may be used.

**THE CITY COUNCIL OF THE CITY OF GRANITE FALLS, WASHINGTON, DO
ORDAIN AS FOLLOWS:**

Section 1. Definitions.

1.1 Where used in this franchise (the “Franchise”), the following terms will have the meaning set forth in this Section 1. Other terms are defined elsewhere in this Franchise.

1.1.1 “City” means the City of Granite Falls, a code city of the State of Washington, and its successors and assigns.

1.1.2 “Dispute” means any and all claims, controversies or disputes arising between the Parties relating to or in connection with this Franchise.

1.1.3 “Environmental Laws” means any and all Laws relating to the protection of human health and the environment, including those relating to the generation, use, handling, transportation, storage, release, discharge or disposal of Hazardous Substances, such as the Model Toxics Control Act, Ch. 70.305 RCW.

1.1.4 “Facilities” means, collectively and as applicable, any and all of the following facilities that are owned, operated, or maintained by PSE: (i) natural gas distribution facilities and systems, including gas pipes, pipelines, mains, laterals, conduits, feeders, regulators, meters, meter-reading devices, meter-reading devices and infrastructure (including advanced metering infrastructure), and communication systems; and (ii) any and all other equipment, appliances, attachments, appurtenances, and other facilities or items necessary, convenient, or in any way appertaining to any and all of the foregoing, whether the same be located above ground or underground.

1.1.5 “Force Majeure Event” means any event or circumstance (or combination thereof) that: (i) delays or prevents performance by a Party of any of its obligations under this Franchise; (ii) is not caused by, and is beyond the reasonable control of, the affected Party; and (iii) could not have been prevented or overcome by commercially reasonable measures taken by the affected Party to avoid the effect of the event or circumstance on the affected Party’s ability to perform its obligations hereunder and to mitigate the consequences of the event or circumstance. Force Majeure Events may include the following: (a) acts of nature, including storms, epidemics, and pandemics; (b) acts of public enemies, terrorism, war, rioting, insurrection or sabotage; (c) any form of compulsory government action or change in state or federal Law; (d) accidents or other

casualties causing damage, loss or delay; (e) labor disturbances, strikes, lock-outs or other industrial actions affecting the Parties or any of their contractors, subcontractors, agents or employees; (f) supply chain disruptions, shortages in materials, or similar events delaying or preventing the procurement of certain materials; and (g) delay in obtaining or denial of any regulatory consents or approvals.

1.1.6 “Franchise Area” means any and all of the roads, streets, avenues, alleys, and highways, and rights-of-way of the City as now laid out, platted, dedicated or improved; and any and all roads, streets, avenues, alleys, highways, and rights-of-way that may hereafter be laid out, platted, dedicated or improved within the limits of the City.

1.1.7 “Hazardous Substances” means any hazardous, toxic, or dangerous substance, material, waste, pollutant, or contaminant that is specifically designated as such and regulated by any Environmental Law.

1.1.8 “Law” means any and all federal, state or municipal law, code, statute, ordinance, rule, tariff, regulation or other requirement that is applicable to a Party or its activities under this Franchise and is accorded the full force and effect of law and is binding upon such Party.

1.1.9 “Ordinance” means Ordinance No.1051-2024, which sets forth the terms and conditions of this Franchise.

1.1.10 “Party” means, as applicable, PSE or the City, and “Parties” means, collectively, PSE and the City.

1.1.11 “Granite Falls Municipal Code” means, collectively, the ordinances, codes, regulations, development and other standards, and laws of the city.

1.1.12 “PSE” means Puget Sound Energy, Inc., a Washington corporation, and its successors and assigns.

1.1.13 “Public Improvement Project” means a capital improvement project within the Franchise Area that requires the relocation of Facilities within the Franchise Area, is funded by the City (either with its own funds or with other public monies obtained by the City for such capital improvement project), and is undertaken by the City.

1.1.14 “Term” means the term of this Franchise as defined in Section 13 (Franchise Term).

1.1.15 “WUTC” means the Washington Utilities and Transportation Commission, and any successor agency with jurisdiction over the terms and conditions of any gas services provided by PSE to its customers.

Section 2. Grant of Rights.

2.1 The City hereby grants to PSE the right, privilege, authority and franchise to set, erect, lay, construct, extend, support, attach, connect, maintain, repair, replace, enlarge, operate and use Facilities in, upon, over, under, along, across and through the Franchise Area to provide for the transmission, distribution and sale of gas for power, heat, light, and such other purposes

for which gas may be used.

2.2 This Franchise is not, and will not be deemed to be, an exclusive Franchise. This Franchise will not in any manner prohibit the City from granting other and further franchises over, upon, and along the Franchise Area that do not interfere with PSE's rights under this Franchise. This Franchise will not affect the jurisdiction of the City over the Franchise Area and will not limit or constrain the exercise of the City's police powers, or prohibit or prevent the City from using the Franchise Area, in a manner that is consistent with Law and the terms and conditions of this Franchise.

2.3 PSE will exercise its rights within the Franchise Area in accordance with Law; except, that in the event of any conflict or inconsistency between any municipal law, code, statute, ordinance, rule, regulation, policy or other requirement of the City and the terms and conditions of this Franchise, the terms and conditions of this Franchise will govern and control.

2.4 This Franchise will not convey any right to PSE to install any Facilities on, under, over or across, or to otherwise use, any City-owned or City-leased properties of any kind that are located outside the Franchise Area. Further, this Franchise will not govern or apply to any Facilities located on any PSE owned or PSE-leased properties or any easements (whether inside or outside of the Franchise Area, whether granted by a private or public entity, and whether now existing or hereafter acquired), and such Facilities are not, and will not be deemed to be, located pursuant to rights derived from this Franchise.

2.5 Facilities that were installed or maintained by PSE in accordance with a prior franchise agreement between PSE and the City, but that are not within the Franchise Area, may be maintained, repaired, and operated by PSE at the location such Facilities exist as of the Effective Date; except, that no such Facilities may be enlarged, improved, or expanded by PSE without the prior review and approval of the City pursuant to and consistent with Law.

Section 3. PSE's Use and Occupancy of the Franchise Area.

3.1 All work performed on Facilities within the Franchise Area will be accomplished in a good and workmanlike manner, by means that, to the extent practicable, minimize interference with the free passage of pedestrian or vehicle traffic, and by methods that allow for reasonable access to adjoining property, whether public or private. PSE will post and maintain proper barricades, flags, flaggers, lights, flares, safety devices, and other measures as required by Law. If any work by PSE on Facilities within the Franchise Area impairs the lateral support of the Franchise Area or adjacent properties, PSE will take such action as is reasonably necessary to restore and maintain the lateral support of the Franchise Area or such adjacent properties.

3.2 Prior to PSE engaging in any work on Facilities located within the Franchise Area, PSE will apply for all City permits required to do such work, and will, except to the extent contrary to or inconsistent with the terms and conditions of this Franchise, comply with all requirements and conditions of such permits. If Facilities within the Franchise Area are in

such a condition so as to endanger the property, life, health, or safety of any individual or threaten system integrity, or are otherwise compromised, in each case as reasonably determined by PSE, PSE may take prompt action to correct the dangerous condition without first obtaining any required City permits on the condition that PSE applies for any such permit(s) as soon as reasonably practicable after taking such action. If the City discovers an emergency situation involving any Facilities, the City will promptly notify PSE, and PSE will address the emergency situation pursuant to this Section 3.2.

3.3 PSE will, after completing any installation, construction, relocation, maintenance, removal or repair of any of Facilities within the Franchise Area pursuant to this Franchise, restore the affected Franchise Area and any other City property situated within the Franchise Area that may be disturbed or damaged by such work, to at least the same condition as such area or property was in immediately prior to the applicable work. The City will not impose any fee, fine, charge, or other cost or expense on PSE for any such damage or disturbance if such restoration work is completed to the reasonable satisfaction of the City. All survey monuments which are to be disturbed or displaced by any such work will be referenced and restored consistent with Law.

3.4 PSE shall, in connection with any work performed by PSE on its Facilities within the Franchise Area, promptly remove any obstructions from the Franchise Area and restore the surface of the Franchise Area to at least the same condition the Franchise Area was in immediately prior to the commencement of such work, provided PSE shall not be responsible for any changes or damage to the Franchise Area not caused by PSE's work or work performed on PSE's behalf. The City Engineer or his/her designee shall have final approval of the condition of the Franchise Area after restoration. All concrete encased monuments which have been disturbed or displaced by such work shall be restored pursuant to federal, state and local standards and specifications. If conditions (i.e. weather) do not permit the complete restoration required under this Section 3.4, PSE shall temporarily restore the affected portions of the Franchise Area. Such temporary restoration shall be at PSE's sole cost and expense and PSE shall promptly undertake and complete the required permanent restoration when the conditions no longer prevent such permanent restoration. If PSE fails to restore the Franchise Area, the City shall provide PSE with written notice including a description of actions the City believes necessary to restore the Franchise Area. If PSE fails to restore the Franchise Area within forty-five (45) calendar days of PSE's receipt of the City's notice, the City, or its authorized agent, may restore the Franchise Area pursuant to this Section 3.4 at PSE's sole and complete expense. The privilege granted under this Section 3.4 shall be in addition to others provided by this Franchise.

3.5 PSE will have the right to cut, clear, and remove vegetation encroaching on, overhanging, or growing into Facilities within the Franchise Area so as to prevent such vegetation from coming in contact with such Facilities and to maintain safe and reliable operations of such Facilities. The exercise of such right will be subject to the City's prior approval, which will not be unreasonably withheld, conditioned, or delayed. PSE's tree trimming activities will preserve the appearance, integrity, and health of the trees to the extent reasonably possible. Except in emergency situations or as otherwise approved by the City, PSE will (i) be responsible for all debris removal from such activities and (ii) ensure such

work is performed under the direction of a certified arborist.

3.6 The Parties acknowledge that PSE is subject to state and federal Laws that apply to its gas operations and that certain information related to such operations is publicly available, including by or through the WUTC. The City may review such information, including publicly available maintenance, safety, and inspection information related to Facilities, in its discretion.

Section 4. Planning and Coordination.

4.1 Each Party will exercise commercially reasonable efforts to coordinate construction work it may undertake within the Franchise Area with the other Party so as to promote the orderly and expeditious performance and completion of such work as a whole. In so doing, the Parties will undertake cooperative planning so as to promote the coordinated timing, location, and prosecution of such work within the Franchise Area. Upon the reasonable request of a Party, but not more often than annually (unless otherwise agreed upon by the Parties), the Parties will meet to discuss and coordinate regarding future construction activities then being planned by either Party within the Franchise Area. Such discussions and coordination will be for informational purposes only and will not obligate either Party to undertake any specific improvements or other activities within the Franchise Area.

4.2 The City may, from time to time, request:

4.2.1 copies of certain available PSE plans for potential improvements to Facilities within the Franchise Area if and to the extent such information is needed by the City for its own project planning purposes, and

4.2.2 copies of certain available maps in use by PSE showing the approximate locations of Facilities within the Franchise Area if and to the extent such information is needed by the City for specific right-of-way management purposes.

Any such request by the City must be submitted by email to Map.Request@pse.com (or by such other method as PSE may reasonably direct, from time to time) and must be reasonable in scope and at intervals that minimize administrative burdens on both Parties. Any release of information to the City pursuant to this Section 4.2 will be subject to PSE's prior approval, which will not be unreasonably withheld. Any information provided by PSE pursuant to this Section 4.2 will be for informational purposes only and will not obligate PSE to undertake any specific improvements or other activities within the Franchise Area, or be construed as a proposal to undertake any specific improvements or other activities within the Franchise Area. PSE does not warrant the accuracy of any information provided pursuant to this Section 4.2 and, to the extent the locations of Facilities are shown in any such information, such Facilities are shown in their approximate locations. Further, notwithstanding anything in this Franchise to the contrary, PSE will have no obligation to disclose any records, documents, or other information that, in PSE's reasonable discretion: (i) are financial, commercial, or proprietary in nature, or (ii) constitute critical energy infrastructure information as regulated under the Federal Power Act, 16 U.S.C. § 791, et seq.

4.3 If either Party causes an excavation to be made within the Franchise Area, the Party causing such excavation will afford the other Party an opportunity to use such excavation if the Party causing such excavation: (i) receives a written request from the other Party to do so, (ii) such joint use would not unreasonably delay the work of the Party causing such excavation, and (iii) such joint use is arranged and accomplished upon terms and conditions reasonably satisfactory to the Party causing such excavation.

4.4 Nothing in this Franchise is intended (nor will be construed) to relieve either Party of its respective obligations under Law with respect to determining the location of underground utility facilities, including Facilities.

