Agenda
Utility Advisory Committee Meeting
Tuesday, January 14, 2020
Public Library Gallery Room | 955 Northgate Drive

Committee Members: Chair Lo Presti, Vice-Chair Sanders and Committee Members Larkin, Parker, Porter, Anderson, and Gregoire

Liaisons: Council Liaisons Lemley and Lukson
Staff Liaison Energy Services Director Whitney

Regular Meeting – 3:00 p.m.

Call to Order / Attendance:

Approval of Agenda: (Approved by Motion)

Approval of Minutes: (Approved by Motion)

Approval of November 12, 2019 Meeting Minutes

Public Comments:

Election of Officers: Nominations for Election of Chairman and Vice-Chairman

Items of Business:

1. Strategic Leadership Plan (30 Minutes)
   - Cindy Reents, City Manager

2. Status - Each City Utility (20 Minutes)
   - Clint Whitney, Energy Services Director
     Pete Rogalsky, Public Works Director
     Tom Huntington, Fire & Emergency Services Director

3. Ambulance Utility Structural Overview (30 Minutes)
   - Tom Huntington, Fire & Emergency Services Director

Unfinished Business:

Other Informational Items:

1. Energy Services Capital Working Plan Year End and Look Ahead
   - Clint Whitney, Energy Services Director

2. Energy Services Bond Rating Comments
   - Clint Whitney, Energy Services Director

3. Forward Planning Agenda
   - Clint Whitney, Energy Services Director

Adjournment

The next Utility Advisory Committee Meeting is March 10, 2020.

Richland Public Library is ADA accessible with special parking and access available at the entrance facing Northgate Drive. Requests for sign interpreters, audio equipment, and/or other special services must be received 48 hours prior to the Utility Advisory Committee Meeting by calling the City Clerk's Office at 942-7389.

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 1/14/2020

Agenda Category: Approval of Minutes

Prepared By: Clint Whitney, Energy Services Director

Subject:

Approval of November 12, 2019 Meeting Minutes

Department:

Energy Services

Recommended Motion:

Approve minutes of the November 12, 2019 Utility Advisory Committee meeting.

Summary:

Fiscal Impact:

Attachments:

1. 111219 UAC Minutes - FOR APPROVAL

MINUTES **DRAFT**

UTILITY ADVISORY COMMITTEE REGULAR MEETING

Public Library Gallery Room ~ 955 Northgate Drive

November 12, 2019 ~ 3:00 p.m.

CALL TO ORDER:

Chair LoPresti called the meeting to order at 3:00 p.m.

ATTENDANCE:

Chair Charles LoPresti, Vice-Chair James Sanders, Committee Members Graham Parker, Dan Porter, Amy Anderson, and Don Gregoire were present. Committee Member Dave Larkin was absent. Also present were Council Liaison Lemley, Staff Liaison and Energy Services Director Whitney, Public Works Director Rogalsky, Fire and Emergency Services Director Huntington and Administrative Assistant II Grimes.

Chair LoPresti welcomed the two new committee members, Ms. Anderson and Mr. Gregoire, thanking them for serving on the committee.

APPROVAL OF THE AGENDA:

MEMBER PORTER MOVED AND MEMBER PARKER SECONDED THE MOTION TO APPROVE THE AGENDA AS PUBLISHED. THE MOTION CARRIED 6-0.

APPROVAL OF MINUTES:

MEMBER PORTER MOVED AND MEMBER PARKER SECONDED THE MOTION TO APPROVE THE SEPTEMBER 10, 2019 MEETING MINUTES AS PUBLISHED. THE MOTION CARRIED 5-0.

PUBLIC COMMENTS:

There were no public comments.

ITEMS OF BUSINESS:

1. Ambulance Utility Update

Staff Report: Director Huntington updated the committee on the passage of the Ambulance Utility rate increase by the City Council that will take effect in January 2020. City Council also approved an agreement with Pacific Northwest National Laboratory (PNNL) that will provide for the construction of a new fire station in the northeast Richland area. The City will be going to the state in December to request the authority to use the design/build method of constructing the new station. The department is currently hiring for 14 open positions that will eventually fill the personnel needed at the new station once they have completed the Academy training. A consultant has been brought on to take a look at the Ground Emergency Medical Transport (GEMT) formulas to determine whether the utility can start to offset the general fund contributions. A report should be expected early next year. Director Huntington also confirmed that future agenda items the committee indicated they would like to see from the department would be customer class analysis, rate impacts, and the overall utility structure and funding to help them better understand the utility.

The UAC Members had several clarifying questions and stated their views on the topic. Discussion included: reasons for the partnership with PNNL, what the current applicant pool is like, the future growth of the utility, where current stations are located and the plan for where future stations would be built, and lastly the possibility of receiving information on equipment depreciation and reliability of the utility.

2. Water Treatment Plant Tour

Staff Report: Director Rogalsky along with Water Operations Supervisor Brent Andrews and Water Quality Coordinator Devin Desparte led a tour of the City's Water Treatment Plant.

The UAC Members had several clarifying questions and stated their views on the topic. Discussion included: possible vulnerabilities in the City's water treatment process, emergency management procedures, fresh water source and potential sources of contamination, and comparisons between other local municipalities water treatment process and interconnections that may exist.

OTHER INFORMATION:

1. **Richland Energy Services Capital Work Plan Monthly Report**
2. **Northwest Energy Management Services Tier 2 Market Purchases Comparison to Bonneville Power Administration**
3. **Richland Energy Services 2020 Capital Work Plan**
4. **Forward Planning Items**

ADJOURNMENT

Chair LoPresti adjourned the meeting at 5:06 p.m.

Respectfully submitted: ______________________________
Kylie Grimes, Administrative Assistant II

Reviewed by: ______________________________
Clinton R. Whitney, Energy Services Director

Date Approved:

Date Published:

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Richland Washington

Meeting Date: 1/14/2020

Agenda Category: Items of Business

Prepared By: Cindy Reents, City Manager

Subject:
Strategic Leadership Plan (30 Minutes)

Department:
Energy Services

Recommended Motion:

Summary:
City Manager, Cindy Reents, will discuss the City's Strategic Leadership Plan.

Fiscal Impact:

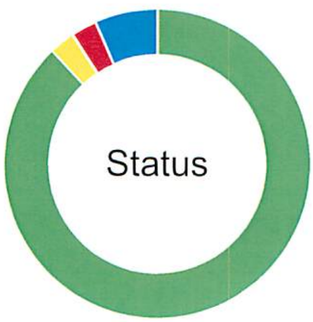
Attachments:
1. Strategic Leadership Plan Summary

Strategic Leadership Plan Summary

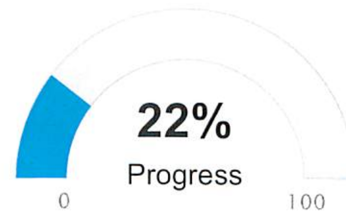
Report Created On: Jan 14, 2020

6	16
Core Focus	Objective

Overall Summary



	%
On Track	88.0
Some Disruption	2.67
Major Disruption	2.67
Completed	6.67



Report Legend No Update Overdue **Priority**

Core Focus 1 Progress 20%

Financial Stability and Operational Effectiveness

Owner: Cindy Reents

Objective: 3 Action: 18

	%	#
On Track	94.44	17
Completed	5.56	1

Objective 1.1 Progress 27%

Preserve and enhance fiscal health and wellness.

Owner: Cindy Reents

Action: 10

	%	#
On Track	90.0	9
Completed	10.0	1

Objective 1.2 Progress 21%

Increase use of technology to facilitate enhanced public access to information and improved customer service.

Owner: Cindy Reents

Action: 4

	%	#
On Track	100.0	4

Objective 1.3 Progress 0%

Promote leadership growth and development.

