



October 9, 2023

Olympia City Council
PO Box 1967
Olympia, WA 98507-1967

Dear Mayor Selby and Council Members:

SUBJECT: UAC Recommendations for 2024 Utility Rates, GFCs and 2024-2029 CFP

At our most recent meeting on October 5, 2023, the City’s Utility Advisory Committee (UAC) received a final briefing and discussed with Utilities staff the proposed 2024 City of Olympia Utility Rates, Operating Budgets, General Facility Charges (GFCs) and the 2024-2029 Capital Facilities Plan (CFP). At the end of our discussion, we voted unanimously to approve and recommend to City Council the proposed changes in utility rates, GFC charges and Facilities Plan updates, which are outlined below.

We would like to point out that in reviewing utility rates and GFCs, the UAC continues to consider the potential impacts changes in rates may have on community members now and into the future. This includes City policies, regulatory requirements, changes in revenue and, in some instances changes in costs that are beyond a particular utility’s control. The UAC also considers analyses regarding the financial value of the existing utility infrastructure and the benefits of that infrastructure to a new development. Thus, GFC charges imposed at the time of initial development, means those revenues are then dedicated back to the capital budget. With that in mind, the UAC also considered the impact on utility rates for a proposed program to provide a 50% GFC discount for projects meeting low-income housing criteria. Our support for this proposed GFC/low-income housing effort is outlined in our September 7, 2023, letter to City Council.

Summary of Proposed Rates and GFCs

For budgetary purposes, the City’s Storm and Surface Water and Waste ReSources utilities assume a growth in accounts for 2024 of 1% revenue. Drinking Water utility assumes a growth of 1.5% of revenue. Wastewater Utility is assuming no account growth to allow actuals to catch up with projections. The last few years of revenue has fallen short of projections, where a 1.5% account increase was assumed.

Ongoing growth-related revenue increases though help to offset rate changes. The proposed rates are expected to cover 2024 expenditures, including a staff cost-of-living adjustment and critical needs for a couple of organizational enhancements. The UAC continues to be supportive of the new indirect cost allocations that have offset potential rate increases for utility customers and spread overhead costs more broadly across City departments.

The UAC recommends to City Council the following utility rate increases for 2024:

- Drinking Water 2.0%
- Wastewater 4.0%
- Storm and Surface Water 6.5%
- Waste ReSources 3.5%
- LOTT 3.0% (Approval by LOTT)

The City's total utility rate increase includes LOTT (Lacey, Olympia, Tumwater, and Thurston Clean Water Alliance) charges as well. Their Rates and Capacity Development Charges for 2024, include increases of 3.0% and 3.5% respectively. This will make Olympia's combined weighted utility rate an increase of 3.45% for 2024. For a typical single-family residence, this is a \$10.26/bi-monthly bill increase above 2023 rates.

In consideration of the proposed increase, Utility staff also reviewed the potential impact on low-income households. Staff noted that a typical residential bill based on the proposed rates meets both a traditional median income based metric as well as others intended to assess burden on low-income households to pay for water related utilities. The City's 2024 proposed typical residential water-related utility rates are within this affordability guidance.

Drinking Water

Utility Rate: 2.0% increase

The Drinking Water utility provides and protects healthy drinking water for the community as part of a long-term vision that sustains present and future drinking water supplies for our community while protecting the environment. The Drinking Water utility anticipates total expenses to be \$307,140 greater than current expenditures in 2023 due to the increase in cost of some supplies and service increases. This also reflects fixed increases in salaries, benefits, and insurance. With the payoff of a loan that commenced in 2013, the Drinking Water utility will be able to bring CFP funding back to normal levels in 2024.

GFC Rate: \$349 increase per single family residence

The UAC supports increasing the Drinking Water GFC in 2024 by \$349 that brings it up to \$5,032 per equivalent residential unit. An estimated \$99 of this increase off-sets projected capital revenue lost from the 50% low-income housing discount program that is being proposed. For budget review purposes, a 2022 financial analysis performed for the Water System Plan justified increasing the Drinking Water GFC to \$5,639 per equivalent residential unit.

Wastewater

Utility Rate: 4.0% increase

The Wastewater utility is responsible for safe conveyance of sewage from homes and business to the LOTT treatment facility in downtown Olympia. In 2024 the utility anticipates total expenses to increase by \$241,119 above current expenditures. The Utility is increasing capital depreciation funding by \$200,000 and anticipates additional increases in future years, consistent with the City's financial consultant's recommendations.