Section 5. Decommissioned Facilities

The Parties acknowledge that: (i) the removal of underground Facilities often causes significant disruptions to applicable rights-of-way within the Franchise Area, which may adversely impact the use of the affected Franchise Area and inconvenience the public, and (ii) an approach of decommissioning certain Facilities in place within the Franchise Area, consistent with prudent utility practice and this Franchise, could help the Parties reduce unnecessary disruptions to the Franchise Area while maintaining the Parties' respective responsibilities under this Franchise with respect to such Facilities. Accordingly, PSE may, from time to time, elect to discontinue its use of underground Facilities within the Franchise Area, and decommission such Facilities in place ("Decommissioned Underground Facilities"). In such event, PSE will notify the City of its decision to decommission such Facilities and will decommission such Facilities in place consistent with prevailing industry standards and Law, which may include disconnecting such Decommissioned Underground Facilities from the operating natural gas system, sealing such Decommissioned Underground Facilities, and rendering such Decommissioned Underground Facilities inert. As requested by the City in accordance with Section 4.2, PSE will provide the City with maps that show the approximate location of Decommissioned Underground Facilities. In addition, for the avoidance of doubt, Decommissioned Underground Facilities within the Franchise Area remain subject to the terms and conditions of this Franchise, including Section 7 (Relocation of Facilities) and Section 8 (Indemnification and Insurance).

Section 6. Hazardous Substances.

PSE will only use Hazardous Substances within the Franchise Area incident to PSE's normal business operations, and in all cases (i) limited to such quantities as may be required in its normal business operations, (ii) used, transported or stored in accordance with prevailing industry standards and Law, and (iii) used, transported or stored only for its intended use. In the event PSE or its contractors cause an unlawful release of Hazardous Substances within the Franchise Area, PSE will notify the City within twenty-four (24) hours after its discovery of such release. PSE will act promptly to remediate such release of Hazardous Substances in accordance with Law.

Section 7. Relocation of Facilities.

7.1 Whenever the City causes a capital improvement project to be undertaken within the Franchise Area, and the City believes such project constitutes a Public Improvement Project that requires the relocation of then-existing Facilities within the Franchise Area (for purposes other than those described in Section 7.2), the City will provide to PSE, within a reasonable time prior to the commencement of such project:

7.1.1 written notice of the applicable project; and

7.1.2 reasonable plans and specifications sufficient, in PSE's discretion, to: (i) evaluate whether the proposed project constitutes a Public Improvement Project, including whether the relocation of any Facilities within the Franchise Area is necessary, and (ii) if the project is a Public Improvement Project that requires any such relocations, to develop an initial system design for such Facilities in connection with such Public Improvement Project.

After receipt of such notice and such plans and specifications, the City and PSE will work together to review the plans and specifications provided pursuant to Section 7.1.2 as well as any proposed relocation of Facilities for such Public Improvement Project. For any Facilities that must be relocated within the Franchise Area for such Public Improvement Project, PSE will perform such relocation at no charge to the City and in accordance with a schedule mutually agreed upon by the City and PSE. If the City requires the subsequent relocation of any such Facilities within five (5) years from the date of the initial relocation of such Facilities pursuant to this Section 7.1, the City will bear the entire cost of such subsequent relocation.

7.2 Whenever (i) any public or private development within the Franchise Area, other than a Public Improvement Project, requires the relocation of Facilities within the Franchise Area to accommodate such development, or (ii) the City requires the relocation of Facilities within the Franchise Area for the benefit of any person or entity other than the City, then, in such event, PSE will have the right as a condition of such relocation, to require such person or entity to make payment to PSE, at a time and upon terms and conditions acceptable to PSE, for any and all costs and expenses incurred by PSE in the relocation of such Facilities.

7.3 Any condition or requirement imposed by the City upon any person or entity, other than PSE, that requires the relocation of Facilities will be a relocation under Section 7.2 (including any condition or requirement imposed pursuant to any contract or in conjunction with approvals or permits for zoning, land use, construction or development).

7.4 Nothing in this Section 7 will require PSE to bear any cost or expense in connection with the location or relocation of any Facilities authorized by easement or other rights not derived from this Franchise, regardless of whether such easement or other rights are on public or private property and regardless of whether such easement or other rights extend to property within the Franchise Area.

Section 8. Indemnification and Insurance.

8.1 PSE will indemnify and hold the City harmless from and against any and all claims and demands made against it on account of injury or death of any person or damage to property, to the extent such injury or damage is caused by the negligence or intentional misconduct of PSE, its agents or employees in exercising the rights granted to PSE by this Franchise. In the event any such claim or demand is presented to or filed with the City, the City must promptly notify PSE thereof in writing, and PSE will have the right, at its election and at its sole cost and expense, to settle and compromise such claim or demand, or to defend the same at its sole cost and expense, by attorneys of its own election. In addition, in the event any suit or action is begun against the City based upon any such claim or demand, the City must likewise promptly notify PSE thereof in writing, and PSE will have the right, at its election and its sole cost and expense, to settle and compromise such suit or action, or to defend the same at its sole cost and expense, by attorneys of its own election.

8.2 It is further specifically and expressly understood that, solely to the extent required to enforce any indemnification under this Section 8, PSE waives any immunity it may have under RCW Title 51; except, that the foregoing waiver will not in any way preclude PSE from asserting such immunity directly against any of its own employees or such employees' estates or other representatives. The waiver set forth in this Section 8.2 has been specifically negotiated by the Parties.

8.3 During the Term PSE will maintain the following liability insurance coverages, insuring both PSE and including the City as additional insured against claims for injuries to persons or damages to property which may arise from or in connection with the exercise of the rights, privileges, and authority granted to PSE in this Franchise:

8.3.1 Commercial General Liability insurance with limits not less than five million dollars (\$5,000,000) per occurrence for bodily injury or death, property damage, and public liability.

8.3.2 Automobile liability for owned, non-owned and hired vehicles with a Combined Single Limit of two million dollars (\$2,000,000) for each accident.

8.3.3 Worker's compensation with statutory limits and employer's liability insurance with limits of not less than one million dollars (\$1,000,000).

8.4 In lieu of the insurance requirements in Section 8.3, PSE may self-insure against such risks in such amounts as are consistent with good utility practice. Upon the City's request, PSE will provide the City with reasonable written evidence that PSE is maintaining such self-insurance program.

Section 9. Reservation of Easement in Event of Vacation.

In the event the City vacates any portion of the Franchise Area containing Facilities during the Term, the City will reserve an easement for such Facilities that are located in such vacated portion of the Franchise Area in a manner consistent with the City's vacation procedures, as applicable, and at no cost to PSE. The City will give PSE advance notice of its intent to vacate any portion of the Franchise Area and will consult with PSE regarding the terms and conditions of the easement to be reserved for Facilities.

Section 10. Force Majeure.

If performance of this Franchise, or of any obligation hereunder, is prevented or substantially restricted or interfered with by reason of a Force Majeure Event, the affected Party, upon giving notice to the other Party of the Force Majeure Event and its impact on the affected Party, will be excused from such performance to the extent of and for the duration of such prevention, restriction or interference. The affected Party must use commercially reasonable efforts to avoid or remove such causes of nonperformance under this Franchise and must continue performance hereunder whenever such causes are removed.

Section 11. Dispute Resolution.

11.1 A Dispute must be resolved in accordance with the dispute resolution procedures set forth in this Section 11. A Party will notify the other Party promptly following the occurrence or discovery of a Dispute. The initial mechanism to resolve a Dispute will be by negotiation between the Parties' representatives, so designated by the Parties by notice given pursuant to this Section 11.1.

11.2 If the Parties cannot resolve a Dispute satisfactorily within fifteen (15) business days after receipt of the initial notice in accordance with Section 11.1, either Party may thereafter deliver to the other Party notice initiating the dispute resolution procedures set forth in this Section 11.2. Such notice will (i) contain a detailed description of the issues in Dispute, (ii) identify the senior officers or administrators authorized to settle the Dispute on behalf of the Party providing such notice, and (iii) propose a date or dates, not less than thirty (30) days from the date of such notice, that such officers or administrators are available for a meeting to resolve such Dispute. The recipient Party will, within ten (10) business days following receipt of notice pursuant to this Section 11.2, provide to the notifying Party a parallel schedule of availability of the recipient Party's senior officers or administrators authorized to settle the Dispute on behalf of the recipient Party. Following delivery of the respective senior officers' or administrators' schedules of availability, the senior officers or administrators so designated will engage in good-faith negotiations for a period of at least thirty (30) days after the first meeting between such officers or administrators (or such other time period as may be agreed upon by the Parties), to resolve the Dispute to the satisfaction of both Parties.

11.3 If at any time after the expiration of such thirty (30) day period (or such other time period as may be agreed upon by the Parties pursuant to Section 11.2), a Party determines that continued negotiations with the other Party will not result in a resolution of the Dispute, and if the Party reasonably believes that the other Party is in default of its obligations under this Franchise, such Party may serve upon the other Party a written order to comply with the provisions of this Franchise pursuant to Section 12 (Default).

11.4 Except as otherwise provided in Section 11.3, the Parties intend that the Parties' exhaust the procedures for dispute resolution set forth in this Section 11 before a Party exercises any other right or remedy available under this Franchise.

Section 12. Default.

If PSE fails to comply with the provisions of this Franchise, the City may serve upon PSE a written order to so comply within sixty (60) days after the date on which such order is received by PSE. If PSE is not in compliance with this Franchise after expiration of such sixty (60) day period, the City may, by ordinance, declare an immediate forfeiture of this Franchise; except, that if any failure to comply with this Franchise by PSE cannot be corrected with due diligence within such sixty (60) day period (PSE's obligation to comply and to proceed with due diligence being subject to unavoidable delays and events beyond its control), the time within which PSE may so comply will be extended for such time as may be reasonably necessary and so long as PSE commences promptly and diligently to effect such compliance.

Section 13. Franchise Term.

This Franchise is and will remain in full force and effect for a period of twenty-five (25) years from and after the Effective Date (the "Term"). The City may extend the Term for up to two (2) additional five (5) year periods if PSE requests such an extension not more than two (2) years nor less than one hundred eighty (180) days prior to the expiration of the then-current Term. If the City elects to extend the Term pursuant to this Section 13, the City will provide written notice of such extension to PSE prior to the end of the then-current Term.

Section 14. Assignment.

PSE will not assign this Franchise to any unaffiliated third party without the prior consent of the City, which consent will not be unreasonably withheld. Notwithstanding the foregoing, PSE will have the right, without such notice or such written acceptance, to mortgage its rights, benefits and privileges in and under this Franchise for the benefit of bondholders.

Section 15. Miscellaneous.

15.1 Unless otherwise specifically provided by this Franchise, all notices, consents, requests, demands or other communications required or permitted by this Franchise must be in writing and given by personal delivery, email, or certified mail. All legal notices provided in connection with this Franchise, including notices relating to breach of this Franchise or a waiver of any right or obligation under this Franchise, however, must be in writing and sent

to the notice address set forth in this Section 15.1 of the Party being notified. Such a notice will be deemed effective as follows: (i) if sent by certified mail with return receipt requested, upon certified receipt; (ii) if sent by a nationally recognized courier or mail service, delivery charges or postage prepaid, with delivery receipt requested, upon receipt; or (iii) if delivered personally, upon delivery.

To PSE:

Puget Sound Energy

Municipal Relations

P.O. Box 97034

Bellevue, WA 98009-9734

With a copy sent via email to: Municipal.Relations@pse.com

To City:

City of Granite Falls

P.O Box 1440

Granite Falls, WA 98252

With a copy sent via email to: [Brent Kirk brent.kirk@ci.granite-falls.wa.us](mailto:Brent.Kirk@ci.granite-falls.wa.us)

A Party may change its address for purposes of this Section 15.1 by giving written notice of such change to the other Party pursuant to this Section 15.1.

15.2 The headings of sections and paragraphs of this Franchise are for convenience of reference only and are not intended to restrict, affect or be of any weight in the interpretation or construction of the provisions of such sections or paragraphs. Terms defined in a given number, tense or form have the corresponding meaning when used in this Franchise in another number, tense or form. References containing terms such as “hereof,” “herein,” “hereto,” “hereinafter” and other terms of like import are not limited in applicability to the specific provision within which such references are set forth but instead refer to this Franchise taken as a whole. The terms “includes” or “including” will not be deemed limited by the specific enumeration of items, but will be deemed without limitation. The term “or” is not exclusive.

15.3 Any provisions of this Franchise prohibited or rendered unenforceable by any state or federal Law will be ineffective only to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Franchise. In such event, the remainder of this Franchise will remain valid and enforceable. Upon such determination that any term or other provision is prohibited or rendered unenforceable as described in this Section 15.3, the Parties will negotiate in good faith to modify this Franchise so as to maintain the original intent of the Parties as closely as possible in an acceptable manner to the end that rights and obligations contemplated under this Franchise are fulfilled to the greatest extent possible.