Owner: Cindy Reents

Action: 4

	%	#
On Track	100.0	4

Core Focus 2 Progress 24%

Infrastructure and Facilities

Owner: Cindy Reents

Objective: 2 Action: 11

	%	#
On Track	81.82	9
Major Disruption	18.18	2

Objective 2.1 Progress 32%

Plan and provide facilities and infrastructure essential to community growth.

Owner: Cindy Reents

Action: 7

	%	#
On Track	85.71	6
Major Disruption	14.29	1

Objective 2.2 Progress 10%

Maximize existing facilities and infrastructure through sustainable maintenance programs.

Owner: Cindy Reents

Action: 4

	%	#
On Track	75.0	3
Major Disruption	25.0	1

Core Focus 3 Progress 5%

Economic Vitality

Owner: Cindy Reents

Objective: 2 Action: 15

	%	#
On Track	93.33	14
Some Disruption	6.67	1

Objective 3.1 Progress 0%

Improve the economic health of the community through a targeted investment in Richland's Waterfront District.

Owner: Cindy Reents

Action: 6

	%	#
On Track	83.33	5
Some Disruption	16.67	1

Objective 3.2 Progress 8%

Encourage primary sector employment and enhance the tax base in Richland through targeted investments.

Owner: Cindy Reents

Action: 9

	%	#
On Track	100.0	9

Core Focus 4 Progress 30%

Natural Resources Management

Owner: Cindy Reents

Objective: 2 Action: 7

	%	#
On Track	100.0	7

Objective 4.1 Progress 20%

Balance private and public interests in the preservation of identified natural and environmentally sensitive areas.

Owner: Cindy Reents

Action: 2

	%	#
On Track	100.0	2

Objective 4.2 Progress 34%

Evaluate the provision of economically viable services that contribute to sustainable environmental stewardship.

Owner: Cindy Reents

Action: 5

	%	#
On Track	100.0	5

Core Focus 5 Progress 43%

Community Amenities

Owner: Cindy Reents

Objective: 3 Action: 10

	%	#
On Track	60.0	6
Some Disruption	10.0	1
Completed	30.0	3

Objective 5.1 Progress 35%

Create gateways, streetscapes, and public art features to enhance and beautify the City.

Owner: Cindy Reents

Action: 4

	%	#
On Track	50.0	2
Some Disruption	25.0	1
Completed	25.0	1

Objective 5.2 Progress 50%

Provide and maintain park and recreation facilities to meet the needs of our community.

Owner: Cindy Reents

Action: 4

	%	#
On Track	50.0	2
Completed	50.0	2

Objective 5.3 Progress 45%

Expand opportunities for sports tourism.

Owner: Cindy Reents

Action: 2

	%	#
On Track	100.0	2

Core Focus 6 Progress 21%

Neighborhoods and Community Safety

Owner: Cindy Reents

Objective: 4 Action: 14

	%	#
On Track	92.86	13
Completed	7.14	1

Objective 6.1 Progress 0%

Prevent and reduce blight of neighborhoods and commercial property.

Owner: Cindy Reents

Action: 1

	%	#
On Track	100.0	1

Objective 6.2 Progress 25%

Enhance livability and connectivity of neighborhoods.

Owner: Cindy Reents

Action: 2

	%	#
On Track	100.0	2

Objective 6.3 Progress 25%

Increase safety and enhance prevention activities in neighborhoods, retail and industrial business districts.

Owner: Cindy Reents

Action: 10

	%	#
On Track	90.0	9
Completed	10.0	1

Objective 6.4 Progress 0%

Increase collaboration with Police, Fire and dispatch.

Owner: Cindy Reents

Action: 1

	%	#
On Track	100.0	1

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 1/14/2020

Agenda Category: Items of Business

Prepared By: Clint Whitney, Energy Services Director
Pete Rogalsky, Public Works Director
Tom Huntington, Fire & Emergency Services Director

Subject:
Status - Each City Utility (20 Minutes)

Department:
Energy Services

Recommended Motion:

Summary:
Per request from UAC members, a representative for each of the five City utilities will present a policy summary.

Fiscal Impact:

Attachments:

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 1/14/2020 | Agenda Category: Items of Business

Prepared By: Tom Huntington, Fire & Emergency Services Director

Subject:
Ambulance Utility Structural Overview (30 Minutes)

Department:
Energy Services

Recommended Motion:

Summary:
Chief Huntington will provide the Utility Committee Members with an introduction and overview of the City's Ambulance Utility including a brief history, operational resource deployment, staffing and budget as well as fees and rate structure. An update on the Ground Emergency Medical Transport (GEMT) funding rate study, and an update on the additional Public Safety Response Station in North Richland will be covered as time allows.

Fiscal Impact:

Attachments:
1. Ambulance Utility Overview

Richland Fire & Emergency Services

Ambulance Utility Overview

Utility Advisory Committee

January 14, 2020

Introduction and Background

The Revised Code of Washington (RCW Section 35.21.766) gives all cities and towns the authority to establish an ambulance service to be operated as a public utility. The RCW also includes the authority for a City Council to set rates and charges for regulating, operating, and maintaining an ambulance utility. It also identifies the policies with regard to classifying costs and setting rates for an ambulance utility.

Introduction and Background

In July 2011 the Washington State Legislature amended RCW 35.21.766 by eliminating the requirement that the General Fund continue to provide support to ambulance utilities at 70% of the May 2004 funding level. As a result, cities now have more freedom to decide how much support their General Fund will provide to their ambulance utility.

The City continues to provide $550,000 annually from the General Fund to the Ambulance Utility Fund per RMC Title 13

Introduction and Background

- 2005 First Rate Study was at inception
- 2009 Second Rate Study completed for the date range of 2010 to 2014
  - Prior to station 74 construction and staffing
- 2017-2018 move to third party billing from city staff
- 2018 First outside rate study completed through FCS
- 2019 Rate adoption in preparation of staffing of station 75
- 2019 GEMT Rate Study and updated Average Cost Per transport to the State

Operational Resource Deployment

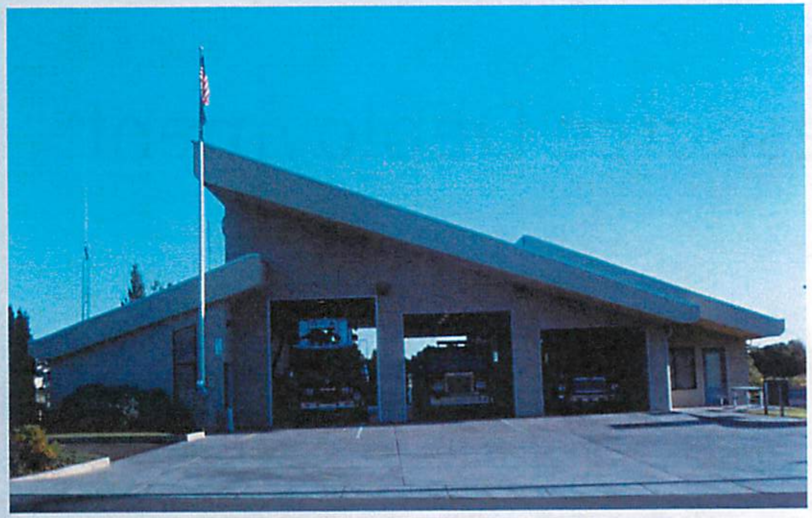
Mission: “Protect and Enhance the Quality of Life”

