



October 7, 2020

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

Dear Mayor Selby and Council Members:

SUBJECT: UAC 2021 Utility Rates, GFCs and 2021-2026 CFP Recommendations

Thank you for the opportunity to provide citizen committee recommendations on 2021 City of Olympia utility rates, general facility charges (GFCs) and the 2021-2026 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. The UAC recognizes that the current coronavirus pandemic is causing financial hardship for many utility customers. 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 Water Resources and Waste ReSources utilities assume a growth for 2021 of one-half percent revenue. Due to the coronavirus pandemic, these revenue growth assumptions are estimated to be less than growth rates experienced in recent years. Ongoing growth-related revenue increases help offset rate changes. The proposed rates, along with cash on hand for the Wastewater utility, are expected to cover 2021 expenditures, including a City staff cost-of-living adjustment for union employees.

The UAC recommends the following utility rate increases in 2021:

- Storm and Surface Water 7.5%
- Wastewater 0.00%
- Drinking Water 0.00%
- Waste ReSources 0.00%

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 2021, which will both increase 3.0 percent.

Including the LOTT rate increase, the combined, weighted rate increase would be approximately 1.85 percent (\$4.64/bi-monthly bill) for a typical single-family residence.

Storm and Surface Water

Utility Rate: 7.5% 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 increase by about \$495,000 above estimated revenue. This reflects a loss of \$244,000 in revenues from the elimination of roadway fees, the transfer of the street sweeper program from the Transportation line-of-business to the Storm and Surface Water Utility and adjustments to capital funding due to the elimination of funding for Transportation projects and the move of capital-funded staff positions to the operating budget.

The UAC also supports the proposed enhancement to establish the Vegetation Management work section within the Storm and Surface Water utility. The enhancement will provide greater safety and flexibility in managing vegetation at a reduced cost. Requested vehicles will be purchased with cash on hand (resources above reserves).

GFC rate: No change

The UAC supports keeping the Storm and Surface Water GFC at the current rate of \$1,190 in 2021. However, further increases are financially justified and will be considered in future years.

Wastewater

Utility Rate: No change

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. The utility anticipates total expenses to increase by about \$260,000 above estimated revenue. Cash on hand (resources above reserves) will be used to meet increased 2021 expenses.

GFC rate: No change

The UAC supports keeping the Wastewater GFC at the current rate of \$3,442 in 2021. 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: No change

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.

The Drinking Water utility anticipates total expenses to be \$150,000 below estimated revenue in 2021. However, the utility has seen reduced revenues in 2020 due to wet weather and diminished commercial water use during the coronavirus pandemic. Cost-saving measures have minimized the impacts of the

reduced revenues. The utility's financial position remains strong, but revenues will need to continue to be closely monitored.

The UAC supports the Drinking Water utility's proposed enhancements:

- Capital funding will be increased to \$1.4M consistent with the rate consultant's recommendations.
- A project-funded Maintenance Worker I position is proposed to be made a permanent position within the utility's operating budget. This position is part of the ongoing meter replacement program, a commitment to the Washington state Department of Health.
- A vehicle (van) is proposed to be added to the operations work section. Operations is often challenged by a shortage of vehicles to shuttle parts and a van will help keep equipment secure and ready for standby without the need to be loaded and unloaded daily like a service truck. Without Fleet funding, the vehicle will be purchased with cash on hand (resources above reserves).

GFC rate: No change

Drinking Water GFCs were consistently increased between 2015 and 2018. An increase is currently not warranted in 2021. Staff is currently developing a new Water System Plan and evaluating substantial capital investments to replace and rehabilitate aging infrastructure is anticipated and will likely justify increasing Drinking Water GFCs.

Waste ReSources

Utility Rate: No change

While projected revenues are down slightly in 2021, revenue is strong in the commercial sector. Overall expenses are up 0.4 percent. And, while expenses are up slightly, revenue is down overall by 1 percent mainly due to volatile recycling commodity markets in the residential sector. Recycle markets have reached historic lows, ultimately impacting the utility financially. However, revenue to expense remains positive by 0.3 percent. The UAC recognizes that reducing contamination in the recycle stream and adjusting the acceptable items list to remove glass and poly-coated products, has improved marketability of materials and reduced processing/trans-hauling expenses.

Based on budget projections the UAC recommends no rate increases in 2021 for Waste ReSources.

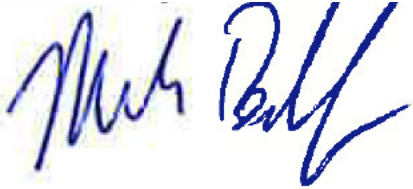
Capital Facilities Plan 2021-2026

The UAC supports the proposed 2021 – 2026 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 the utilities. Financial analyses for the Water Resources utilities justify increasing capital depreciation funding for Wastewater an additional 320 percent, and for Storm and Surface Water an additional 150 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
Nanci Lien, Fiscal Services Director
Gary Franks, Waste ReSources Director
Eric Christensen, Water Resources Director