15.4 This Franchise may be amended only by a written instrument, signed by both Parties, which specifically states that it is an amendment to this Franchise and is approved and executed in accordance with Law. This Franchise constitutes the entire agreement between the Parties with respect to the subject matter of this Franchise, and supersedes all other prior agreements and understandings, oral and written, between the Parties, with respect to the

same.

15.5 As provided by RCW 35.21.860, the City may recover from PSE actual administrative expenses incurred by the City that are directly related to receiving and approving this Franchise.

15.6 Nothing in this Franchise will be construed to create any rights or duties to any third party, nor any liability to or standard of care with reference to any third party. This Franchise will not confer any right or remedy upon any person other than the City and PSE. No action may be commenced or prosecuted against either the City or PSE by any third party claiming as a third-party beneficiary of this Franchise.

15.7 The Parties will act in good faith and use commercially reasonable efforts to carry out their respective obligations under this Franchise. The failure of either Party to insist on or enforce strict performance of any provision of this Franchise or to exercise any right or remedy under this Franchise or Law will not be construed as a waiver or relinquishment to any extent of the right to assert or rely upon any such provision, right or remedy in that or any other instance; rather, the same will be and remain in full force and effect.

15.8 This Franchise will be governed by, subject to and construed under the laws of the State of Washington. This Franchise is subject to the provisions of any applicable tariff on file with the WUTC or its successor. In the event of any conflict or inconsistency between the provisions of this Franchise and any such tariff, the provisions of the tariff will control.

15.9 All terms and conditions of this Franchise that must be reasonably construed to survive the expiration or termination of this Franchise in order to give full force and effect to the intent of the Parties as set forth herein will survive the expiration or termination of this Franchise, regardless of whether such survival is expressly specified herein.

Section 16. Effective Date.

This Ordinance will be effective on _____, 20__, having been: (i) introduced to the City Council not less than five (5) days before its passage; (ii) first submitted to the City Attorney; (iii) published at least five (5) days prior to the effective date of this Ordinance and as otherwise required by Law; and (iv) passed at a regular meeting of the legislative body of the City of Granite Falls by a vote of at least five (5) members on June 5, 2024. This Franchise will take effect as of the date of PSE's written acceptance thereof (the "Effective Date").

Signed and approved by the Mayor on the ____ day of _____, 20__.

_____, Mayor

ATTEST:

_____, City Clerk

APPROVED AS TO FORM:

Thomas H. Graafstra, City Attorney
Emily Guildner, City Attorney

Date: _____

HONORABLE MAYOR AND CITY COUNCIL
CITY OF GRANITE FALLS, WASHINGTON

In the matter of the application)
of Puget Sound Energy, Inc., a) Franchise Ordinance No. 1051-2024
Washington corporation, for a)
franchise to construct, operate)
and maintain facilities in, upon,)
over under, along, across and)
through the franchise area of the) ACCEPTANCE

City of Granite Falls,)
Washington)

WHEREAS, the City Council of the City of Granite Falls, Washington, has granted a franchise to Puget Sound Energy, Inc., a Washington corporation, its successors and assigns, by enacting Ordinance No. _____, bearing the date of _____, 20____; and

WHEREAS, a copy of said Ordinance granting said franchise was received by the Puget Sound Energy, Inc. on _____, 20____, from said City of Granite Falls, Snohomish County, Washington.

NOW, THEREFORE, Puget Sound Energy, Inc., a Washington corporation, for itself, its successors and assigns, hereby accepts said Ordinance and all the terms and conditions thereof, and files this, its written acceptance, with the City of _____, _____ County, Washington.

IN TESTIMONY WHEREOF said Puget Sound Energy, Inc. has caused this written Acceptance to be executed in its name by its undersigned _____ thereunto duly authorized on this _____ day of _____, 20____.

ATTEST: PUGET SOUND ENERGY, INC.

By: _____

Copy received for City of Granite Falls
on _____, 20____

By: _____
City Clerk



CITY COUNCIL AGENDA BILL

Subject: AB 055-2024**Approval(s):** ☒ City Manager**Action Recommended:** Consideration of
Contract with Gray and Osborne
Engineering Inc for WWTP Outfall
Receiving Water Study Assistance

Public Works

Finance

Planning

☒ Attorney

Other: _____

Meeting Date: May 15, 2024**Date Submitted:** May 6, 2024**Exhibit(s):** Franchise Agreement**Originating Dept.:** City Manager

Budgeted Amount: \$18,920.00**Fund(s):**

Summary Statement:

As a general requirement of the City's WWTP NPDES Permit, it stipulates that the City must submit a Receiving Water Study by December 31, 2024. The information in the Receiving Water Study Final Report is used by Ecology to determine if additional effluent limitations will be added to the City's NPDES Permit.

The City of Granite Falls (City) owns, operates, and maintains an activated sludge wastewater treatment plant (WWTP). The WWTP discharges treated effluent to the Pilchuck River through the WWTP outfall. The Washington State Department of Ecology (Ecology) issued to the City a National Pollutant Discharge Elimination System Waste Discharge Permit (NPDES) WA0021130 on August 1, 2020. This Permit was modified on February 11, 2022 and expires on July 31, 2025. All discharges and activities authorized by this Permit must comply with the terms and conditions of the Permit.

As a General Requirement (Section S.9), the Permit stipulates that the City must submit a Receiving Water Study Quality Assurance Project Plan (QAPP) by December 31, 2023 and then a Receiving Water Study Final Report (by December 31, 2024). The information in the Receiving Water Study Final Report is used by the Department of Ecology (Ecology) to determine if additional effluent limitations will be added to the City's NPDES Permit. The QAPP was submitted to Ecology in late December 2023. Comments were received from Ecology and incorporated into a final version of the QAPP, that was signed and



approved by Ecology (Mr. Kevin Leung and Mr. Chris Dudenhoeffer) on January 17, 2024. As specified in the QAPP (and the Permit), at least 25 receiving water samples must be collected outside the Zone of Influence of the effluent, using sampling station accuracy requirements of 20 meters, and tested for alkalinity, using the methods and the detection levels identified in Appendix A in the Permit. As specified in the QAPP, the samples will be collected from May to October.

Background:

N/A

Recommended Motion:

- 1) Approval of Contract with Gray and Osborne Engineering Inc for WWTP Outfall Receiving Water Study Assistance and Authorization for the City Manager to sign.



May 2, 2024

Mr. Brent Kirk
City Manager
City of Granite Falls
P.O. Box 1440
Granite Falls, Washington 98252

SUBJECT: CONTRACT FOR WWTP OUTFALL RECEIVING WATER STUDY
ASSISTANCE
CITY OF GRANITE FALLS, SNOHOMISH COUNTY, WASHINGTON
G&O #PR235.36

Dear Mr. Kirk:

Please find attached our Contract for assisting the City with a Receiving Water Study related to the City's wastewater treatment plant. As a general requirement of the City's WWTP NPDES Permit, it stipulates that the City must submit a Receiving Water Study by December 31, 2024. The information in the Receiving Water Study Final Report is used by Ecology to determine if additional effluent limitations will be added to the City's NPDES Permit.

We are requesting a Contract in the amount of \$18,920 to complete the services. The Tasks to complete these services are outlined in our Scope of Work which is presented in Exhibit A, whereas our Cost Proposal is provided in Exhibit B.

Please call me if you wish to discuss this Proposal or if you require additional information. If you would like us to proceed with this work, please sign where indicated and return the signed page to us. Thank you for the opportunity to provide these engineering services to the City. We look forward to continuing to work with you.

Sincerely,

GRAY & OSBORNE, INC.

Stacey A. Clear, P.E.

SAC/
Encl.

cc: Ms. Darla Reese, City Clerk, City of Granite Falls



Mr. Brent Kirk
May 2, 2024
Page 2

**CITY OF GRANITE FALLS – WWTP OUTFALL RECEIVING WATER STUDY
ASSISTANCE**

I hereby authorize Gray & Osborne, Inc., to proceed with the assistance of the Receiving Water Study as described herein under the terms and conditions of our current General Services Agreement, and for a cost not to exceed of \$18,920 without written authorization by the City.

Name (Print)

Title

Signature

Date

EXHIBIT A
SCOPE OF SERVICES
CITY OF GRANITE FALLS
WASTEWATER TREATMENT PLANT OUTFALL RECEIVING WATER
STUDY ASSISTANCE

The City of Granite Falls (City) owns, operates, and maintains an activated sludge wastewater treatment plant (WWTP). The WWTP discharges treated effluent to the Pilchuck River through the WWTP outfall. The Washington State Department of Ecology (Ecology) issued to the City a National Pollutant Discharge Elimination System Waste Discharge Permit (NPDES) WA0021130 on August 1, 2020. This Permit was modified on February 11, 2022 and expires on July 31, 2025. All discharges and activities authorized by this Permit must comply with the terms and conditions of the Permit. As a General Requirement (Section S.9), the Permit stipulates that the City must submit a Receiving Water Study Quality Assurance Project Plan (QAPP) by December 31, 2023 and then a Receiving Water Study Final Report (by December 31, 2024). The information in the Receiving Water Study Final Report is used by the Department of Ecology (Ecology) to determine if additional effluent limitations will be added to the City's NPDES Permit.

The QAPP was submitted to Ecology in late December 2023. Comments were received from Ecology and incorporated into a final version of the QAPP, that was signed and approved by Ecology (Mr. Kevin Leung and Mr. Chris Dudenhoeffer) on January 17, 2024. As specified in the QAPP (and the Permit), at least 25 receiving water samples must be collected outside the Zone of Influence of the effluent, using sampling station accuracy requirements of 20 meters, and tested for alkalinity, using the methods and the detection levels identified in Appendix A in the Permit. As specified in the QAPP, the samples will be collected from May to October.

The Scope of Work for the Receiving Water Study Assistance is described as follows. The work is based on that specified in the Receiving Water Study QAPP Study.

SCOPE

Task 1 – Project Management and Quality Assurance

- A. Provide project management and coordination necessary to complete the project.
- B. Provide internal quality assurance reviews of submittals.

Task 2 – Site Visits and Meetings

- A. Visit WWTP and river site twice in the early stages of the project to provide independent review of sampling procedures, sample handling and analysis.
- B. Attend up to three, 1-hour phone conferences with the City and/or Ecology.

Task 3 – Receiving Water Study Data Log

- A. Prepare a Receiving Water Study Data Log (hard copy in Excel) for recording and storing key parameters identified in the QAPP and results.

Task 4 – Monthly Data Review

- A. Review data provided monthly by the City for conformance with the requirements of the QAPP.
- B. Inform the City of any changes needed.

Task 5 – Draft Receiving Water Study Report

- A. Prepare Draft Report, incorporating background information and information from the consultation with Ecology. Per the QAPP, it is anticipated that the Receiving Water Study Report will have the following sections.

- Background.
- Project Description.
- Assessment of Data Quality Objectives and Quality Assurance.
- Analytical Results.
- Discussion.
- References.
- Appendices.

A Draft Receiving Water Study Report will be provided for review by the City in electronic copy (pdf) format by November 20, 2024.

- B. Incorporate City comments and submit the Receiving Water Study Report to Ecology by December 15, 2024.

Task 6 – Incorporate Ecology Revisions and Finalize Receiving Water Study Report

- A. Respond to review comments and incorporate revisions in the final version for submittal to Ecology.
- B. Provide Final Receiving Water Study Report incorporating Ecology comments to City and Ecology.

ASSUMPTIONS

- 1. The City will complete the sampling and analysis required for this study.

EXHIBIT B

ENGINEERING SERVICES SCOPE AND ESTIMATED COST

City of Granite Falls - Wastewater Treatment Plant Outfall Receiving Water Study Assistance

Tasks	Principal Hours	Project Manager Hours	Project Engineer Hours	AutoCAD/ GIS Technician/ Engineer Intern Hours
1 Project Management and Quality Assurance	2	2		
2 Site Visits and Meetings		12	4	
3 Receiving Water Study Data Log		2	4	
4 Monthly Data Review		6	12	
5 Draft Receiving Water Study Report	2	12	24	6
6 Incorporate Ecology Revisions and Finalize Report	1	4	4	2
Hour Estimate:	5	38	48	8
Fully Burdened Billing Rate:*	\$150 to \$235	\$140 to \$235	\$125 to \$175	\$60 to \$165
Estimated Fully Burdened Billing Rate:*	\$230	\$220	\$170	\$140
Fully Burdened Labor Cost:	\$1,150	\$8,360	\$8,160	\$1,120

Total Fully Burdened Labor Cost: \$ 18,790

Direct Non-Salary Cost:

Mileage and Expenses \$ 130

TOTAL ESTIMATED COST: \$ 18,920

* Actual labor cost will be based on each employee's actual rate. Estimated rates are for determining total estimated cost only.
Fully burdened billing rates include direct salary cost, overhead, and profit.



