



September 12, 2016

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

Dear Council Members:

SUBJECT: 2017 Utility Rate Recommendations

Thank you for the opportunity to comment on the proposed 2017 City of Olympia utility rates and the general facility charges (GFCs). We understand that this work is a fundamental responsibility of our committee.

The UAC is concerned about the City's annual increases in utility rates. We understand and support the important public health and safety work of the utilities. Utility staff is professional and do a good job reflecting our community values. City utilities are well-managed; however, City utility bills continue to increase.

Olympia's rate increases do mimic national trends. Municipal water and waste management is costly and services must be provided without interruption or public health risk. Regardless, utility bills pose a hardship to numerous Olympia households; roughly seven percent of our customers are behind on their bills at a given time.

Given this dynamic, the UAC heightened its evaluation of Utility operating budgets, capital facility plans, and potential rate increases. The UAC held extra meetings to review the budget and rates. Keeping in mind key concerns such as equity to rate payers, meeting regulatory requirements and responsibly managing our infrastructure in the interest of both current and future residents.

Happily, Water Resources staff are equally or more concerned about recent rate increases and staff worked over the summer to find alternatives that reduce increases while still ensuring the integrity of Utilities. As a result, the UAC is forwarding 2017 utility rate recommendations to City Council that are significantly lower than those anticipated by City staff last spring. The UAC unanimously supports these proposals and we request your consideration of these rate recommendations.

In addition to 2017 rate recommendations, this letter includes suggestions for additional budget work. Specifically, the UAC recommends Council follow-up on several key issues:

- **Transitioning to monthly utility bills** - The UAC does not support the City proposal to move from bi-monthly to monthly billing. Given the available evidence, we think that the proposal would result in an annual increase in expenses of over \$300,000 without clear benefit to those that are struggling to pay their Utility bills. The benefits for the City could be minimal and costs higher than initially anticipated. The UAC supports the potential option of providing residential customers with monthly billing upon request and supports making sure that delinquent customers are made aware of this option, particularly if they call to complain about their bill. The UAC may consider other possible ways to assist customers who are having trouble as a part of our work next year.
- **Increases to LOTT Clean Water Alliance rates** - We suggest that the UAC and City Council become more engaged in the annual rate increases proposed by LOTT. LOTT rates encompass

approximately 34 percent of the total City utility bill. We think that the brief overview of LOTT's cost of service study that the UAC received this year was the first presentation on that process that the UAC has ever had. (However, we have worked some on trying to understand why LOTT pays so much less to keep a gallon per day of water from coming into the plant through conservation programs than its own estimates of the additional long-term costs to ratepayers of building additional facilities to treat that extra gallon per day.) We recommend that LOTT rates receive a level of City review similar to the utilities'.

- **Sea level rise response** - The UAC shares City Council's concern about sea level rise and the threat to our downtown. The UAC will work with staff on the planning effort. It's clear that the response will require concerted City-wide attention and long-term focus. Even then, we see no way to avoid the long-term flooding risks posed by the possibility of an earthquake damaging dikes at some moment when a lot of tide is piled up outside them. We need a full and careful estimate of the long-term costs of our options so we can do our best to evaluate them before we commit ourselves to major investments that we will not be able to adjust later. Funding whatever actions we decide to undertake will be challenging and financing them needs to be addressed now.

The following sections document the UAC's recommendations for the 2017 utility rates and GFCs. The recommendations will help carry out Olympia's utility master plans and the Comprehensive Plan.

Summary of Proposed Rates and GFCs

Rates – Waste Resources, Drinking Water, Wastewater, LOTT and Storm and Surface Water

- Combined increase for a typical residential customer: 3.5% (3.7% with organics/yard waste collection)
- \$ 4.11 a month, or a \$8.22 increase on bi-monthly bill (\$4.72/month with organics/yard waste)
- Typical 2017 residential utility bill: \$243/bimonthly (\$264 with organics/yard waste)

This increase includes a proposed 3 percent increase (\$1.11/month) for the LOTT Clean Water Alliance.