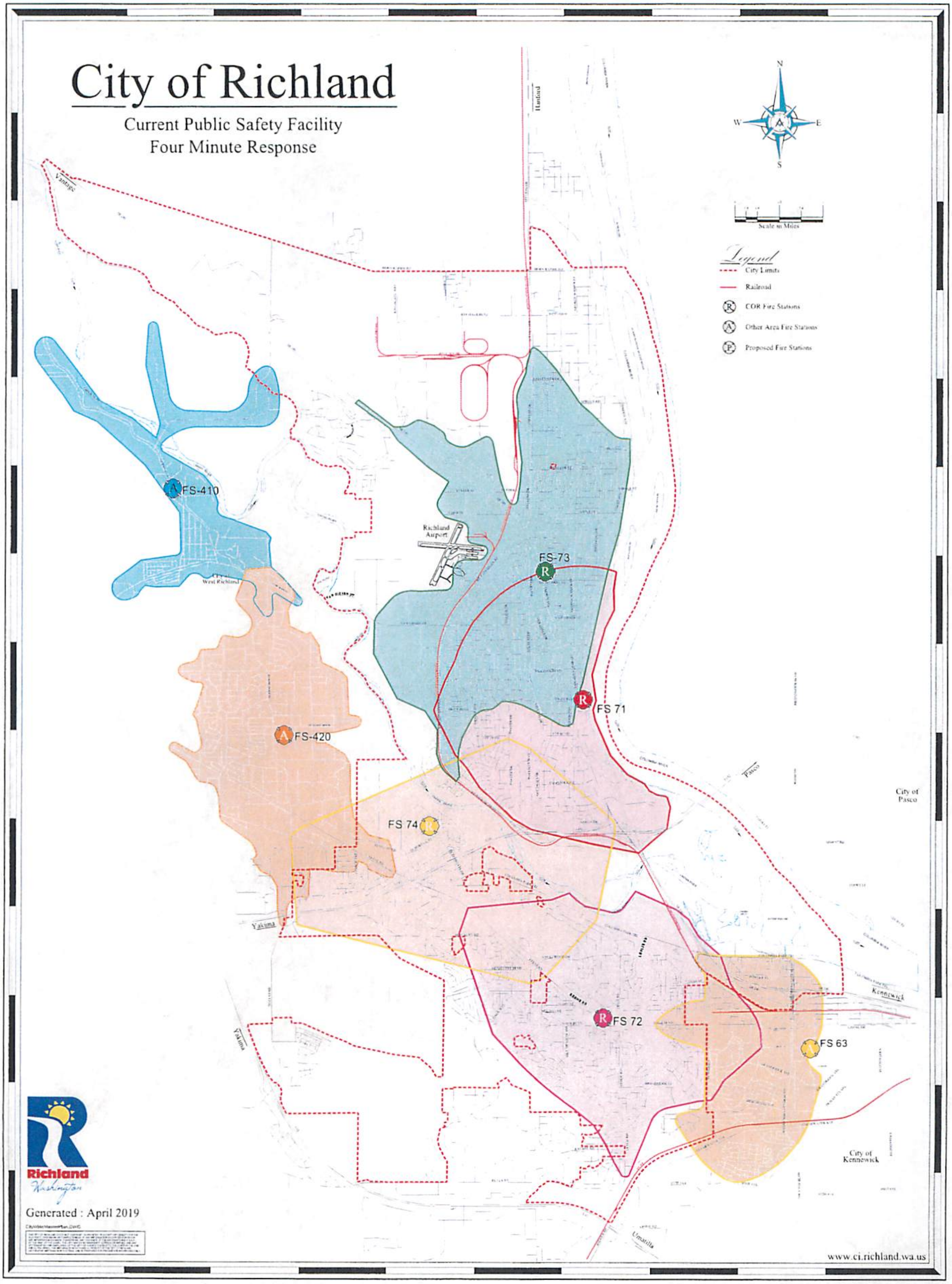
Community Driven, Customer Focused, Competition Ready

Richland has provided EMS from the very beginning of our service and was one of the early departments in the state to certify and staff with paramedics

RF&ES maintains and operates four response stations spread throughout the City. The City provides Advanced Life Support level of service across all stations.

Service is Provided from 4 stations





City of Richland
Current Public Safety Facility
Four Minute Response
Legend
City Limits
Railroad
COR Fire Stations
Other Area Fire Stations
Proposed Fire Stations
Scale in Miles
N
S
E
W
Hanford
Vantage
FS-410
West Richland
Richland Airport
FS-73
FS 71
FS-420
FS 74
Pasco
City of Pasco
Yakima
FS 72
FS 63
Kennewick
City of Kennewick
Umatilla
Richland Washington
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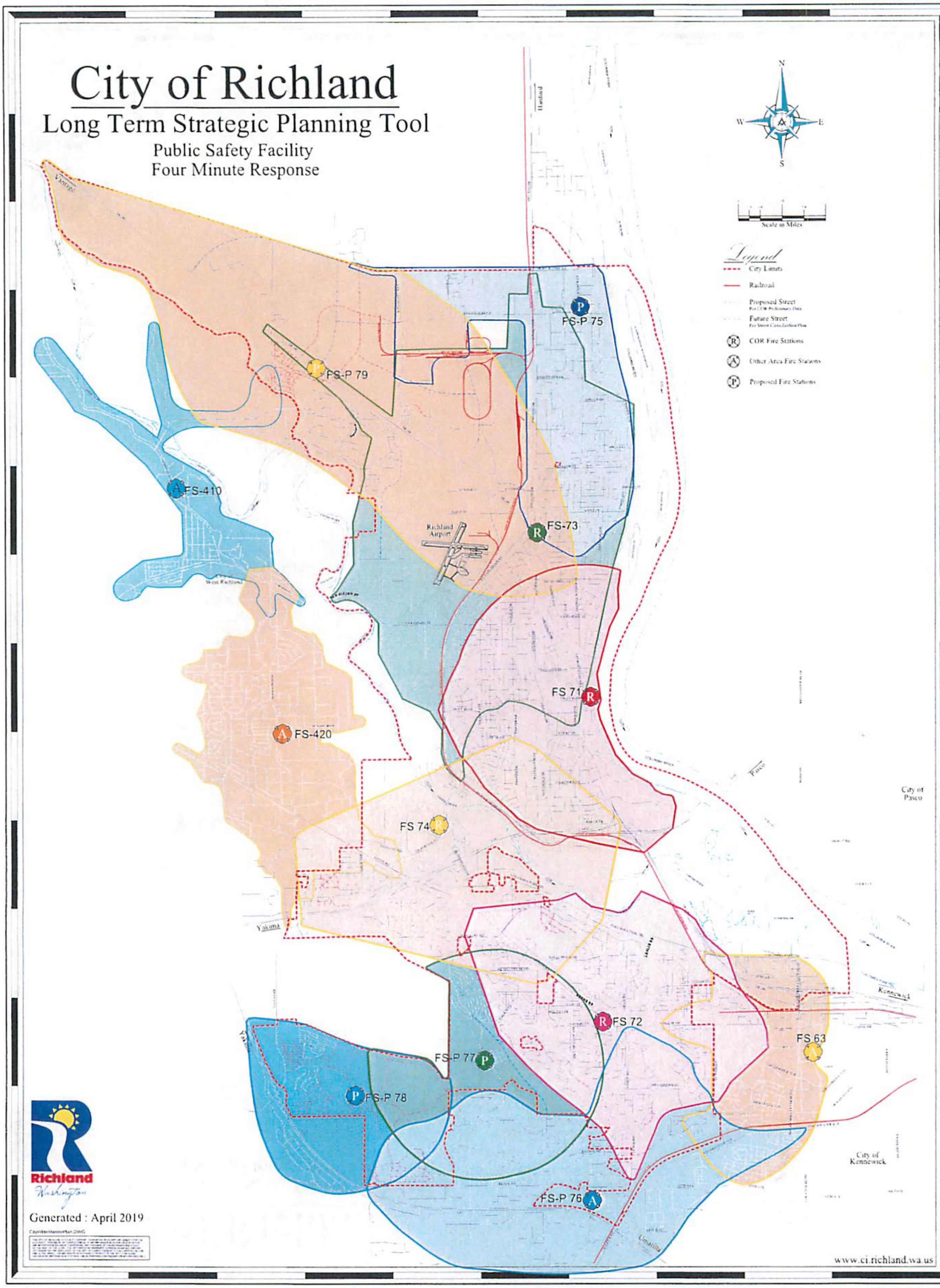
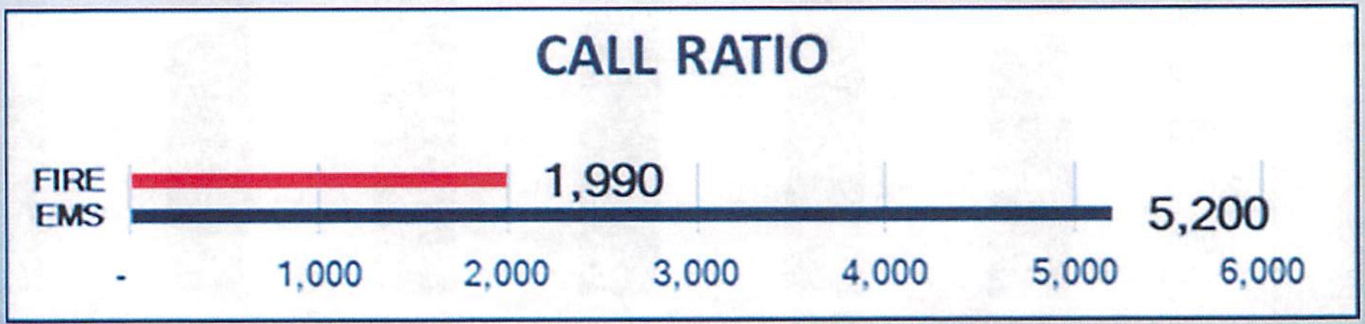
www.ci.richland.wa.us