CITY COUNCIL AGENDA BILL

Subject: AB 046-2024

Originating Dept.: City Manager

Action Recommended: Continued discussion of setting General Facility Charge Rates for Water and Sewer

Approval(s): ☒ City Manager

Public Works

Finance

Planning

Attorney

Other: _____

Meeting Date: May 15, 2024

Date Submitted: May 6, 2024

Exhibit(s): FCS Study
Spreadsheet of Rates.

Budgeted Amount: \$
Fund(s):

Summary Statement:

At the Council meeting in April 17th there was a discussion about the Water and Wastewater rate study conducted by the FCS group and the recommendations from the results of the study related to setting the future general facility charge (GFC) rates charged for new development once the sewer moratorium is lifted. During this discussion, council requested staff to do some research and provide a list of current rates charged by other cities in the Snohomish County area. Attached is a list of eight other cities in neighboring areas with their current GFC rates, often referred to as a system development charge, capital facility charge, or a combination of charges for this propose that make up the total cost to hook up to the City's sewer or water system.

The purpose of this continued discussion is for Council to provide staff with guidance on where they would like to set the GFC rates in the near future so that this topic can be brought back to Council for official adoption of the new rates via a public hearing and modification of the City's Fee Resolution.

For more information on the FCS Rate Study, please refer to the attachment as provided at the April 17th City Council meeting.



Background:

N/A

Recommended Motion:

- 1) None – Discussion Only

City of Granite Falls

WATER AND WASTEWATER RATE STUDY

FINAL REPORT

December 2023

Washington

7525 166th Avenue NE, Ste. D215
Redmond, WA 98052
425.867.1802

Oregon

5335 Meadows Road, Ste 330
Lake Oswego, OR 97035
503.841.6543

Colorado

1320 Pearl St, Ste 120
Boulder, CO 80302
719.284.9168

www.fcsgroup.com

This entire report is made of readily
recyclable materials, including the bronze
wire binding and the front and back cover,
which are made from post-consumer
recycled plastic bottles.



FCS GROUP
Solutions-Oriented Consulting

TABLE OF CONTENTS

Table of Contents	i
Section I. Introduction	1
Purpose	1
Approach	1
Scope	1
Section II. Rate Study Methodology	2
Rate Setting Principles and Methodology	2
Fiscal Policies	2
Reserves	2
System Reinvestment (Rate Funded Capital)	3
Debt Management	4
Revenue Requirement Analysis	4
Rate Design	5
Section III. Water Utility	6
Introduction	6
Revenue Requirement	6
Operating Forecast	6
Capital Funding Plan	7
Summary of Revenue Requirement	8
Rate Design	9
Existing Water Rates	9
Proposed Water Rates	10
Section IV. Wastewater Utility	12
Introduction	12
Revenue Requirement	12
Operating Forecast	12
Capital Funding Plan	13
Summary of Revenue Requirement	14
Rate Design	16
Wastewater Utility Rate Update	16

Section V. General Facility Charges	18
Methodology	18
Existing Cost Basis.....	19
Future Cost Basis.....	19
Water GFC Calculation	19
Existing Cost Basis.....	20
Future Cost Basis.....	21
System Capacity	22
Calculation of the Water General Facility Charge	22
Water General Facility Charge Scenario.....	23
Wastewater GFC Calculation.....	23
Existing Cost Basis.....	23
Future Cost Basis.....	24
System Capacity	25
Calculation of the Wastewater General Facility Charge.....	25
Wastewater General Facility Charge Scenario.....	26
Section VI. Summary	27

Section I. INTRODUCTION

PURPOSE

FCS GROUP was engaged by the City of Granite Falls (“City”) to conduct a rate study for the City’s water and wastewater utilities. The purpose of the study was to develop a rate forecast and financial plan targeting stability and revenue sufficiency for 2022 – 2041 with a particular focus on the 2022 – 2025 study period.

APPROACH

The methods used to complete the study are based on analytical principles that are generally accepted and widely followed throughout the industry – rates and charges should generate enough revenue to maintain self-supporting and financially viable utilities.

Throughout the study, we worked with the City to arrive at rate conclusions that meet forecasted utility financial obligations, achieve City goals and policies, comply with legal requirements, and adhere to industry best practices. Meetings were held with City staff to validate input parameters, review interim findings and receive policy direction.

SCOPE

The scope of the project included the following key elements:

- Project revenue based on historical usage behavior, growth, and anticipated changes in water demands.
- Develop a capital funding analysis that balances available funding from rate revenue, general facility charges (GFCs), reserve funds and use of debt.
- Establish a sustainable, multi-year financial management plan that meets the projected total financial needs of each utility through the generation of sufficient and sustainable revenue.
- Design a water rate that determines how the target level of revenue will be generated (fixed v. variable charges) from each customer class and considers both the level (amount of revenue that must be generated) and structure (how the revenue will be collected).
- Update the City’s water and wastewater utility general facility charges.

The methodology, key factors, conclusions and recommendations for each of the key task areas of the study are summarized in this executive level report. The full technical analysis can be found in the detailed rate model provided to the City.

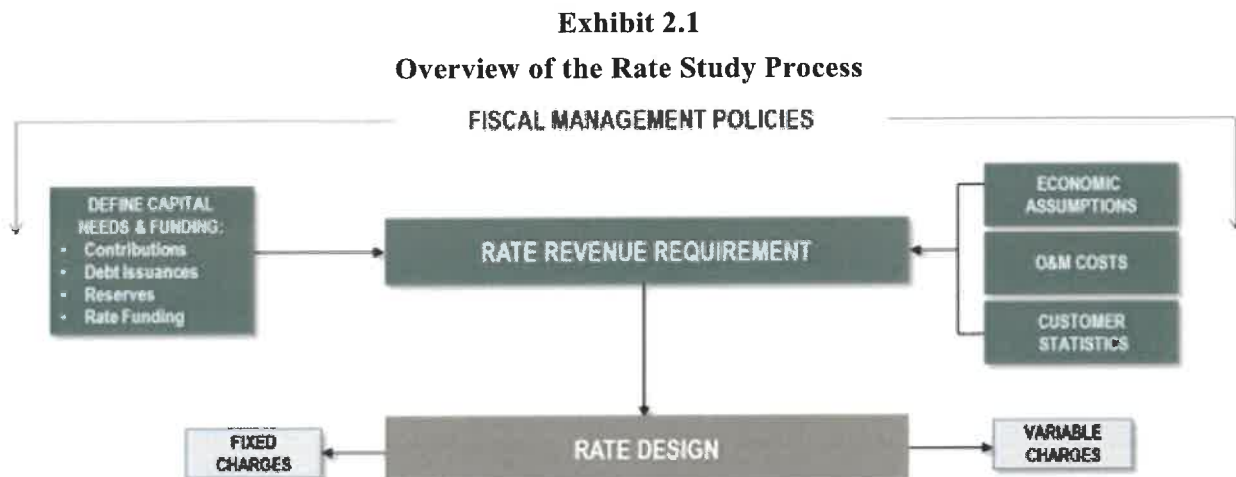
Section II. RATE STUDY METHODOLOGY

RATE SETTING PRINCIPLES AND METHODOLOGY

The methods used to establish user rates are based on principles that are generally accepted and widely followed throughout the industry. These principles are designed to produce rates that equitably recover costs from each class of customer by setting the appropriate level of revenue to be collected from ratepayers and establishing a rate structure to equitably collect those revenues.

Exhibit 2.1 illustrates the key components included as part of the rate study:

- **Revenue Requirement Analysis.** This analysis identifies the total revenue requirement to fully fund each system on a standalone basis, considering operating and maintenance expenditures, capital funding needs, debt requirements and fiscal policy objectives.
- **Rate Design Analysis.** This analysis includes the development of rates that generate sufficient revenue to meet each system's revenue requirement forecast and continue to address the City's pricing objectives (e.g., conservation and revenue stability).



FISCAL POLICIES

The foundation for evaluating utility revenue needs consists of a set of fiscal policies. These policies, which can address a variety of topics including cash management, capital funding strategy, financial performance, and rate equity, are intended to promote long-term financial viability for the City's utilities.

Reserves

Reserves are a key component of any utility financial strategy, as they provide the flexibility to manage variations in costs and revenues that could otherwise have an adverse impact on ratepayers. When evaluating fund reserve levels and objectives, it is important to recognize that the value of

reserves lies in their potential use. A reserve strategy that deliberately avoids any use of reserves negates their purpose. Fluctuation of reserve levels may indicate that the system is working, while lack of variation over many years strongly suggests that the reserves are, in fact, unnecessary. For the purpose of financial planning for the City's utilities, resources are separated into the following reserve categories:

- **Operating Reserve.** An operating reserve is designed to provide a liquidity cushion; it protects the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. Like other types of reserves, operating reserves also serve another purpose: they can help smooth rate increases over time. Target funding levels for an operating reserve are generally expressed as a certain number of days of operating and maintenance (O&M) expenses, with the minimum day requirement varying with the expected revenue volatility of the utility.

The City currently has a total cash target of 548 days of O&M expenses for the water utility and 730 days of O&M expenses for the sewer utility. This target is intended to cover both operating and capital requirements. While the analysis tracked operating and capital activities separately, the total combined cash was used for the measure of policy compliance.

- **Construction Reserve.** A construction reserve is an amount of cash set aside in case of an emergency should a piece of equipment or a portion of the utility's infrastructure fail unexpectedly. The reserve can also be used for other unanticipated capital needs including capital project cost overruns. Industry practices range from maintaining a balance equal to 1.00 to 2.00 percent of fixed assets, an amount equal to a 5-year rolling average of CIP costs, or an amount determined sufficient to fund equipment failure (other than catastrophic failure). The final target level should balance industry practice with the risk level of the City.

As discussed above, the City maintains a total cash target for each utility. The construction reserve was modeled to track capital activity only.

- **Debt Reserve.** Bond covenants often establish reserve requirements as a means of protecting against the risk of nonpayment. A common reserve requirement is one year's debt service payment. The balance held in reserve for a particular debt instrument may be used to make the final payment on that debt instrument. The City must continue to fully fund such reserves as required by bond covenant or loan agreement. Since the debt reserve provides a static reserve against inability to pay, it is unnecessary to maintain operating reserves against debt repayment.

A debt reserve equal to one year's debt service is assumed for any new revenue bonds projected as part of this study.

System Reinvestment (Rate Funded Capital)

A utility's infrastructure (e.g., lift stations, treatment plant, collection pipes, distribution pipes, etc.) is a critical element of serving the City's customers. Establishing a financial plan for the eventual replacement of these assets ensures system reliability and integrity over time. This practice is known as system reinvestment funding. In the absence of a formal asset management plan, target system reinvestment funding levels are commonly linked to annual depreciation expense. Depreciation expense is a measure of the decline in asset value associated with routine use of the system.

Particularly for utilities that do not already have an explicit system reinvestment policy in place, implementing a funding level based on full depreciation expense could significantly impact rates. A common alternative benchmark is annual depreciation expense net of debt principal payments on

outstanding debt. This approach recognizes that customers are still paying for certain assets through the debt component of their rate and intends to avoid simultaneously charging customers for an asset and its future replacement. The specific benchmark used to set system reinvestment funding targets is a matter of policy that must balance various objectives including managing rate impacts, keeping long-term costs down, and promoting “generational equity” (i.e., not excessively burdening current customers with paying for facilities that will serve a larger group of customers in the future).

The City does not have a formal policy regarding system reinvestment funding. This study utilizes cash flow after O&M and annual debt service to pay for capital in place of a formal system reinvestment policy.

Debt Management

Debt financing is a viable tool for capital funding. Compared with pay-as-you-go funding, debt smooths out the rate impact of a capital program by spreading costs over time. It also improves intergenerational equity – also referred to as “pay-as-you-use” because future customers who use the assets are the ones paying for them. However, debt should not be relied on too heavily as it carries the risk of default. Debt also reduces budget flexibility – cash-funded capital projects can be delayed if there is a revenue shortfall, but once the utility has issued debt, the debt service needs to be paid in good times or bad. While debt is a useful part of the capital funding toolbox, it needs to be monitored to ensure that the system does not become too heavily dependent on it. A debt service coverage ratio was utilized to evaluate the City’s debt levels.

- **Debt Service Coverage.** Debt service coverage is typically a requirement associated with revenue bonds and some State loans and is a financial measure assessing the ability to repay debt.

A typical minimum coverage requirement for utility revenue bonds is 1.25. If the City issues debt, the coverage requirements essentially require that the City collect enough revenue to meet operating expenses and not only pay debt service but collect an additional 25 percent above the bonded debt service payment. The extra revenue is a cushion that assures bondholders that the City has the financial resources to meet its debt service obligations. This study assumes 1.25 as the minimum target for revenue bond debt service coverage. Achieving a bonded debt service coverage level greater than the minimum required level is a positive signal to bond rating agencies and can result in more favorable terms when the City enters the market for revenue bonds.