General Facility Charges

- Single family home: \$262 increase for drinking water service
- Total 2017 charge for a single family home: \$8,812

The UAC supports increasing City GFCs as justified by recent financial evaluations of infrastructure costs. GFCs collect funds from new development in acknowledgement of capital investments made by current residents. Both rates and GFCs for customers other than single family residential (e.g. commercial, multifamily) would increase by the same percentage.

LOTT Capacity Development Charge (CDC)

- Single family home: \$224 increase for wastewater service
- Total 2017 charge for a single family home: \$5,579

LOTT CDCs function similarly to City GFCs.

Capital Facilities Plan 2017-2022

The UAC supports the proposed capital facilities plan with modifications noted in the following sections. In general, modifications include reducing near term costs by deferring some projects and pursuing low-interest loans for others. The Olympia Planning Commission and City Council will receive a separate CFP recommendation letter from the UAC. The letter provides more detail on CFP recommendations.

Drinking Water

Rates

- 5.7% increase proposed by UAC
- Typical single family residential account in 2017: \$1.38/month increase

We support staff's recommendation for a rate increase. Each customer class (residential, non-residential, and irrigation) will see the increase, although actual increases on customer bills will vary depending on water usage. This rate proposal helps implement the *2015-2020 Water System Plan*.

The Drinking Water utility continues to experience cost of service increases associated with State-mandated water quality and quantity regulations and costly infrastructure needs. Additionally, rate revenues are volatile and hard to predict due to the effectiveness of our water conservation programs and variable irrigation-related water use. While we seek to minimize future rate increases, the trend of annual cost increases is likely to continue.

The key budget driver for 2017 is linked to the need to increase revenue for debt service associated with three new State Revolving Fund loans totaling \$18 million. Debt service on these loans will be approximately \$1.1 million per year and will start in 2018. The UAC supports increasing rates by 4 percent (\$420,000) in 2017 to gradually ramp up revenues to cover these approaching expenses. An additional 4 percent will be proposed for 2018. These increases, combined with a smaller increase from 2016, will cover the new debt service.

The UAC and staff have worked to refine the drinking water capital facility program. The UAC supports deferring several capital projects and seeking loan financing for other projects over the next few years. However, the UAC also supports providing more cash funding for the capital program (\$200,000/annually). This proposal is consistent with recent recommendations of the City's financial consultants.

Other financial drivers include salary and benefit increases (\$157,000) and increased indirect costs of \$110,000.

As discussed previously, the UAC does not support a rate increase to fund the transition from bi-monthly to monthly billing. This cost will likely be augmented by the need for additional meter technician staffing (\$75,000/annually).

Drinking Water GFCs

- 6.7% (\$262) increase proposed
- Single family home: \$4,180

The Drinking Water GFC increase is justified based on the recent infrastructure expenditures incurred by the utility. The increase will generate an additional \$60,000/year in capital funding. A further increase could be proposed for 2018.

Wastewater

Rates

- 4% rate increase proposed by UAC.
- Typical single family residential account in 2017: \$0.83/month increase

The proposed Wastewater rate increase would cover budget shortfalls, but does not support monthly billing. In general, the utility experiences stable revenues and expenditures. Infrastructure needs are manageable, although a substantial amount of proactive and preventative work is needed. We anticipate future financial requirements of the Wastewater utility will remain predictable and relatively modest.

The utility continues to provide approximately \$500,000 a year in capital and staffing financial support for the conversion of onsite septic systems to municipal sewer.

Key financial drivers include salary and benefits (\$81,000) and intergovernmental accounts, including City taxes (\$158,000).

The operating and capital budgets for the Wastewater utility are consistent with the *2013-2018 Wastewater Management Plan*.

Wastewater GFCs

- No proposed increase

Wastewater Treatment Services - LOTT Clean Water Alliance

Rates

- 3% rate increase proposed by LOTT
- Typical single family residential account in 2017: \$1.11/month increase

The Lacey, Olympia, Tumwater, Thurston (LOTT) Clean Water Alliance collects revenue for its operations through the utility bills of the local jurisdictions and capacity development charges for new development.