The UAC also supports the enhancement proposal to add 0.5 FTE for an Operations Supervisor to the Wastewater Utility and facilitate separation of the stormwater-sewer operations group into two operations work units. This will address the increasing complexity of responsibilities and number of staff in this group. This \$99,512 enhancement will allow the utility to: a) provide increased levels of service over time as Olympia continues to grow, b) address technical and regulatory complexity of maintaining services, and c) reduces the number of staff reporting to one supervisor (currently at 16).

GFC Rate: \$335 increase per single family residence

The UAC supports increasing the Wastewater GFC in 2024 by \$335 that brings this up to \$4,338 per equivalent residential unit. Approximately \$85 of this increase will offset projected capital revenue lost from the proposed 50% low-income housing discount. For budget review purposes, a financial analysis performed for the Wastewater Management Plan in 2019 justified increasing the Wastewater GFC to \$4,999.

Storm and Surface Water

Utility Rate: 6.5% increase

The Storm and Surface Water utility is responsible for flood mitigation, water quality improvement and aquatic habitat enhancement. The Utility anticipates total expenses to exceed projected revenue by \$225,479. Similar to the other utilities, this reflects fixed increases in salaries, benefits, increased costs for materials and services specifically sediment disposal. Fees for the disposal of street waste have also increased again this year.

The UAC supports two staff enhancements. The first will add 0.5 FTE for an Operations Supervisor to the Stormwater Utility and facilitate splitting of the stormwater-sewer operations group into two operations work units. This will address the increasing regulatory and technical complexity of this service and number of staff in this group. The second enhancement is for a new 1.0 FTE Program Specialist that will support municipal stormwater permit compliance and new required programs.

GFC Rate: \$299 increase per single family residence

The UAC supports increasing the Storm and Surface Water GFC in 2024 to \$1,915 per equivalent residential unit and \$13.56 per vehicle trip for a total increase of \$299. Approximately \$38 of the increase and \$0.27 of the per trip charge increase will offset projected capital revenue lost from the 50% low-income housing discount. For budget review purposes, a financial analysis performed for the Storm and Surface Water Plan in 2016 justified increasing the Stormwater GFC to \$2,383 per equivalent residential unit and \$19.04 per vehicle trip.

Waste ReSources

Utility Rate: 3.5% increase

The Waste Utility programs and core services will remain largely unchanged in 2024. The 2024 operating budget includes expenses related to salaries and benefits including cost-of-living adjustments and inflation. Other inflationary increases are related to fuel, materials and supply costs, and recycle hauling/processing contracts tied to Consumer Price Index (CPI). While the residential sector continues to be out of balance, the Utility fund is healthy as a whole. However, in order to continue progress on the Carpenter Road Maintenance Facility a 3.5% rate increase across all sectors is needed to complete demolition and remediation of that property. With an increase in the base budget the operating budget is out of balance by 3.5% or \$418,295.

Capital Facilities Plan (CFP) 2023-2028

On August 3, 2023, staff presented the proposed preliminary 2024-2029 CFP to the UAC. The UAC unanimously approved the Plan. We founded it guided by, and consistent with, the Utility Management Plans, which were developed to be reflective of the growth and development objectives established in the City's Comprehensive Plan. In general, the CFP, as it applies to City Utilities, anticipates that current projects can be funded with estimated revenues. However, as mentioned earlier in this letter, we are aware of the capital project funding challenges faced by all four utilities.

In closing, thank you for the opportunity to provide our recommendations. The UAC believes the proposed Utility Rate increases, and GFCs for 2024, strike a reasonable balance between current economic conditions and

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efforts to encourage and improve low-income housing options. It also reflects increases in specific line items, contracts, staffing, and supply costs, many of which are beyond the Utilities control.

The UAC would also like to acknowledge and expresses our appreciation to the Utilities staff for their expertise and responsiveness to our questions and concerns throughout this budget review cycle. We feel staff continues to work hard to maintain and use resources wisely, to minimize customer costs and to improve efficiencies not only of their respective Utility divisions but for the whole Public Works Department too.

Please contact me at dbloom@ci.olympia.wa.us if you have any questions. Thank you.

Sincerely,



DENNIS BLOOM

Chair

Utility Advisory Committee

DB/lw

ec: UAC Members
Aaron BeMiller, Finance Director
Mark Russel, Public Works Director
Jesse Barham, Water Resources Director
Gary Franks, Waste ReSources Director
Mike Vessey, Drinking Water Utility Director
Susan Clark, Water Resources Engineering and Planning Manager