REVENUE REQUIREMENT ANALYSIS

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy for each system. It also enables the City to set utility rate structures which fully recover the total cost of operating each system: capital improvement and replacement, operations, maintenance, general administration, fiscal policy attainment, cash reserve management, and debt repayment. Linking rate levels to a financial plan such as this helps to enable sound financial performance for the City’s utility enterprise funds, as well as a clear and reasonable relationship between the costs imposed on utility customers and the costs incurred to provide the service.

A revenue requirement analysis includes the following core elements to form a complete portrayal of the utility’s financial obligations.

- **Fiscal Policy Analysis.** Identifies formal and informal fiscal policies of the City to ensure that current policies are maintained, including reserve levels, capital/system replacement funding and debt service coverage.
- **Capital Funding Plan.** Defines a strategy for funding the City's capital improvement/equipment replacement program, including an analysis of available resources from rate revenues, debt financing, and any special resources that may be readily available (e.g., grants, outside contributions, etc.).
- **Operating Forecast.** Identifies future annual non-capital costs associated with the operation, maintenance, and administration of the system.
- **Sufficiency Testing.** Evaluates the sufficiency of revenues in meeting all financial obligations, including any coverage requirements associated with long-term debt.
- **Strategy Development.** Designs a forward-looking strategy for adjusting rates to fully fund all financial obligations on a periodic or annual basis over the projections period.

RATE DESIGN

The principal consideration of rate design is for the rate structure to generate sufficient revenues for the system which are reasonably commensurate with the cost of providing service. The pricing structure is largely dictated by the objectives of the system. Most rate designs consist of fixed and variable charges. Fixed charges generate a predictable revenue stream while variable charge revenues will fluctuate with a change in user demand.

Section III. WATER UTILITY

INTRODUCTION

The City of Granite Falls receives its water supply from Snohomish County PUD. From there, it provides water to customers through the Granite Falls water system to its population of approximately 4,300. The existing facilities in the City's water system include four master meters, approximately 32 miles of distribution system pipes, 195 fire hydrants, and 519 valves.

REVENUE REQUIREMENT

A revenue requirement analysis forms the basis for a long-range financial plan and multi-year rate management strategy. The analysis is developed by completing an operating forecast that identifies future annual operating costs and a capital funding plan that defines a strategy for funding the capital improvement needs of the City.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the water system. The 2021 actuals formed the baseline for this forecast. The operating forecast was developed for the 2022 through 2041 time period, with a rate setting implementation focus period of 2022 through 2025. The following list highlights some of the key assumptions used in the development of the water utility operating forecast.

Reserves

- **Total Cash Reserves.** As discussed in *Section II Rate Study Methodology* a minimum of 548 days of operating and maintenance (O&M) expenses (\$1.6M - \$1.7M) is maintained for the City's water utility.

Operating Revenue

- **Retail Rate Revenue.** Based on actual detailed customer accounts and usage statistics from the City's billing system. Usage data from 2021 was used to project 2022 and future periods.
- **Non-rate Revenue.** Non-rate revenue consists of interest earned on unused reserve balances, installations, reconnection fees, inspections, and late fees.
- **General Fund Transfers.** In 2022, the water utility is budgeted to receive a transfer from the City's General Fund equal to half of the amount of the City Utility Tax. Based on discussions with City staff, it was assumed that this practice will continue during each year of the study period.
- **Customer Growth.** Due to the current development moratorium associated with the construction of the City's wastewater treatment plant, no new growth was assumed from 2022 through 2024. Growth in 2025 was assumed at 2.50 percent, or 49 new connections.

- **Interest Earnings.** The rate used to calculate annual interest earnings on unused fund balances during the study period ranged from 0.15 percent to 0.90 percent per year, based on discussions with City staff.

O&M Expenses

- **General Cost Inflation.** 2.50 percent per year based on discussions with City staff.
- **Labor Cost Inflation.** 4.00 percent in 2023 & 2024 and 3.00 percent thereafter based on staff input.
- **Benefit Cost Inflation.** 1.00 percent in 2023 & 2024 and 2.50 percent thereafter based on discussions with City staff.
- **Professional Services.** 2.50 percent per year for all years, based on general cost inflation and staff input.
- **SPUD Purchased Water.** SPUD's inflation was assumed to be based on the general cost inflation of 2.50 percent aside from 2022, in which SPUD's rate was assumed to increase by 4.00 percent.
- **Construction Cost Inflation.** 3.00 percent per year based on discussions with City staff.
- **State Excise Taxes.** Public utility excise tax is 5.029 percent on all water rate revenue.
- **State B&O Tax.** 1.75 percent on all non-rate revenue and connection charge revenue.
- **City Utility Tax.** 20 percent on all rate revenue.

Debt Service

- **Existing Debt.** The water utility currently has one outstanding public works trust fund (PWTF) loan reaching maturity in 2026. Annual debt payments on the outstanding bond ranges from \$26,000 to \$27,500 throughout the forecast. Annual debt service averages \$26,900 throughout the four-year rate setting period.
- **New Debt.** No new debt is forecasted to fund the capital program over the study period.

System Reinvestment

System reinvestment funding ensures system integrity through reinvestment in the system. As discussed in *Section II Rate Study Methodology*, the City does not have a formal policy regarding system reinvestment. The study utilizes remaining cash flow after O&M and annual debt service to pay for capital in place of a dedicated funding component for annual system reinvestment.

Capital Funding Plan

The water utility is anticipating \$1.0 million in capital costs escalated to the year of construction from 2022 to 2025. The projects include well rehabilitation, pipe installation, pole building, and meter replacement. Once the capital is identified, a capital funding plan defines a strategy for funding the CIP considering available funding sources such as cash balances (including interest), general facility charge revenue, cash flow from operations, and new debt proceeds (if needed).

Exhibit 3.1 provides a summary of the funding sources for the capital expenditures. The full capital plan can be found in the detailed rate model provided to the City.

Exhibit 3.1
Water Capital Funding Summary

Capital Funding Summary	2022	2023	2024	2025	Total
Capital Project Costs	\$ 28,000	\$ 196,267	\$ 768,187	\$ 28,138	\$ 1,020,591
Funding Sources					
Cash/Reserves	\$ -	\$ 119,598	\$ 719,270	\$ -	\$ 838,868
Debt Proceeds	-	-	-	-	-
GFC Revenue	10,000	-	-	21,378	31,378
Capital Surcharge	15,615	70,185	39,360	-	125,160
Interest Earnings	2,385	6,483	9,558	6,760	25,186
Total Funding Sources	\$ 28,000	\$ 196,267	\$ 768,187	\$ 28,138	\$ 1,020,591

Summary of Revenue Requirement

The operating forecast components of O&M expenses, rate funded capital, and debt come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the water system to the expenses to evaluate the sufficiency of rates on an annual basis. **Exhibits 3.2 and 3.3** provide a summary of the water system revenue requirement findings.

Exhibit 3.2
Water Utility Revenue Requirement Summary

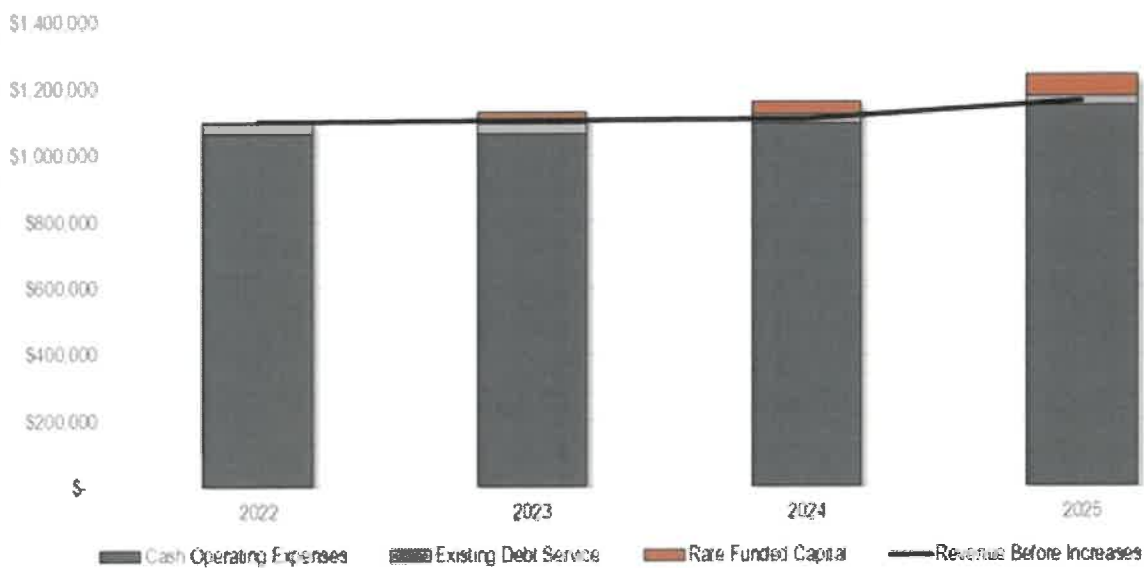
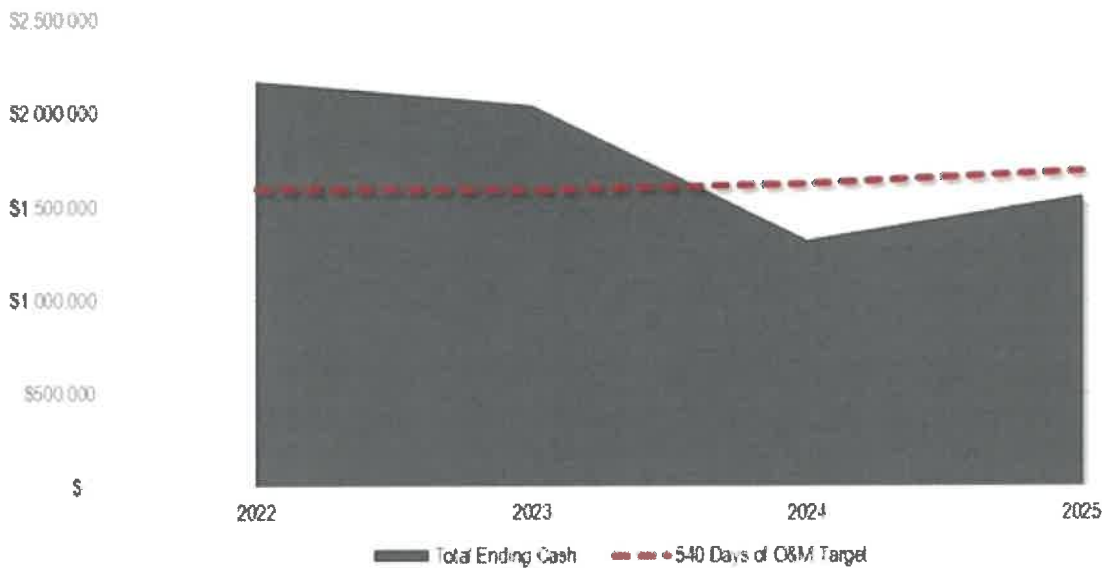


Exhibit 3.3 Water Utility Total Ending Cash Reserve Summary



Summary of water revenue requirement:

- Starting in 2025, rate revenues are insufficient in meeting annual debt service expenses. Without rate adjustments, projected ending cash reserves would fall to 437 days of O&M expenses in 2024.
- Based on discussion with City staff, two alternatives were developed for Council consideration in order to fund the ongoing obligations within the rate setting period.
 - » Alternative one focused on level annual increases of 2.50 percent from 2023 through 2025.
 - » Alternative two staggered the increases on a bi-annual basis starting with a 4.43 percent increase in 2023 followed by a 2.50 percent increase in 2025.
 - » No new debt issuances were assumed over the entire study period for either alternative.
- The Council selected to move forward with alternative two, biannual increases starting in 2023 through 2025.

RATE DESIGN

The principal objective of the rate design stage is to implement water rate structures that collect the appropriate level of revenue. Establishing rates is a blend of “Art” and “Science” and especially so when it comes to the rate levels and structures. Several variables must be balanced to arrive at optimal rates. The results of the revenue requirement analysis were used to develop new water rate alternatives to recover the projected revenue from customers.

Existing Water Rates

The existing water rates are composed of a fixed monthly charge, which includes an allowance of consumption, and a variable charge per hundred cubic feet (CCF) for all water usage above their

allowance, scaling with meter size. The base fee also escalates relative to meter size. Charges are the same for all customer classes of service. Other highlights of their existing rate schedule include:

- The City offers a low-income rate, which is based on 70 percent of residential fixed and variable charges.
- An additional fee per unit is applied to multi-unit properties.
- The City charges an outside city multiplier of approximately 1.29 times the inside city rate. This multiplier is applicable only to the base fee.