Increases to both LOTT monthly charges and new connection charges are proposed for 2017. Traditionally, the UAC plays a minor role in LOTT's rate analysis and recommendations. UAC members recommend more City engagement in LOTT rates and CDCs. LOTT rates are a substantial portion of City utility bills (\$74.28/bi-monthly).

LOTT CDC

The CDC is proposed to increase 4.2 percent to \$5,579 for a new single family home.

Storm and Surface Water

Rates

- 6.3% proposed by UAC
- Typical single family residential account in 2017: \$0.80/month increase

The UAC also supports staff's recommendation for a rate increase for the Storm and Surface Water Utility.

The total Storm and Surface Water budget for 2017 is approximately \$5.3 million. Key drivers for the rate increase encompass salaries and benefits (\$134,000) and indirect costs (\$80,000). City and state taxes are also applied to the new revenue. Additionally, stormwater revenues are relatively flat as redevelopment reduces the rates by upgrading old onsite infrastructure to contemporary methods and those upgrades result in a rate reduction.

The UAC encourages financial support for the recently adopted low impact development codes. The vegetated systems associated with low impact development will require maintenance. We can expect increasing costs in future years as more of these facilities are built.

The UAC also supports transitioning the successful aquatic habitat stewardship program from a pilot program to permanent status. For 2017, the transition is revenue neutral.

We also encourage staff to complete the update to the current Storm and Surface Water Management Plan in 2017. The update will include a comprehensive financial analysis of the utility. Investigating and

implementing incentives for development innovation should be included in the analysis. The UAC anticipates being involved in this evaluation.

Our City's response to sea level rise also needs to be addressed in 2017-2018. Funding will be critical.

Storm and Surface Water GFCs

- No proposed increase

In 2013, the City's independent financial analysts concluded that we'd be justified in increasing the trip generated charge in the GFC from \$1.80/vehicle trip to \$11.24/vehicle trip. We have raised it to \$4.50/vehicle trip so far. The sums of money involved are not large. Increasing it to \$11.24 might add \$9,000- \$18,000 a year to the utility's budget from the 100 to 200 new homes a year built in the City, and might add \$11,000 a year in additional revenue from a building like the Sonics drive-in in West Olympia, which generates a great deal of traffic and is built on undeveloped land. (There are very few new commercial projects like this in town; generally, they involve redevelopment of land that's already got a lot of impervious surface, and therefore don't pay this charge.)

However, we charge the full amount justified by the analysis in the drinking water GFC, and see no particular reason not to do that here, in accordance with the principle that growth should pay its fair share of the utility's infrastructure rather than being subsidized by current ratepayers.

Waste ReSources

Rates

Increases between zero percent and 6.5 percent proposed, dependent on rate class:

- Drop Box 3%
- Residential 0%
- Commercial 0%
- Organics 6.5%
- Typical single family residential account in 2017: No increase. (\$0.62/month increase with organics/yard water)

The UAC agrees with staff's recommendation for rate increases for drop box service and organics. Policy direction for the utility is set by *Towards Zero Waste: Olympia's Waste ReSources Plan 2015-2020*.

Key drivers for the 2017 rates include increases in disposal/tonnage fees, salaries, benefits, equipment, fuel and taxes. The revenue from recycled materials, which helps offset expenses, is expected to fall short of fees. Growth and annexations in 2016 and 2017 drive the need for an additional commercial collection truck, as well as a full-time refuse/recycle collector position.

All excess reserves above the 10 percent minimum requirements were used to help smooth out rate increases from 2011 to 2014. The 2015 and 2016 revenues were projected to cover expenditures without the use of reserve funds.

In an effort to have all four service classes be independent and have their revenues cover expenditures, rate increases are needed for drop boxes and organics. Continuing to smooth and subsidize rates for the organics program through commercial rates is recommended, as subscriptions continue to grow.

Conclusion

Thank you for the opportunity to comment and 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.

Please let me know if you have any questions. I can be reached via email at tcurtz@ci.olympia.wa.us

Sincerely,



for **THAD CURTZ**
Chair
Utility Advisory Committee

TC/lm

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