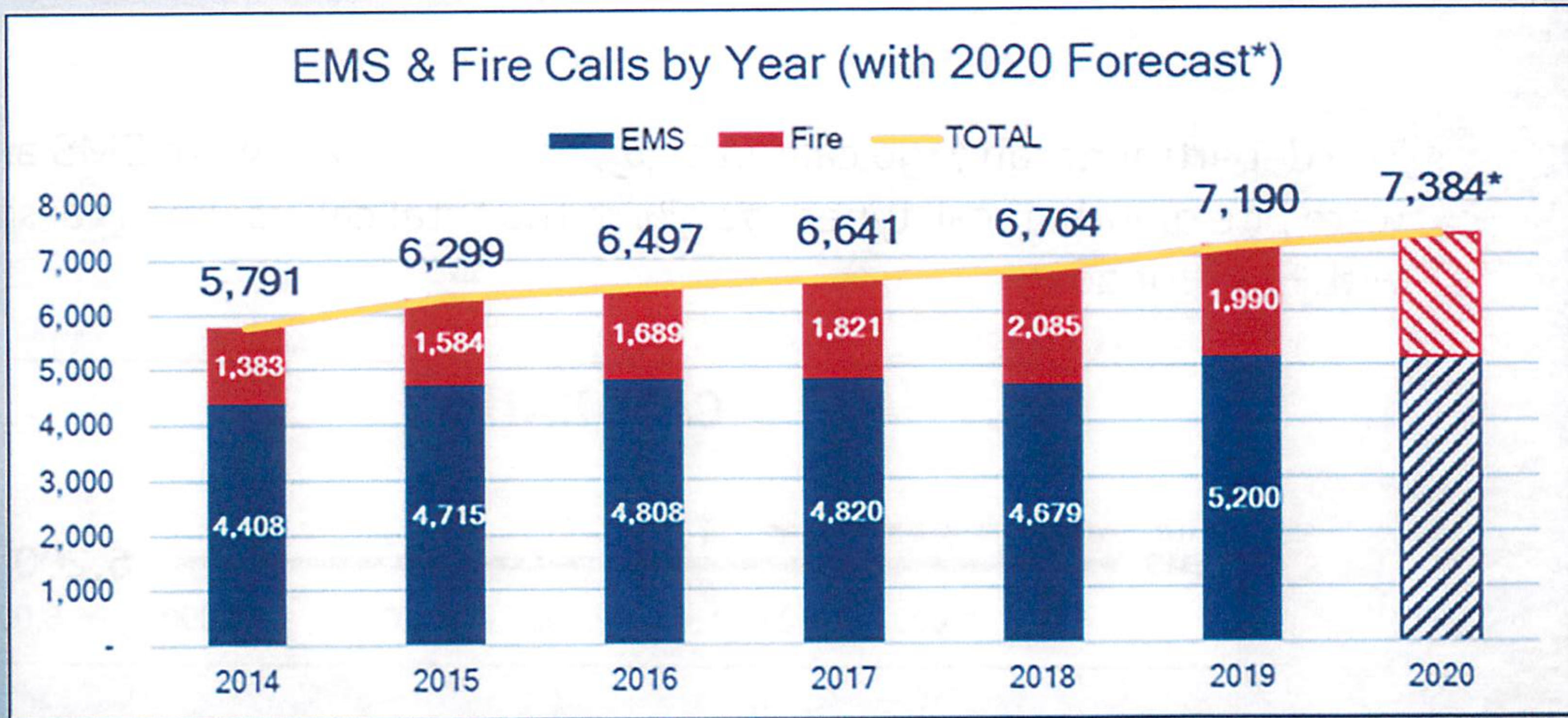
City of Richland
Long Term Strategic Planning Tool
Public Safety Facility
Four Minute Response
N
W
E
S
Scale in Miles
Legend
City Limits
Railroad
Proposed Street
Future Street
COR Fire Stations
Other Area Fire Stations
Proposed Fire Stations
FS-P 75
FS-P 79
FS-410
Richland Airport
FS-73
West Richland
FS 71
FS-420
Pasco
City of Pasco
FS 74
Yakima
Kennewick
FS 72
FS 63
FS-P 77
FS-P 78
City of Kennewick
FS-P 76
Umatilla
Richland
Washington
Generated : April 2019
www.ci.richland.wa.us

Operational Resource Deployment

The department ran 7190 calls in 2019, of which 5,200 were EMS and 1,990 were Fire or 'other' call types. 72.3% of the total call volume is associated with EMS for 2019