Exhibit 3.4 provides a summary of the existing monthly water utility rates.

Exhibit 3.4
Existing Monthly Water Rates

Rates	Allowance (cct)	Base Fee (\$/mo./acct.)	Tier 2 Volume Fee (\$/ccf)
Inside City			
5/8" - Discount	5	\$ 22.40	\$ 2.28
5/8"	5	32.00	3.26
1"	9	42.13	3.26
1.5"	29	80.33	3.26
2"	54	150.87	3.26
2.5"	90	237.08	3.26
3"	125	323.29	3.26
3.5"	125	384.29	3.26
4"	125	445.04	3.26
Per Additional Unit	4	20.80	3.26
Outside City			
5/8"	5	\$ 41.14	\$ 3.26
Per Additional Unit	4	20.80	3.26

Proposed Water Rates

Several rate structure options were evaluated and presented to Council including modifications to the allowances. The options discussed were:

- Maintain existing rate structures, including allowances, and apply the increases on an “across-the-board” basis, equally for the fixed and variable charges.
- Reduce the base allowance from five hundred cubic feet to four hundred cubic feet. All other allowances would be reduced proportionally.
- Reduce the base allowance from five hundred cubic feet to three hundred cubic feet. All other allowances would be reduced proportionally.

The Council decided to move forward with the first option, maintaining the existing rate structure and allowances and applying the increase on an across-the-board basis. **Exhibit 3.5 & 3.6** provides a summary of the proposed base and variable charges for the study period.

Exhibit 3.5
Proposed Monthly Water Base Rates

Description	Allowance (ccf)	Existing	2023	2024	2025
Inside City					
5/8" - Discount	5	\$ 22.40	\$ 23.45	\$ 23.45	\$ 24.04
5/8"	5	32.00	33.50	33.50	34.34
1"	9	42.13	44.10	44.10	45.20
1.5"	29	80.33	84.10	84.10	86.20
2"	54	150.87	157.94	157.94	161.89
2.5"	90	237.08	248.19	248.19	254.39
3"	125	323.29	338.44	338.44	346.90
3.5"	125	384.29	402.30	402.30	412.36
4"	125	445.04	465.90	465.90	477.55
Outside City					
5/8"	5	\$ 41.14	\$ 43.07	\$ 43.07	\$ 44.15
Per Additional Unit					
5/8" - Discount	4	\$ 14.56	\$ 15.24	\$ 15.24	\$ 15.62
All Other Customers	4	20.80	21.78	21.78	22.32

Note: 2023 5/8" base rate has been rounded to the nearest \$0.10

Exhibit 3.6
Proposed Monthly Water Volumetric Charges

Description	\$ /ccf			
	Existing	2023	2024	2025
All Customer Except Discount				
Allowance	\$ -	\$ -	\$ -	\$ -
All usage above allowance	3.26	3.40	3.40	3.49
Discount Customers				
Allowance	\$ -	\$ -	\$ -	\$ -
All usage above allowance	2.28	2.38	2.38	2.44

Section IV. WASTEWATER UTILITY

INTRODUCTION

The City of Granite Falls operates a wastewater collection and interception system serving a total of approximately 1,100 acres in the City and UGA. All of the wastewater collected by the City wastewater system is treated at a City owned and operated wastewater treatment plant. This facility meets standards for secondary treatment and discharges into the Pilchuck River in compliance with a National Pollution Discharge Elimination System (NPDES) permit issued by the State Department of Ecology (DOE). Approximately 12.5 miles of pipelines (8" to 12") and two lift stations make up the collection system.

REVENUE REQUIREMENT

Similar to the water utility, a revenue requirement was completed for the wastewater utility and forms the basis for the long-range financial plan and multi-year financial management strategy.

Operating Forecast

The purpose of the operating forecast is to determine whether the existing rates and charges are sufficient to recover the costs the City incurs to operate and maintain the wastewater system. The combination of 2021 actuals and 2022 budget formed the baseline for this forecast. The operating forecast was developed for the 2022 through 2041 time period with a rate setting implementation focus period of 2022 through 2025. The following list highlights some of the key assumptions used in the development of the wastewater utility operating forecast.

Reserves

- **Total Cash Reserves.** As discussed in *Section II Rate Methodology* a minimum of 730 days of operating and maintenance expenses (\$2.6M - \$2.8M) of total cash excluding any debt reserves required from new debt issuances is maintained for the City's wastewater utility.

Operating Revenue

- **Retail Rate Revenue.** Based on 2022 budget and customer growth.
- **Non-rate Revenue.** Non-rate revenue consists of interest earned on unused reserve balances, wastewater inspections, and late fees.
- **General Fund Transfers.** Based on discussions with City staff, it was assumed the wastewater utility will receive a transfer from the City's General Fund equal to half of the amount of the City Utility Tax. The study assumes this transfer will begin in 2023 and continue each year thereafter.
- **Customer Growth.** Due to the current development moratorium associated with the construction of the City's wastewater treatment plant, no new growth was assumed from 2022 through 2024. Growth in 2025 was assumed at 2.50 percent, or 47 new connections.

- **Interest Earnings.** The rate used to calculate annual interest earnings on unused fund balances during the study period ranged from 0.15 percent to 0.90 percent per year, based on discussions with City staff.

O&M Expenses

- **General Cost Inflation.** 2.50 percent per year based on discussions with City staff.
- **Labor Cost Inflation.** 4.00 percent in 2023 & 2024 and 3.00 percent thereafter based on staff input.
- **Benefit Cost Inflation.** 1.00 percent in 2023 & 2024 and 2.50 percent thereafter based on discussions with City staff.
- **Professional Services.** 2.50 percent per year for all years, based on general cost inflation staff input.
- **Construction Cost Inflation.** 3.00 percent per year based on discussions with City staff.
- **State Excise Taxes.** Public utility excise tax is 3.852 percent on all wastewater rate revenue related to collection. Based on discussion with City staff, collection represents 13 percent of rate revenue with the remaining 87 percent associated with treatment and transmission.
- **State B&O Tax.** 1.75 percent on all non-rate revenue, connection charge revenue and treatment and transmission share of rate revenue.
- **City Utility Tax.** 20 percent on all rate revenue.

Debt Service

- **Existing Debt.** The wastewater utility currently has one outstanding PWTF loan reaching maturity in 2032. Annual debt payments on the outstanding bond ranges from \$47,900 to \$50,500 throughout the forecast. Annual debt service is approximately \$49,800 during the study period.
- **New Debt.** In order to fund the capital program, it is anticipated that the City will need to issue new debt. The term length on this debt is assumed to be either 20 years or 30 years with an interest rate of either 5.00 percent or 1.50 percent depending on if the debt is a revenue bond, PWTF loan, or Department of Ecology (DOE) loan. For revenue bond debt, it is also assumed that issuance cost is equal to 1.00 percent of the total debt issued and that the City would be required to hold one year of debt service in a debt reserve.

System Reinvestment

System reinvestment funding ensures system integrity through reinvestment in the system. As discussed in *Section II Rate Study Methodology*, the City does not have a formal policy regarding system reinvestment. The study utilizes remaining cash flow after O&M and annual debt service to pay for capital in place of a dedicated funding component for annual system reinvestment.

Capital Funding Plan

The wastewater utility is anticipating \$27.4 million in capital costs in 2022 through 2025 escalated to the year of construction. The majority of these costs are for the construction of a new wastewater treatment plant. Once the capital costs are identified, a capital funding plan defines a strategy for funding the CIP considering available funding sources such as cash balances (including interest), general facility charge revenue, cash flow from operations, and new debt proceeds.

Exhibit 4.1 provides a summary of the funding sources for the capital funding expenditures. The full capital plan can be found in the detailed rate model provided to the City.

Exhibit 4.1
Wastewater Capital Funding Summary

Capital Funding Summary	2022	2023	2024	2025	Total
Capital Project Costs	\$ 2,471,000	\$ 11,881,050	\$ 12,237,482	\$ 857,791	\$ 27,447,322
Funding Sources					
Cash/Reserves	\$ 2,436,382	\$ -	\$ -	\$ 161,362	\$ 2,597,744
Debt Proceeds	-	11,872,609	12,172,741	-	24,045,350
Connection Charge Revenue	27,798	-	-	649,083	676,881
Interest Earnings	6,820	8,441	64,740	47,345	127,347
Total Funding Sources	\$ 2,471,000	\$ 11,881,050	\$ 12,237,482	\$ 857,791	\$ 27,447,322

Summary of Revenue Requirement

The operating forecast components of O&M expenses, rate funded capital, existing debt service, and expected future debt service come together to form the multi-year revenue requirement. The revenue requirement compares the overall revenue available to the wastewater system to the expenses to evaluate the sufficiency of rates. **Exhibits 4.2 and 4.3** provide a summary of the wastewater system revenue requirement findings.

Exhibit 4.2
Wastewater Utility Revenue Requirement Summary

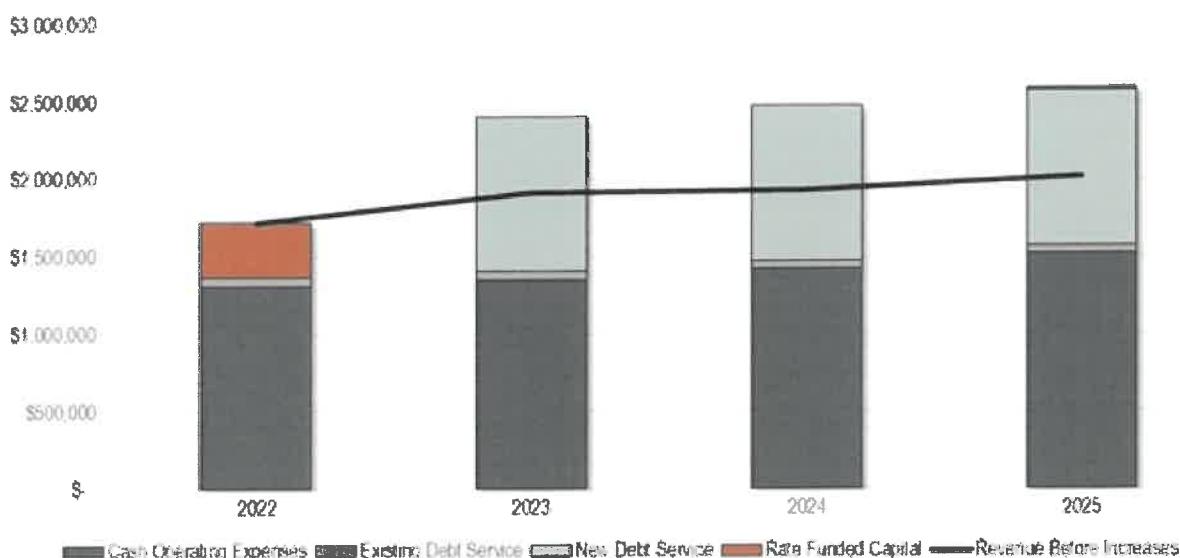
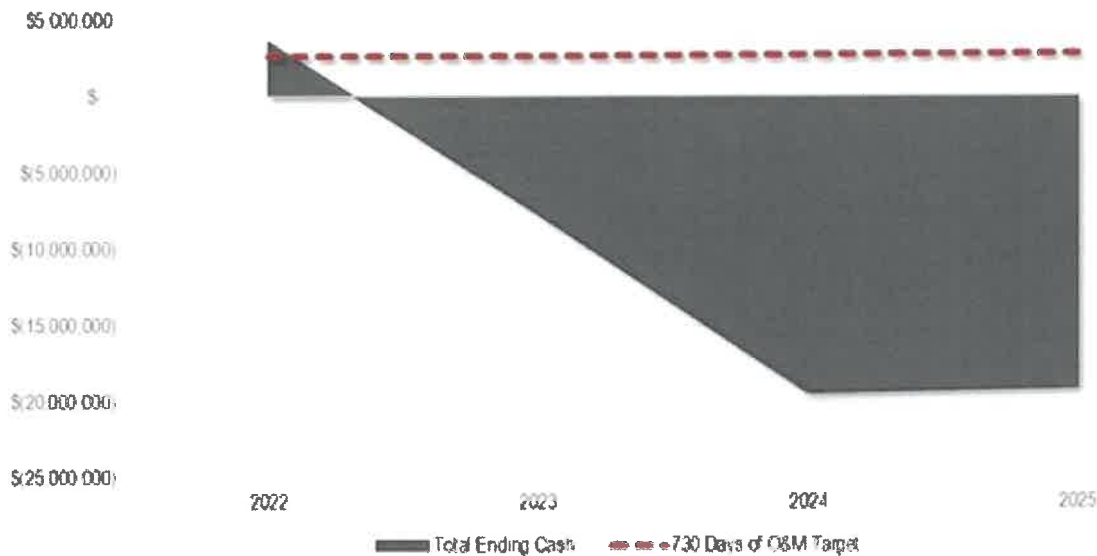


