



October 21, 2019

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

Dear Mayor Selby and Council Members:

SUBJECT: UAC 2020 Utility Rates, GFCs, and 2020-2025 CFP Recommendations

Thank you for the opportunity to provide citizen committee recommendations on 2020 City of Olympia utility rates, general facility charges (GFCs) and the 2020-2025 Capital Facilities Plan (CFP). The members of the Utility Advisory Committee (UAC) understand that this work is a fundamental responsibility of our committee. The UAC also understands and supports the important public and environmental health work of the City's four utilities. The UAC believes that City staff work hard to use resources wisely thereby minimizing customer costs. And we realize that rate increases must occur in order to maintain the level of service demanded by the community, to meet regulatory requirements and to account for changes in costs beyond the utilities' control.

When considering usage rates and GFCs, the UAC seriously considers the impact these increases may have on community members. When considering GFCs, the UAC also considers analyses provided by staff regarding the financial value of the existing utility infrastructure and the benefits of the infrastructure to new development since GFC charges are imposed at the time of initial development. GFC revenues are dedicated to capital budgets.

Summary of Proposed Rates and GFCs

For budgetary purposes the City's three water-related utilities and Waste ReSources assume a growth for 2020 of one-percent revenue. These revenue growth assumptions are consistent with growth rates experienced in recent years. Ongoing growth-related revenue increases help offset rate changes. The proposed rates are expected to cover 2020 expenditures, including a City staff cost-of-living adjustment.

The UAC recommends the following utility rate increases in 2020:

- Storm and Surface Water 2.51%
- Wastewater -2.00%
- Drinking Water 5.25%
- Waste ReSources 2.30%

We understand that City staff also support these specific increases. In addition, the LOTT Board of Directors has also approved rates and capacity development charges (CDCs) for 2020, which will both increase 3.0 percent.

Including the LOTT rate increase, the combined, weighted rate increase would be approximately 2.5 percent (\$6.42/bi-monthly bill) for a typical single-family residence.

Storm and Surface Water

Utility Rate: 2.51% 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 increase by about \$289,000 above estimated revenue.

GFC rate: 10% increase

The UAC supports an incremental increase the Storm and Surface Water GFC. Further increases are financially justified and could be considered in future years.

Wastewater

Utility Rate: 2.00% reduction

The Wastewater utility is responsible for safe conveyance of sewage from homes and business to the LOTT (Lacey, Olympia, Tumwater, and Thurston) Clean Water Alliance treatment facility in downtown Olympia. Although the utility has increased expenses, cash on hand combined with consistent surplus revenues (\$300,000 annually) will allow the utility to reduce the current rate 2 percent and meet 2020 expenses.

GFC rate: No increase

The wastewater GFC will be kept at the current rate \$3,442. The financial analysis performed for the Wastewater Management Plan (Plan) to be adopted in 2020, justifies increasing the wastewater GFC to \$4,999. The UAC supports waiting for the adoption of the Plan in 2020 and considering increases to the wastewater GFC in future years.

Drinking Water

Utility Rate: 5.25% 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 water supplies for our community while protecting the environment.

In 2019, rather than increasing the Drinking Water rates, approximately \$565,000 of available funds were used to cover a justified increase. As a result, the 2020 Drinking Water budget starts with a revenue shortfall. The utility is also requesting an increase in depreciation funding of \$100,000 and anticipates additional expenses to increase by about \$228,000.

GFC rate: No increase

Substantial capital investments have been made during recent years. Drinking water GFCs were consistently increased between 2015 and 2018. An increase is not warranted in 2020 and no further increases are anticipated until the new Water System Plan is developed in 2020/2021.

Waste ReSources

Utility Rate: Varying rate increases

Waste ReSources provides waste reduction, recycling and disposal services for residential, commercial, drop-box, and organics customers.

While projected revenues are relatively flat in 2020, revenue is strong in the commercial sector. Overall expenses are up 3.4%, which is supported by the Seattle Consumer Price Index (CPI) of 3.2% (August 2019). And, while expenses are up slightly, revenue is down in the residential sector due to volatile recycling commodity markets. Recycle markets have reached historic lows, ultimately impacting the utility financially. The UAC recognizes that reducing contamination in the recycle stream, and adjusting the acceptable items list to remove glass and poly coated products, may improve marketability of materials and reduced processing/trans-hauling expenses. These steps will help the utility offer fair, equitable rates.

The UAC supports staff proposals to manage the resultant financial challenge as a short-term dynamic. However, a rate increase for all sectors to balance the fund is necessary. The UAC recommends the following increased rates for 2020:

- Residential 2.30%
- Commercial 2.30%
- Drop Box 6.60%
- Organics 2.30%

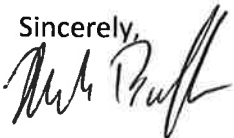
Capital Facilities Plan 2020-2025

The UAC supports the proposed 2020 – 2025 Capital Facilities Plan (CFP). The CFP is guided by and consistent with the various utility management plans. In general, the CFP (pertinent to the utilities) anticipates that current projects can be funded with the estimated revenues. However, the UAC is aware of the capital project challenges faced by all of the utilities. Financial analyses for the Water Resources utilities justify increasing capital depreciation funding for Drinking Water by an additional 40 percent, for Wastewater an additional 320 percent, and for Storm and Surface Water an additional 67 percent. Recent discoveries of insufficient wastewater pipe capacities and deteriorating water tank coatings may also result in a future discrepancy between needs and resourcing.

Thank you again for the opportunity to provide our recommendations. These proposals will support the important public health mandates of the four City utilities. The proposed utility rates reflect our responsibility to maintain and improve our essential public infrastructure while remaining cognizant on the impact rate increases may have upon community members.

On behalf of the members of the UAC, please let me know if you have any questions. I can be reached via email at mbuffo@ci.olympia.wa.us

Sincerely,



MIKE BUFFO

Chair, Utility Advisory Committee

ec: UAC Members
Debbie Sullivan, Administrative Services Director
Gary Franks, Waste ReSources Director
Eric Christensen, Water Resources Director