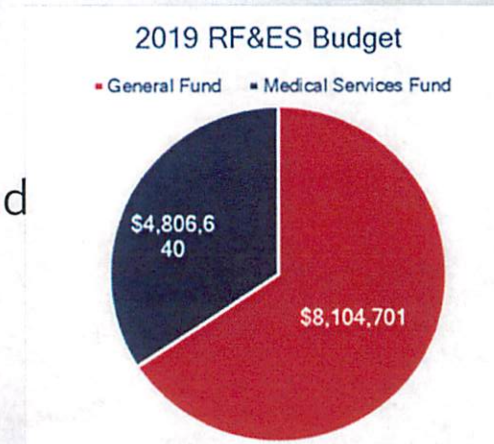


Operational Resource Deployment



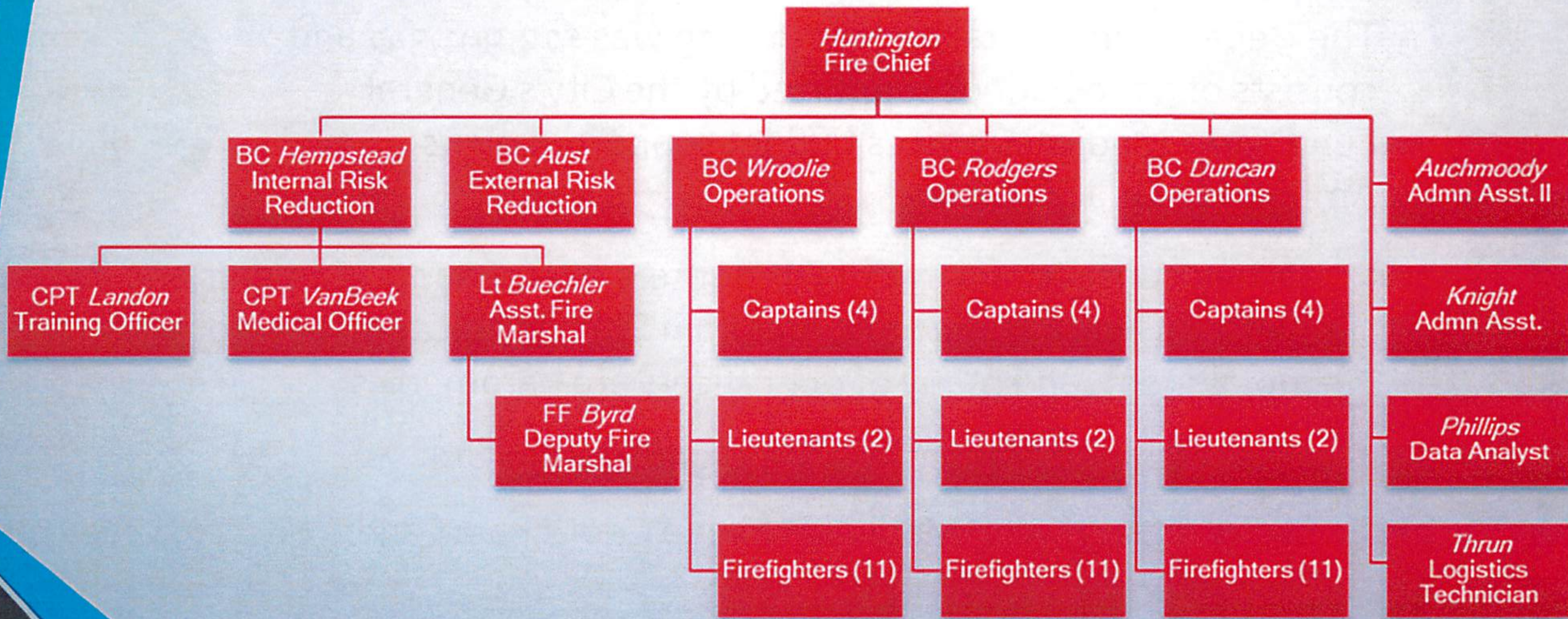
Staffing and Budget

The Department's total budget in 2019 was $12,991,341 and consists of a fire budget supported by the City's General Fund and a Medical Services budget supported by its Ambulance Utility revenue



- Staffing consists of a mix of Firefighters, Lieutenants, Captains and Battalion Chiefs. All Firefighters must maintain EMT certification as a condition of employment, and many of our officers are paramedics
- 16 Operations Paramedics are assigned to the Utility
- The Medical Officer, Medical Training Coordinator and .5 FTE of six day staff positions are assigned to the Utility

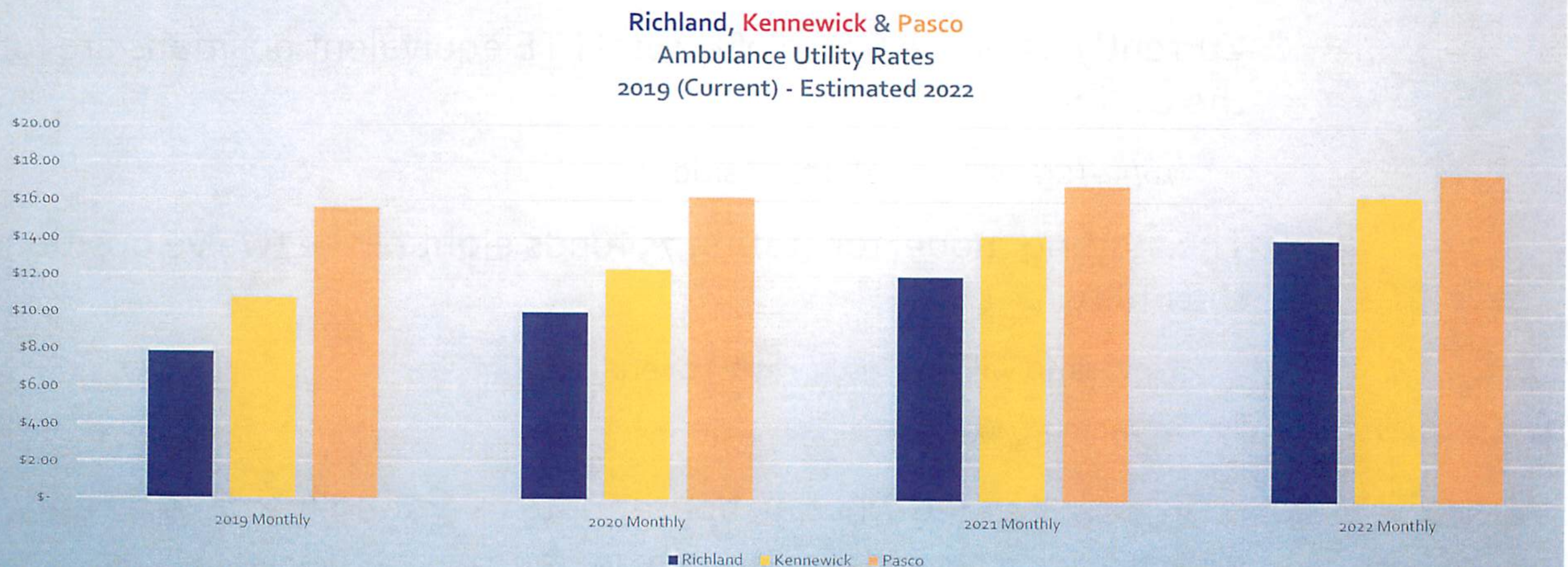
Staffing and Budget



Staffing and Budget

- Currently 21 of the 65 (32.3%) total FTE equivalent positions are funded by the Utility
  - 16/54 (29.6%) operations positions
- The staffing model for station 75 funds eight of the twelve positions from the utility
  - New ratio will be 29/77 (37.7%) overall and
  - 24/66 (36.4%) operations positions
- Staff is evaluating what an appropriate overall split should be under a more modern approach to managing the utility

Fees and Rate Structure



Ground Emergency Medical Transport (GEMT) Rate Study

GEMT program provides Medicaid Gap funding through a Federal Program administered by Washington State

- RF&ES was out of sync with Kennewick and Pasco in transport costs
- Contracted with AP Triton in 2019 to review our GEMT rate structure
  - Study produced $2789 average cost per transport
  - Previous average cost per transport was ~$1100
- Submitted to the State in December
  - If accepted will take effect in July 2020

Station 73/75 Project Update

- RFQ process is due today
- Evaluation of Qualifications on Friday
- RFP's due on February 18th
- Contract award at the March 3rd Council Meeting
- Design phase starts immediately following
- Ground breaking in late summer 2020
- Grande opening in late 2021 or early 2022

Additional 2020 Work

- Strategic Planning for the Utility
- Customer Class Analysis and Equity
- Rate impacts for 2021-2023
- General Fund Contribution to the Utility
- Equipment Inventory, depreciation, reliability and status

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 1/14/2020

Agenda Category: Other Informational Items

Prepared By: Clint Whitney, Energy Services Director

Subject:
Energy Services Capital Working Plan Year End and Look Ahead

Department:
Energy Services

Recommended Motion:
This is an informational item only.

Summary:
Attached is Energy Services Capital Working Plan summary for 2019 as well as the forecasted plan for 2020.