Exhibit 4.3 Wastewater Utility Total Ending Cash Reserve Summary



Summary of wastewater revenue requirement:

- While current revenue levels are sufficient to meet existing wastewater annual financial operating obligations, they are not able to fully fund the utility's capital program. Without rate increases or additional financial assistance, the utility's cash balances are expected to go negative in 2023.
- Based on discussions with City staff, four alternatives were developed for Council consideration. These scenarios differed in the proposed funding approach for the new wastewater treatment facility.
 - » The first alternative funded the treatment facility construction costs of \$24.0M with a department of ecology (DOE) loan. The term length of this debt was assumed at 30 years with interest cost of 1.50 percent. This alternative would require annual rate increases between 9.46 percent and 10.11 percent.
 - » The second alternative assumes 70 percent of the construction cost would be financed with a DOE loan with similar terms as in alternative one, with the remaining 30 percent being funded with grant proceeds. This alternative would require annual rate increases between 3.75 percent and 4.05 percent.
 - » The third alternative assumes 55 percent of the construction cost would be financed with a DOE loan, 30 percent with a PWTF loan, and the remaining 15 percent being funded with grant proceeds. The term length of PWTF debt was assumed at 20 years with an interest cost of 1.50 percent and DOE loan terms remaining the same as alternative one and two. This scenario would require annual rate increases between 9.76 percent and 10.81 percent.
 - » The fourth alternative funded the construction costs with revenue bond debt. The term length of this debt was assumed at 20 years with an interest cost of 5.00 percent. It was also assumed that issuance costs are equal to 1.00 percent of the total debt issued and that the utility would be required to create a reserve equal to one year of debt service. This scenario

requires an upfront rate increase of 167.57 percent followed by an increase of approximately 2.00 percent per year thereafter.

- The Council selected to move forward with alternative one, which fully funds the wastewater treatment plant construction costs with DOE loans.

RATE DESIGN

The study proposes no structural changes to the existing wastewater rate schedule. It is proposed that all rates are increased on an across-the-board basis, equally to both fixed and variable consumption charges. **Exhibit 4.4** summarizes the existing and proposed rate schedule.

Exhibit 4.4

Existing & Proposed Rate Schedule

Description	Existing	2023	Proposed 2024	2025
Base Fee (\$/mo./ERU)	\$ 74.00	\$ 81.00	\$ 89.00	\$ 98.00
Discount Rate	51.80	56.70	62.30	68.60
Consumption Fee (\$/ccf)	\$ 3.83	\$ 4.19	\$ 4.60	\$ 5.07

Notes:

1. Consumption fee applies to non-residential customers only
2. Consumption fee applies to any monthly consumption above 10 ccf

WASTEWATER UTILITY RATE UPDATE

Following the completion of the rate study, the City received updated costs for the wastewater utility treatment plant project, increasing the total capital improvement program by \$10.8 million to a total of \$38.3 million. In addition, the City was able to secure a DOE loan to fund the wastewater treatment plant project. Based on these changes, an update was performed for the wastewater utility revenue requirement and rate forecast. The update included the following assumptions:

- The project cost for the wastewater treatment plant increased by \$10.8 million, bringing the total the total capital improvement program to \$38.3 million.
- The DOE loan for the wastewater treatment plant project included the following terms:
 - » Total proceeds of \$34.1 million.
 - » The term length of the loan of 30-years.
 - » Interest rate of 1.60 percent.
 - » The repayment of the loan is projected to begin after the completion of the project. The update assumed the first payment to occur in 2026.
- Annual growth in 2025 was reduced from 2.50 percent to 1.00 percent, or 19 new connections.

In order to mitigate the impacts of new debt on monthly rates the City utilized existing reserves. As discussed in *Section II Rate Study Methodology* the wastewater utility's total cash on hand reserve target is set at 730 days of O&M, which is above a typical target observed for similar utilities. The developed annual rate strategy drew down operating reserves to approximately 330 days of O&M by 2031. Based on this approach, no increases were proposed in 2024. Starting in 2025 annual rate increases ranging from 4.94 percent in 2025 to 3.77 percent in 2031 are required. It should be noted

that a capital improvement program outside of 2025 was not available. If additional capital improvement projects are identified outside the focus period of 2025, the City should revisit the annual rate strategy. **Exhibit 4.5** provides an updated rate strategy through 2025.

Exhibit 4.5

Existing & Updated Proposed Rate Schedule

Description	Existing	Proposed		
		2023	2024	2025
Base Fee (\$/mo./ERU)	\$ 74.00	\$ 81.00	\$ 81.00	\$ 85.00
Discount Rate	51.80	56.70	56.70	59.50
Consumption Fee (\$/ccf)	\$ 3.83	\$ 4.19	\$ 4.19	\$ 4.40

Notes:

1. Consumption fee applies to non-residential customers only
2. Consumption fee applies to any monthly consumption above 10 ccf

Section V. GENERAL FACILITY CHARGES

In addition to the rate study, the City's general facility charges (GFCs) were updated. The following section discusses the various aspects of the process used to update the water and wastewater GFCs.

METHODOLOGY

GFCs are imposed on newly connecting customers and are intended to recover a proportionate share of utility infrastructure investment – both historical costs of existing capital assets and the planned cost of future capital improvements. The purpose of GFCs is two-fold: 1) to provide equity between existing and new customers, and 2) to provide a source of utility capital funding through rates. In the absence of GFCs, growth-related costs would be borne in large part by existing customers through rates. The cost of the system to be recovered by GFCs can be defined in two parts:

1. Existing cost basis, based on historical investments in existing infrastructure, and
2. Future cost basis, which recovers costs related to planned capital projects.

Revenue generated from the GFCs can be used to fund capital projects or debt service incurred to finance capital projects but may not be used to pay for operating and maintenance costs.

Section 35.92.025 of the Revised Code of Washington (RCW) authorizes Cities to impose GFCs (connection charges); however, it does not outline a specific methodology for calculating them. There are a variety of approaches that are used in the industry to establish a defensible GFC. While the City has some flexibility to define an equitable share of system costs, it is important that the City follow a rational approach to consistently determine and implement cost-based GFCs.

Since the calculated charges represent the maximum allowable charge, the City may choose to implement a charge at any level up to the calculated level. Revenues generated from the charge will vary depending upon whether or not the full charge is implemented (e.g., phase-in strategy). Delaying or otherwise limiting the GFC increase will generally reduce the amount of GFC revenue available, which could result in delays in completing the capital improvement program and / or increase in ongoing utility rates.

This study uses an “integrated” approach to compute the GFCs, which is summarized in **Exhibit 5.1**. The “integrated” approach allocates costs to customers based on who benefits from the related facilities. Because existing assets are built to meet existing demands and oversized to accommodate growth, the cost of the existing system is allocated to both existing and future customers. Costs that are associated with capacity-expanding projects that are necessary to serve growth are allocated exclusively to growth (future customers). The GFC also reflects an allocation of projects related to upgrading existing assets on the premise that existing and future customers both benefit from these projects.

Exhibit 5.1 GFC Methodology

$$\frac{\text{EXISTING COST}}{\text{CURRENT \& FUTURE CAPACITY}} + \frac{\text{FUTURE COST}}{\text{FUTURE CAPACITY}} = \text{GFC}$$

Existing Cost Basis

The existing cost basis portion of the charge developed in this study is based on facilities of general benefit, such as treatment plant components, lift stations, collection mains and distribution mains. It intends to recognize the current ratepayers' net investment in existing system assets. Section 35.92.025 of the RCW sets forth the requirements and basis for calculation of GFCs for cities in the State of Washington. The main provisions of the statute include:

"Cities and towns are authorized to charge property owners seeking to connect to the water or sewerage system of the city or town as a condition to granting the right to so connect, in addition to the cost of such connection, such reasonable connection charge as the legislative body of the city or town shall determine proper in order that such property owners shall bear their equitable share of the cost of such system."

"The equitable share may include interest charges applied from the date of construction of the water or sewer system until the connection, or for a period not to exceed ten years, at a rate commensurate with the rate of interest applicable to the city or town at the time of construction or major rehabilitation of the water or sewer system, or at the time of installation of the water or sewer lines to which the property owner is seeking to connect but not to exceed ten percent per year: PROVIDED, That the aggregate amount of interest shall not exceed the equitable share of the cost of the system allocated to such property owners."

Future Cost Basis

The future cost basis portion of the charge is intended to recover a fair share of planned capital facilities. The statute enabling connection charges for cities and towns (RCW 35.92.025) does not specifically address a charge based on planned future improvements. Common practice and legal opinion reinforce that future facilities needed to serve growth, as well as to provide for regulatory system improvement, can be included in the connection charge.

The GFC includes the cost of future projects provided by the City, identified in the City's system planning documents and other recent Capital Improvement Plans (CIPs). Consistent with the Government Accounting Standards Board (GASB) Rule No. 51, the cost basis excludes projects that are not expected to produce a tangible asset (e.g., system plan updates).

WATER GFC CALCULATION

The following section summarizes the GFC calculation for the water utility using the methodology described above.

Existing Cost Basis

The existing cost basis is intended to recognize the current ratepayers' net investment in the original cost of the system assets. The existing cost basis includes the following components:

- **Plant in Service.** Excluding meters and services, City financial records and estimates from the City's engineering consultant indicate that as of the end of 2021, the water utility had \$25.2 million in fixed assets.
- **Less: Meters and Services.** The total plant in service cost is reduced by the original cost of meters and services. The adjustment is made to recognize that the costs associated with this function of the water utility are generally recouped through other fees. At the time of this analysis there were no meters and services assets included in the City's financial records.
- **Less: Contributed Assets.** The total original cost is reduced to recognize known and / or estimated third party contributions. The outside contributions provide a source of capital at no new cost to the City's ratepayers. Since the GFC is necessarily cost based, the net investment by the City excludes those contributions. This results in a \$18.5 million reduction to the cost basis.
- **Plus: Interest on Non-Contributed Plant in Service.** RCW 35.92.025 provides a guideline for connection charges which suggests that such charges can include interest on an asset at the rate applicable during the time of construction. Using the historical Bond Buyer Index for 20-year term bonds, interest can accumulate for a maximum of ten years from the date of construction for any particular asset and cannot exceed the original cost of the asset or 10 percent for 10-years. Conceptually, this interest provision attempts to account for the existing customer's time-related cost of investing in system development and carrying capacity until a new customer connects rather than having it available for investment or other uses. Calculated interest for the water utility results in an addition of \$3.1 million.
- **Less: Outstanding Debt Principal.** Another adjustment to the existing system cost basis is to deduct the net liability of outstanding system debt, recognizing that new customers will bear a proportionate share of this debt related to existing assets through their utility rates. Therefore, the cost of those assets charged to new development is offset to some degree by the remaining debt liability. Since the utility typically has cash resources that are not included in the system cost basis, the net debt load is defined as total debt minus outstanding cash and investments. At the time of this analysis, the utility had more cash balances than outstanding debt, therefore, no adjustment was made to the existing cost basis.

After factoring in the above adjustments, the existing cost basis will be spread across the total system capacity (existing and incremental future capacity), as all existing infrastructure will continue to benefit all customers. The existing cost basis is shown below in **Exhibit 5.2**.

Exhibit 5.2
Existing Cost Basis

EXISTING COST BASIS		2021
Plant in Service	\$	25,234,400
less: Contributed Assets		(18,516,543)
plus: Net Interest		3,053,104
less: Debt Principal Outstanding		-
TOTAL EXISTING COST BASIS	\$	9,770,961

Future Cost Basis

The future cost basis portion of the water GFC is intended to recover a share of the costs associated with planned future capital projects. As provided by RCW 35.92.025, future facilities planned for construction can be included in the connection charge. Consistent with the legal requirement that the costs be borne by the City, funding by developers or special property assessments are not included in the calculation. The future cost basis includes the following components:

- **Utility Capital Improvement Plan.** The City has identified \$4.3 million in capital improvement projects through 2046.
- **Less: Ineligible Projects.** Projects related to meters and services are deducted from the future cost basis. Ineligible projects totaled approximately \$0.3 million.
- **Less: Renewal Projects.** These are projects related to the repair or replacement of existing infrastructure and are most often needed because existing facilities have deteriorated due to use by existing customers. The integrated approach removes these projects from the future cost basis on the grounds that: (a) these projects are attributable to existing customers; and (b) new customers will pay for their share of these projects through rates when they connect. Renewal projects totaled \$2.1 million.