Fiscal Impact:

Attachments:
1. RES Capital Working Plan Status Report

Richland Energy Services

2019 Capital Work Plan

Year End & Look Ahead

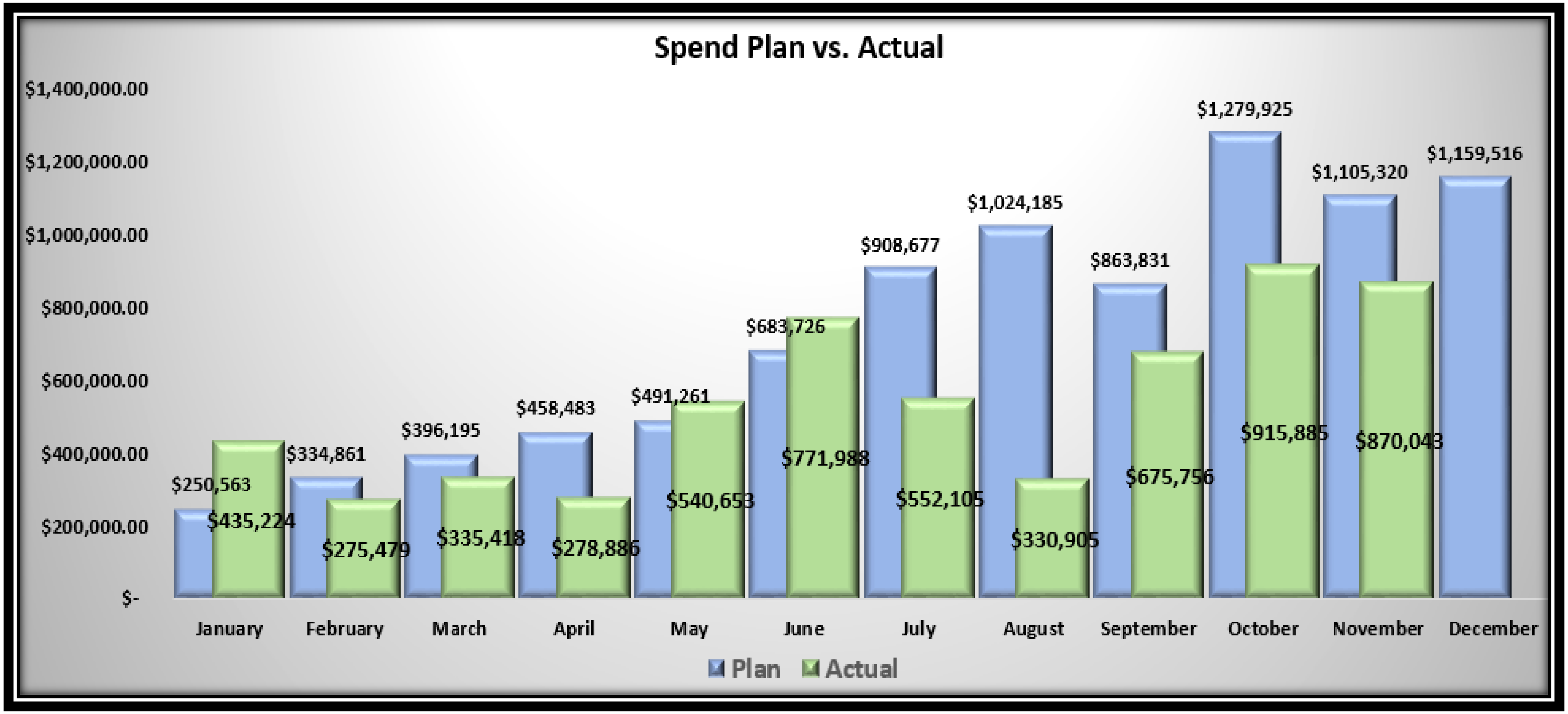
2019 CWP Costs

(Through November)

	Original Budget	Adj. Estimate	Actual	Remaining	November
Leslie Rd. Substation	$1,864,000	$2,398,823	$1,443,751	$955,072	$634,198
Line Extension	$1,288,000	$1,288,000	$1,575,993	-$287,993	$82,933
Non Project Capital Expenses	$100,000	$237,113	$91,180	$145,933	$7,403
Smart Grid - Advanced Metering Infrastructure	$3,581,000	$145,000	$127,144	$17,856	$7,884
System Improvements	$1,431,000	$1,662,000	$650,117	$1,011,883	$37,340
Renewal and Replacement	$2,919,000	$3,461,218	$2,012,404	$1,448,814	$100,285
Grand Total	$11,183,000	$9,192,154	$5,900,590	$3,291,564	$870,043

Cost Performance YTD:	$5,900,590
Cost Performance remaining:	$3,291,564
YTD % Complete	65%

CWP Monthly Spend Actuals



****AMI not realized in 2019**

2019 Estimate to Complete Costs

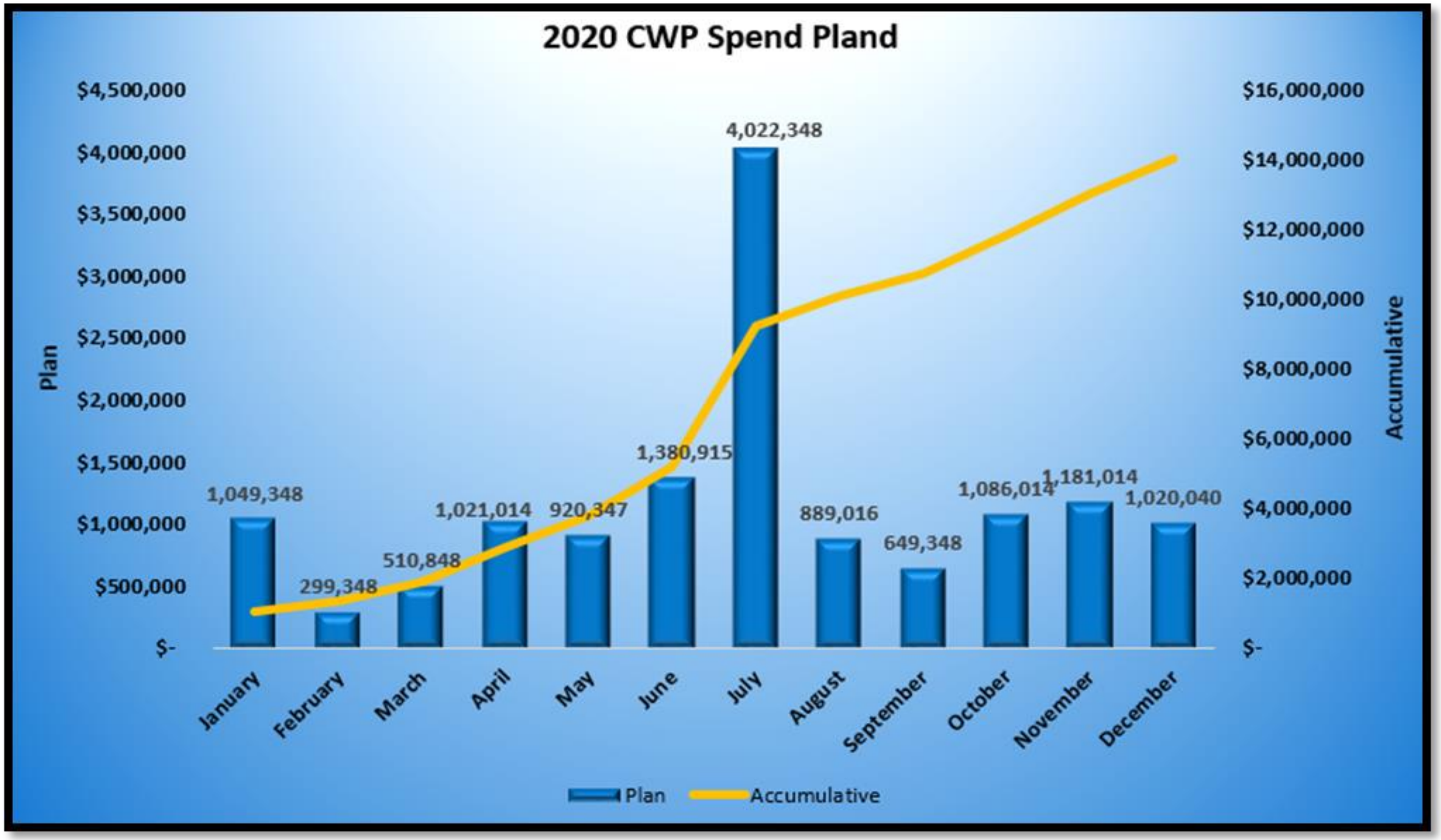
Remaining Projects in 2019		Costs
Leslie Substation Feeders	$	700,000
Boring Contractor Costs	$	300,000
Line Extensions	$	150,000
Replay Replacements	$	25,000
Misc. Project Costs	$	150,000
Total	**$**	**1,325,000.00**

Cost Performance through November	**$5,900,590**
Estimate to Complete through December	***$1,325,000***
Estimated 2019 Year Spend Total	**$7,225,590**
2019 Planned Spend	**$9,192,154**
Variance	**$1,996,564**

*3.5M not utilized due to delay in AMI Project

2020 Capital Work Plan Information

Project	Total
Oscar Substation	**$1,112,000**
Oscar Substation	$1,112,000
Leslie Rd. Substation	**$1,421,900**
Leslie Feeder 141	$719,000
Leslie Feeder 142	$379,000
Leslie Feeder 143	$323,900
Line Extension	**$1,288,000**
Line Extenstions	$1,288,000
Purchase SW Service Area	**$359,000**
Purchase of SW Service Area Infrastructure	$359,000
Renew and Replace	**$5,539,200**
AMI Smart Grid	$3,581,000
Areva Cable Replacement	$227,000
Canyon Terrace III Rebuild Feeder Conduit	$514,000
Garden Park #3 (Boring)	$211,000
Install SEL-2440	$68,200
Meter Replacement and Upgrade	$74,000
Pole Replacement Program	$864,000
System Improvements	**$4,309,500**
Duportail Bridge-Line Relocation	$111,500
HRSST	$3,500,000
New Services Cable	$405,000
Relay Replacements	$293,000
Grand Total	**$14,029,600**


2020 CWP Spend Pland
Plan
Accumulative
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
1,049,348
299,348
510,848
1,021,014
920,347
1,380,915
4,022,348
889,016
649,348
1,086,014
1,181,014
1,020,040
January
February
March
April
May
June
July
August
September
October
November
December
Plan
Accumulative

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 1/14/2020

Agenda Category: Other Informational Items

Prepared By: Clint Whitney, Energy Services Director

Subject:
Energy Services Bond Rating Comments

Department:
Energy Services

Recommended Motion:
This is an informational item only.

Summary:

In December 2019, Energy Services completed a revenue bond issuance supporting capital work and a refunding opportunity. The tax exempt bonds included $12.5M of new issuance and an additional $2.6M of bond premium. The new issuance allowed $8.8M to be used for refunding which resulted in a savings of approximately $900k. In addition, a taxable bond issuance of $3.1M was identified with green attributes to be used for the Horn Rapids Solar Storage and Training (HRSST) project.

With the bond issuance, Standard and Poor (S&P) provided comments and a bond rating for the City of Richland Energy Services department. This is a separate rating from the City of Richland when they issue general obligation bonds. The comments were largely anticipated and factored into a Cost of Service Analysis (COSA) updated in the 4th quarter of 2018. Implementation of the financial improvements was targeted for 2020 after revenue has improved following the June 2019 rate increase. The comments focused on increasing liquidity, increasing debt service coverage ratio and concern for reliance on debt for capital work. Each of these will be discussed more in depth at the UAC meeting on March 10, 2020.

Fiscal Impact:

Attachments:

1. Draft Rationale 11222019

Rationale

S&P Global Ratings lowered its long-term rating and underlying (SPUR) to 'A' from 'A+' on Richland, Wash.'s outstanding electric bonds. At the same time, S&P Global Ratings assigned its 'A' long-term rating to Richland's series 2019A electric revenue improvement and refunding bonds and 2019T electric revenue bonds. The outlook is stable.

The lowered ratings reflect the application of our criteria "U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions," published Sept. 27, 2018, on RatingsDirect; strong fixed-charge coverage (FCC) in fiscal 2018 that was below projected levels; and a decline in unrestricted cash.

Net electric system revenue secure the bonds. The proceeds of the roughly $12.6 million 2019A bonds will be used to carry out additions and enhancements to the electric utility and refund the city's outstanding $8.6 million of electric revenue bonds, series 2009. The approximately $3.2 million series 2019T bonds will used to upgrade and enhance the electric system and to finance a solar power battery storage system known as Horn Rapids Solar Storage and Training (HRSST). As of Nov. 1, 2019, the electric system had about $54.1 million of outstanding series 2013A, 2013B, 2015, and 2018 bond obligations.

The enterprise risk profile reflects our view of the electric system's:

- Very strong service area economy in the Richland-Kennewick metropolitan statistical area (MSA), with 43% electric revenue from residential customers and very strong income indicators, though we note moderate concentration from the leading customers;
- Extremely strong market position, with the weighted average electric rate 12.1% below the state average in 2018;
- Extremely strong industry risk assessment relative to that of other industries and sectors; and
- Very strong operational management assessment, highlighted by primary power supply from Bonneville Power Authority (BPA) through 2028 and formalized financial policies and practices.

The financial risk profile reflects our view of electric system's:

- Strong FCC at about 1.2x in fiscal 2018, however, lower-than projected metrics for fiscals 2017 and 2018 despite a rise since fiscal 2016;
- Decline in liquidity to about $4.2 million in fiscal 2018, equivalent to 26 days of operating expenses; and
- High debt-to-capitalization ratio at about 57% with a moderately sized capital plan at about $74 million which management plans to fund with additional debt and loans.

We applied a one-notch positive adjustment using holistic analysis in arriving at the 'A' long-term rating. Our S&P Global opinion is that a two-notch downgrade would be too substantial given the city's long-term agreement with BPA that provides the city with an affordable power supply, a strong underlying service area economy and affordable electric rates.

Outlook
The stable outlook reflects our expectation that management will meet their coverage and cash projections. The outlook further reflects our view of the system's overall very strong service area economy, strong operational characteristics and relatively low risk profile as a distribution utility.

Downside scenario
We could lower the rating if complying with future environmental regulations negatively pressures financial metrics demonstrated by a decline in FCC or unrestricted cash. Additionally, we could lower the rating if FCC does not meet projections or the electric system leverages up more than projected resulting in a higher debt-to-capitalization ratio and lower FCC.

Upside scenario
We could raise the rating if FCC continues to rise to levels commensurate with the higher rating, unrestricted cash rises and is sustained, and if the electric system deleverages.

Downside scenario
Should Richland fail to adopt proposed rate adjustments, or financial metrics otherwise fall short of projected levels, we could lower the ratings.

Utility Description And Credit Overview

Richland electric supplies electricity to about 24,300 residential and 2,700 commercial and industrial customers, 104 irrigation customers and 401 security/street and lighting. The service area encompasses 47.6 square miles, 42.6 square miles of which are within city limits with a current population of about 56,800. Residents benefit from employment opportunities within the city and greater tri-cities area. The city is a center of production and research into energy, medical and high technology. The service area is characterized by high income and access to a broad and diverse employment base.

Enterprise Risk

Economic fundamentals: Strong
Richland serves a population of about 56,800 approximately 200 miles southeast of Seattle, at the confluence of the Columbia and Yakima rivers. The electric utility's service area encompasses 47.6 square

miles, 42.6 of which are within city limits. Since 1942, the federal government's 570-square-mile Hanford Nuclear Reservation, north of and adjacent to the city, has dominated the local economy. In 1989, Washington State, the U.S. Environmental Protection Agency, and others signed an agreement to clean up Hanford area. Other major industries include agriculture, biotech, and manufacturing, with an increasing medical and research presence.