Exhibit 5.3 provides a summary of the future cost basis.

Exhibit 5.3
Future Cost Basis

FUTURE COST BASIS		2021
Capital Improvement Program	\$	4,291,000
less: Ineligible Projects		(318,500)
less: Renewal & Replacement		(2,102,788)
TOTAL FUTURE COST BASIS	\$	1,869,712

System Capacity

A key component of the GFC calculation is determining the number of users the system can support. Given that the City's customers can impose different demands on the water system, the GFC calculation uses the concept of meter capacity equivalents (MCEs) to "standardize" the system capacity basis. An MCE will apply a weighting factor to meter sizes above the smallest meter to define the base capacity of the smallest meter. The purpose of an MCE is to maintain equitable proportions between existing and future capacity. System capacity is separated into two groups: existing subscribed capacity and future system capacity.

- **Existing Subscribed Capacity.** Customer statistics were used to establish the existing subscribed capacity. The MCE factors were applied to all meter sizes above the smallest meter size to determine the number of existing connections relative to the capacity of the smallest meter. The total existing MCEs were calculated at 1,972.
- **Future System Capacity.** The City's water system plan identified the capacity that would be served by the capital program included in the charge and was expressed in terms of equivalent residential units (ERUs). ERUs are similar to MCE, in terms of "standardizing" the customer base. Instead of using total flow capacity of a 5/8-inch meter in comparison to all other meter sizes, an ERU uses the average demand of a typical residential customer. In order to calculate the MCE based capacity, ratios were developed using existing and capacity ERUs. The results indicated that the water utility can support an additional 625 MCEs, or a total of 2,597 MCEs.

Calculation of the Water General Facility Charge

As described previously, the existing cost basis is divided by the total system capacity available after all capital projects are constructed while the future cost basis is divided by the future available capacity only. The results are added together to determine the maximum allowable GFC. **Exhibit 5.4** provides a summary of the GFC calculation for the City's water system.

Exhibit 5.4
GFC Calculation

GENERAL FACILITY CHARGE CALCULATION		Total
Existing Cost Basis	\$	9,770,961
Allocable Customer Base		2,597
Existing Cost Charge	\$	3,762
Future Cost Basis	\$	1,869,712
Allocable Customer Base		625
Future Cost Charge	\$	2,991
TOTAL GENERAL FACILITY CHARGE	\$	6,753

The resulting maximum allowable GFC charge is \$6,753 per MCE. As discussed in the methodology section, since this calculated charge is the maximum allowable charge, the City may choose to implement a charge at any level up to the calculated amount. Revenues generated from the charge will vary depending on whether or not the full amount is implemented. Delaying or otherwise

limiting GFCs will generally reduce the amount of revenue available, which could result in delays in completing the capital improvement program and/or additional ongoing monthly rate pressure.

Water General Facility Charge Scenario

The City requested an alternative calculation of the GFCs, to include contributed assets in the existing cost basis. Our general practice is to deduct contributed assets, but “*Landmark Development, Inc. v. City of Roy, (1999)*” seems to indicate that the inclusion of contributed assets in the charge basis would be legal. **Exhibit 5.5** provides this alternative calculation including the contributed assets in the cost basis. We recommend that the City seek a legal opinion to confirm the validity of this approach.

Exhibit 5.5
GFC Calculation Including Contributed Assets

GENERAL FACILITY CHARGE CALCULATION		Total
Existing Cost Basis	\$	36,309,587
Allocable Customer Base		2,597
Existing Cost Charge	\$	13,980
Future Cost Basis	\$	1,869,712
Allocable Customer Base		625
Future Cost Charge	\$	2,991
TOTAL GENERAL FACILITY CHARGE	\$	16,971

WASTEWATER GFC CALCULATION

The following section will review the GFC calculation for the wastewater utility using the methodology described above. Figures used in the calculations reflect the updated cost estimates for the wastewater treatment plant as discussed in the *Wastewater Utility Rate Update* section above.

Existing Cost Basis

The existing cost basis is intended to recognize the current ratepayers’ net investment in the original cost of the system assets. The existing cost basis includes the following components:

- **Plant in Service.** City financial records and estimates from the City’s engineering consultant indicate that as of the end of 2021, the wastewater utility had \$60.7 million in fixed assets.
- **Less: Contributed Assets.** The total original cost is reduced to recognize known third party contributions. The outside contributions provide a source of capital at no new cost to the City’s ratepayers. Since the GFC is necessarily cost based, the net investment by the City excludes those contributions. This results in a \$48.8 million reduction to the cost basis.
- **Plus: Interest on Non-Contributed Plant in Service.** RCW 35.92.025 provides a guideline for connection charges which suggests that such charges can include interest on an asset at the rate applicable during the time of construction. Using the historical Bond Buyer Index for 20-year

term bonds, interest can accumulate for a maximum of ten years from the date of construction for any particular asset and cannot exceed the original cost of the asset or 10 percent for 10-years. Conceptually, this interest provision attempts to account for the existing customer's time-related cost of investing in system development and carrying capacity until a new customer connects rather than having it available for investment or other uses. Calculated interest for the wastewater utility results in an addition of \$10.8 million.

- **Less: Outstanding Debt Principal.** Another adjustment to the existing system cost basis is to deduct the net liability of outstanding system debt, recognizing that new customers will bear a proportionate share of this debt related to existing assets through their utility rates. Therefore, the cost of those assets charged to new development is offset to some degree by the remaining debt liability. Since the utility typically has cash resources that are not included in the system cost basis, the net debt load is defined as total debt minus outstanding cash and investments. At the time of this analysis, the utility had more cash balances than outstanding debt, therefore, no adjustment was made to the existing cost basis.

After factoring in the above adjustments, the existing cost basis will be spread across the total system capacity (existing and incremental future capacity), as all existing infrastructure will continue to benefit all customers. The existing cost basis is shown below in **Exhibit 5.6**.

Exhibit 5.6
Existing Cost Basis

EXISTING COST BASIS		2021
Plant in Service	\$	60,705,383
less: Contributed Assets		(48,800,913)
plus: Net Interest		10,792,027
less: Debt Principal Outstanding		-
TOTAL EXISTING COST BASIS	\$	22,696,497

Future Cost Basis

The future cost basis portion of the wastewater general facility charge is intended to recover a share of the costs associated with planned future capital projects. As provided by RCW 35.92.025, future facilities planned for construction can be included in the connection charge. Consistent with the legal requirement that the costs be borne by the City, funding by developers or special property assessments are not included in the calculation. The future cost basis includes the following components:

- **Utility Capital Improvement Plan.** The City has identified \$38.5 million in capital improvement projects through 2025.
- **Less: Renewal and Replacement Projects.** These are projects related to the repair or replacement of existing infrastructure and are most often needed because existing facilities have deteriorated due to use by existing customers. The integrated approach removes these projects from the future cost basis on the grounds that: (a) these projects are attributable to existing customers; and (b)

new customers will pay for their share of these projects through rates when they connect. Renewals projects totaled \$19.2 million.

Exhibit 5.7 provides a summary of the future cost basis.

Exhibit 5.7
Future Cost Basis

FUTURE COST BASIS		2021
Capital Improvement Program	\$	38,482,216
less: Renewal & Replacement		(19,164,985)
TOTAL FUTURE COST BASIS	\$	13,179,088

System Capacity

A key component of the GFC calculation is determining the number of users the system can support. Given that the City's customers can impose different demands on the wastewater system, the GFC calculation uses the concept of Equivalent Residential Units (ERUs) to "standardize" the system capacity basis. An ERU for the wastewater utility is defined as 167 gallons per day. The purpose of an ERU is to maintain equitable proportions between existing and future capacity. System capacity is separated into two groups: existing subscribed capacity and future system capacity.

- **Existing Subscribed Capacity.** The City's engineering consultant provided the current number of subscribed ERUs. Total existing subscribed capacity is 1,737 ERUs.
- **Future System Capacity.** The future system capacity was also provided by the City's engineering consultant. This is based on the capacity of the new wastewater treatment facility. The future system capacity is 3,327 ERUs.

Calculation of the Wastewater General Facility Charge

As described previously, the existing cost basis is divided by the total system capacity available after all capital projects are constructed while the future cost basis is divided by the future available capacity only. The results are added together to determine the maximum allowable GFC. **Exhibit 5.8** provides a summary of the GFC calculation for the City's wastewater system.

Exhibit 5.8
GFC Calculation

GENERAL FACILITY CHARGE CALCULATION	Total
Existing Cost Basis	\$ 22,696,497
Allocable Customer Base	3,327
Existing Cost Charge	\$ 6,822
Future Cost Basis	\$ 19,317,231
Allocable Customer Base	1,590
Future Cost Charge	\$ 12,149
TOTAL GENERAL FACILITY CHARGE	\$ 18,971

The resulting maximum allowable GFC is \$18,971 per ERU. Since this calculated charge is the maximum allowable charge, the City may choose to implement a charge at any level up to the calculated amount. Revenues generated from the charge will vary depending on whether or not the full amount is implemented. Delaying or otherwise limiting general facility charges will generally reduce the amount of revenue available, which could result in delays in completing the capital improvement program and/or additional ongoing monthly rate pressure.

Wastewater General Facility Charge Scenario

The City requested an alternative calculation of the GFCs, to include contributed assets in the existing cost basis. Our general practice is to deduct contributed assets, but “*Landmark Development, Inc. v. City of Roy, (1999)*” seems to indicate that the inclusion of contributed assets in the charge basis would be legal. **Exhibit 5.9** provides this alternative calculation including the contributed assets in the cost basis. We recommend that the City seek a legal opinion to confirm the validity of this approach.

Exhibit 5.9
GFC Calculation Including Contributed Assets

GENERAL FACILITY CHARGE CALCULATION	Total
Existing Cost Basis	\$ 86,186,349
Allocable Customer Base	3,327
Existing Cost Charge	\$ 25,905
Future Cost Basis	\$ 19,317,231
Allocable Customer Base	1,590
Future Cost Charge	\$ 12,149
TOTAL GENERAL FACILITY CHARGE	\$ 38,054

Section VI. SUMMARY

The analysis described above concludes the comprehensive water and wastewater utility system rate and GFC study. The study followed the methodology described in *Section II*, which included three key steps:

- **Revenue Requirement Analysis.** Determines the amount of revenue that utility rates must generate to meet the utility's various financial obligations. This analysis has two main purposes – it serves as a means of evaluating the water and wastewater utility's fiscal health and adequacy of current rate levels, and it sets the revenue basis for near-term and long-term rate planning. Multiple scenarios were developed for both utilities.
 - » Based on Council direction, the results of this analysis indicate that the water utility will need bi-annual increases – 4.45 percent in 2023 and 2.50 percent in 2025.
 - » The wastewater utility adopted a 9.46 percent increase in 2023. No increases are anticipated in 2024. Taking into account the updated wastewater treatment plant costs, DOE loan funding and assumptions for the wastewater utility provided after the completion of the initial study, a 4.94 percent increase is anticipated in 2025. The updated wastewater rate strategy utilizes existing reserves to mitigate annual rate increases, drawing down operating reserves to approximately 330 days of O&M by 2031.
 - » These revenue adjustments are designed to fund annual operating expenses, capital improvement program, operating reserve goals, and financial performance targets related to debt service coverage if applicable.
- **Rate Design.** The second step in the study process aligns the City's existing rate structure to generate sufficient revenue from each customer class based on the results of the revenue requirement. Based on Council direction, rate increases are applied on an across-the-board basis for both the water and wastewater utilities.
- **GFC Analysis.** GFCs are imposed on newly connecting customers and are intended to recover a proportionate share of utility's infrastructure investment. The calculations indicated a higher maximum allowable charge for both the water and wastewater utilities. As a result, the City has the legal flexibility to implement any charge up to that amount.

We recommend that the City revisit the study findings during the budget cycle to check that the assumptions used are still appropriate and no significant changes have occurred that would alter the results of the study. The City should use the study findings as a living document, continuously comparing the study outcomes to actual revenue and expenses. Any significant or unexpected changes will require adjustments to the rate strategy proposed. It is also recommended that the City recalculate their general facility charge upon completion of major projects to maintain full representation of system investment value as assets are placed into service.

2024 Comparison of General Facility Charges Sno Co Cities

<u>City</u>	(1 ERU) Sewer GFC	(1 ERU) Water GFC	
Sultan	\$15,885	\$6,147	Includes cost for connection to the water main
Granite Falls	\$13,899	\$8,145	
Lake Stevens	\$13,500	\$7,855	
Snohomish*	\$10,924	\$5,893	*\$2491 is cost for connection to the water main
Stanwood	\$7,719	\$6,912	
Monroe	\$7,456	\$4,111	
Arlington	\$4,840	\$6,868	
Marysville	\$4,490	\$4,750	
Everett	\$4,028	\$4,577	