The city's service area economy is in the broad and diverse Richland-Kennewick MSA. The city currently serves 27,647 active meters, and metered accounts have grown by an average of about 1.37% per year since 2014. Residential customers, which account for about 43% of total retail revenue, provide stability to electric loads and revenue, in our opinion. The top 10 customers are moderately concentrated, in our view, representing approximately 23% of retail revenue, and the leading customer, Battelle/Pacific Northwest National Laboratory, accounted for about 6.7% of retail revenue in 2018. Median household effective buying income is very strong, at 125% of the national level in 2018. The city's unemployment rate for 2018 was 4.8%, which was above the national rate of 3.9%.

Market position: Extremely strong
We view the market position score as extremely strong, as utility rates are below the state's average, providing the utility with revenue-raising flexibility. The weighted average system rate is 7.52 cents per kilowatt-hour (kWh), which was 12.1% below the state rate, according to 2018 Energy Information Administration data. The electric utility has historically raised rates when needed, primarily driven by increases in wholesale power cost from Bonneville. The city's most recent rate base rate increase was in 2019, representing an 8% average increase in retail rates. Prior to 2019, the city raised base rates by 6.5% (2018) and 7.3% (2016). Residential customers make up approximately 88% of total customers, at fixed rates of $20.99/day for single-phase service and $29.81/day for multiphase service in addition to $0.0741/kWh for the energy consumption charge. The city recently completed a cost-of-service study, which recommended further rate increases of about 2.50% (2021), 2.75% (2023), and 4.25% (2025). However, management reviews rates annually and will determine the specific size and timing of future rate increases.

Operational Management Assessment: Strong
In our opinion the electric system's operational management assessment is very strong represented by low cost, relatively clean power supply from BPA, compliance with current environmental regulations and reasonable plans for meeting future regulations, formalized policies and practices, and the presence of discretionary power cost adjustment mechanism.

Richland has a full-requirements contract with BPA, effective Oct. 1, 2011, that runs through September 2028. Under this contract, formally termed a regional dialogue load following contract, Richland receives a fixed percentage of the federal base system output that equates to

Tier 1 power. By contract, Bonneville must deliver, at cost, Richlands Tier 1's resources needs, with any excess need (Tier 2 power) being the full responsibility of Richland to secure. Richland purchases about 88% of its power under the Bonneville contract at Tier 1 rates. Richland has met Tier 2 requirements through Bonneville Vintage market purchases; however, this contract expired in September 2019. Beginning October 2019, and continuing through 2028, the city will meet its Tier 2 requirements by using a mix of non-federal power and firm power purchased through Bonneville Tier 2 rates and short-term market rates. Richland's reliance on BPA for power and its exposure to potentially higher Tier 2 rates represent a moderate credit risk, but competitive rates, should Richland be required to pass on higher rates to customers, somewhat mitigate this.

In 2019, Washington passed legislation designed to transition the electricity sector to 100% clean power. The Clean Energy Transition Act (CETA) establishes three standards for Washington State utilities: elimination of all coal, provision of 100% carbon-neutral electric service to retail load, and a 100% clean electricity standard by 2045. Utilities will be required to demonstrate compliance with this policy on an annual basis. In our view, given that BPA hydro and federal incremental hydro qualify, Richland is well positioned to meet the requirements of the act and will use its Integrated Resource Plan to guide its decisions about complying with CETA.

In 2006, State Initiative 937 (I-937) was approved and subsequently passed into law and codified as chapter 19.285 RCW, Energy Independence Act; it requires utilities with more than 25,000 customers to obtain a percentage of renewable resources. The city served about 27,600 active meters during 2018, representing about 24,197 unique customers for the purposes of compliance with the I-937. The city is not yet a qualifying utility but expects to qualify in the near term. I-937 requires utilities that qualify four years from the qualifying date to obtain 3% renewable resources, and another four years to obtain 9%, and the next four years 15% renewable resource targets. To comply with I-937 the city is financing the solar power battery storage system known as the Horn Rapids Solar Storage and Training developed by Energy Northwest, a public entity, together with a private company called Potelco Inc. The city will finance the construction of the HRSST's system by agreeing in certain contracts with Energy Northwest and Potelco Inc. to purchase all of the solar energy output for a 25 year-term ending in 2045. The solar project will generate about 0.5% of 3% renewable energy requirement. The city will use Northwest Energy Management Services for additional renewable resources. Renewable requirements beyond the first 3% will be a combination of purchased renewable energy, purchased credits, or future renewable projects depending upon costs and opportunities.

Industry risk: Extremely strong
Consistent with "Methodology: Industry Risk," published Nov. 19, 2013, we consider industry risk for municipal retail electric and gas

utilities covered under these criteria very low, and therefore extremely strong compared with other industries and sectors

Financial Risk

Coverage metrics: Strong
We are using a forward-looking analysis for our coverage coverage metric assessment given the past three years of rising FCC, despite lower than projected. The electric system's FCC is what we consider adequate at about 1.2x for fiscal 2018. FCC is our internally adjusted debt service coverage metric that incorporates obligations that we believe are debt-like in nature. During the past three fiscal years, the average FCC was about 1.16x, a figure we consider adequate. However, in recent years, FCC has risen annually 1.10x (2016), 1.15x (2017), and 1.20x (2018). Despite the rise in FCC, coverage metrics did not meet their projections of 1.2x for fiscal 2017 and 1.3x for fiscal 2018. Management did not increase rates as much as projected in fiscal 2017, and power purchases were higher due to weather. Based on our analysis of management-provided projections, FCC will rise to about 1.3x in fiscal 2022, a figure we consider strong. Additionally, the total debt payments decrease from about $6 million to $5.8 million in 2023 due to the amortization of the series 2018 refunding bonds, which we expect will increase coverage metrics depending on the sizing and timing of future debt.

Liquidity and reserves: Vulnerable
The electric system's liquidity position is what we consider vulnerable in fiscal 2018 at about $4.2 million, equivalent to about 26 days of operating expenses. This is down from about $6.4 million in fiscal 2017, equivalent to about 40 days of operating expenses. The decrease in unrestricted cash in fiscal 2018 was driven by the higher cost of inventory that was purchased despite projects being deferred. Based on our analysis of management-provided projections, we expect cash to rebound to historical figures. However, we still consider these figures vulnerable.

Debt and liabilities profile: Vulnerable
The electric system's debt and liabilities profile is vulnerable, represented by a debt-to-capitalization ratio of about 57.32% for 2018. As of December 2018, the electric system had $57.2 million in debt outstanding. The system's six-year capital plan is about $74 million, which we consider moderate. Management plans to fund about $28.4 million from bond proceeds, including the series 2019 new money. The remaining $45.6 million will be funded from rate revenue, facility fees, and grants. The capital plan includes system improvements, renewal and replacement projects, line extensions and two additional substations that will increase capacity rating by 50 MWA.

Richland employees participate in retirement plans administered by the Washington State Department of Retirement Systems. In 2018, the plan fiduciary net position as a percentage of the total pension liability for the Public Employees' Retirement System Plan 2/3 was 95.7%; we do not consider the pension liability a credit risk.

UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 1/14/2020

Agenda Category: Other Informational Items

Prepared By: Clint Whitney, Energy Services Director

Subject:
Forward Planning Agenda

Department:
Energy Services

Recommended Motion:
This is an informational item only.

Summary:
Proposed future Utility Advisory Committee agenda items:

- March 2020 - Financial Analysis (RES)
- May 2020 - Reliability Analysis (RES)
- July 2020 - Energy Efficiency Status (RES)
- September 2020 - Advanced Metering Infrastructure Policies (RES)

Fiscal Impact:

Attachments: