

# 2020 Budget Overview

<b>Department:</b>	<b>Line of Business/Program:</b>
Water Resources	Drinking Water
<b>Funds 401-8402, 401-8412 and 401-8431</b>	

	2019	2020	Change (\$ or %)
<b>Revenue</b>	\$14,186,171	\$14,919,432*	\$733,261
<b>Expenses</b>	\$14,751,872	\$14,919,432*	\$167,560
Operations			
Pump Stations	\$3,367,696	\$3,373,158	\$5,462
Water Quality	\$1,621,809	\$1,588,122	-\$33,687
Water Planning	\$513,263	\$523,571	\$10,308
Engineering & Planning	\$483,567	\$495,788	\$12,221
Administration	\$393,226	\$412,207	\$18,981
Debt Service	\$3,842,261	\$3,953,279	\$111,018
CIP	\$3,381,756	\$3,395,176	\$13,420
	\$1,147,294	\$1,147,294	-
<b>FTE Staffing</b>	30.99	30.99	0

\* Does not include COLA and enhancements

## What are the primary budget drivers?

- A 4.4% rate increase was proposed for fiscal year 2019. Instead, cash above the reserve was used to eliminate (buy down) the rate increase.
- Utility programs and discretionary expenditures (other than capital depreciation) will remain essentially unchanged in 2019. Direct inflationary costs are modest with manageable increases in some in-house costs (i.e., rents, vehicles).
- Key in-house expense drivers included in the \$800,000 revenue shortfall:
  - The largest portion of the shortfall is the lack of rate increase in 2019 (\$565,701, 4.0% rate implication).
  - Benefit costs will decrease by \$35,500 (0.25% rate implication) in the proposed 2020 budget.
  - Interfund (rent, fleet, services, etc.) increases total \$152,000 (1.1% rate implication). *Note that this does not include utility tax increases.*
- Additional potential cost increases contributing to higher expenses include:
  - Projected 3% COLA for staff (\$74,000, 0.7% rate implication).
  - No change to the municipal utility tax anticipated.
  - No change to the Lifeline customer assistance program is proposed.
- New funding requests are as follows:
  - No staffing changes are proposed.
  - We have over 5,000 aging water meters in our service area. The old meters create both a growing liability and lost revenue for the Utility. In recent years we have funded meter change-outs through the capital budget but have slowly increased the operating budget to transition away from the capital budget. This year we propose a \$15,000 increase to continue that transition. \$175,000 in annual funding is necessary to sustain the program.
- While we have many important new facilities, the upkeep and replacement of the existing pipe system continues to lag behind. For instance, we have approximately 100 miles of asbestos cement

pipe in our water system, roughly a third has exceeded its estimated effective 50-year life. We are challenged to replace aging and vulnerable pipes in a timely manner. We have also recently identified a need for an additional approximately \$0.5 million annually to replace water tank coatings. Our growing debt service limits our available cash funding for needed upgrades. We are submitting a new funding request for additional depreciation or cash funding for capital projects (\$100,000). Last year's request for an additional \$150,000 was never carried through. Our current level of cash funding is well below industry standards. We are currently providing \$1.147 million annually, while our financial consultants suggest that we should provide at least \$1.7 million in cash funding. We therefore have proposed an enhancement of \$100,000 (0.67% rate implication) to increase capital funding.

- Debt service will increase \$201,500 in 2020 to fund seismic upgrades to the Fir Street and Elliott reservoirs. Debt service will then be 23 percent of our total operating budget. Note that this is virtually offset by other reductions in debt payments.
- Growing revenue projected at \$142,000 (1%) is anticipated to help offset increasing expenditures. Revenues to date in 2019 support this forecast.

## What is new or different about the budget?

### Utility Rates

- Contributors to the proposed rate increase include:
  - No rate increase in 2019. The rate was bought down by cash available above reserve. Typically cash above the reserve has been used to help fund the capital depreciation budget. (\$565,701, 4.0% rate implication).
  - Interfund (Rent, fleet, services, etc.) increases total \$152,000 (1.1% rate implication).
- Necessary \$201,500 (1.4% rate implication) increase in debt service to fund the seismic upgrades to the Fir Street and Elliott water reservoirs. Note however that this is virtually offset by other reductions in debt payments.
  - Proposed \$100,000 (0.67% rate implication) increase in capital funding. A \$150,000 increase request was not approved for 2019.
  - A \$15,000 (0.1% rate implication) increase for meter replacement costs.
  - A \$21,300 (0.14% rate implication) increase in the interfund transfer for paving costs.
  - An \$18,422 (0.12% rate implication) increase is proposed to fund the Cityworks software license.
  - A \$12,500 (0.08% rate implication) increase is needed in the interfund transfer to support city-wide IS projects.
  - No change to the municipal utility tax. *Note utility tax increases have not been factored into the above rate increases.*
  - No change to the Lifeline customer assistance program.
  - Projected 3% COLA for staff (\$74,000, 0.7% rate implication).
- To account for the base budget with added debt service, an additional \$733,261 (5.2% rate implication) is necessary.
- To account for the base budget, added debt service, and enhancements, an additional \$800,483 (5.6% rate implication) is necessary
- To account for the base budget, added debt service, enhancements and a 3% COLA, an additional \$907,751 (6.4% rate implication) is necessary
- Revenues over the past 3 years exceeded the projections by 2 to 4%. Therefore, along with a 1% account growth, we propose increasing the base revenue projection by \$300,000 (2.1%). This will result in a 3.1% decrease in above-stated rate increases. Therefore, to account for enhancements and a 3% COLA, a rate increase of 3.2% is recommended.

- A 3.2% rate increase (worst case) is proposed for all consumer classes including single family residential accounts. The 3.2% rate increase would result in a \$1.63 increase in typical single family residential bills (\$0.82 monthly). The typical bimonthly 2019 water service charge is \$51.00.

## Trends, Challenges, & Opportunities

- Our drinking water programs are well-established and comprehensive. In general, we see little programmatic change from year-to-year.
- Drinking Water Operations will be restructured in 2019. The vacant Water Quality Supervisor position is being replaced by a comparably compensated “Drinking Water Purveyor” position. This will improve span of control concerns and give the purveyor better control over compliance with State regulations. This will have no significant impact on the budget.
- In recent years, the Utility has re-established its valves and hydrant preventative maintenance program to be consistent with industry standards. Inspections of water reservoirs will be caught up by 2022. To improve reliability, Operations has brought inspection and maintenance of pressure reducing valves and sanitation and flushing of new water mains in house. All of these programs are proceeding well.
- The State legislature recently increased the value for public works projects that City staff can construct from \$65,000 to \$116,155. This will greatly expand our ability to cost-effectively construct small projects. 2020 will be a transition year with potential budgetary implications (additional seasonal staff) happening in 2021. This may effect some work requests with Engineering and Procurement.
- After several years of acquisition and preparation, the Drinking Water Operations Section will have fully implemented the Cityworks software work order and inventory modules. The hope is to add the asset management module in 2020 to help better plan preventative maintenance and infrastructure replacement projects.
- As highlighted previously, funding for ongoing pipe replacements and tank coatings is increasingly limited. As a result, annual work is often deferred.
- Our reliance on debt financing for projects impacts operating budgets and subsequently the capital program.
- Our growing use of telemetry and real-time management of the complex water distribution system is increasingly important. We anticipate completion of a cybersecurity evaluation in 2020 and hopefully, implementation of new software in 2021.

## Revenues and Cost of Service

### Revenue

- Revenue projections assume a 1.0% growth rate in customer accounts and associated revenue (\$148,000). A similar projection in 2019 may have been conservative. Revenues over the past three years exceeded the projections by 2 to 4% and revenues through July 2019 suggest a 3% growth in revenues over 2018. However, water revenues are highly dependent on weather and the need for irrigation. The favorable revenue growth may mitigate the lack of a rate increase in 2019. Therefore, along with a 1% account growth, we propose increasing the base revenue projection by \$300,000 (2.1%).

### General Facility Charges

- GFC increases over the past several years have gotten us to where we need to be. Our current GFC adequately reflects our recent major capital investments.
- The current single-family GFC is \$4,433.
- We are not requesting an increase in drinking water GFCs in 2019. We hope to hold the GFC constant for several more years.

## Cost of Service

- The Drinking Water Utility meets all State and federal water quality and supply expectations. Our water sources and distribution systems are in good shape with many long-term improvements already completed. However, a pressurized water system requires continued upgrades. Some components are over 100 years old and many have well exceeded their estimated effective lives.
- Nationally, water utilities are increasing rates appreciable more than inflation and more than private utilities and franchises. Olympia remains below national trends for rate increases. Regional rates for 2019 are provided below:

**Comparative Utility Rates  
Monthly Bill for a Single-Family  
Residence (2019)**

City	Average Monthly Water Fees *
Lacey	\$25.07
Olympia	\$25.50
Tumwater	\$23.66

\* All rates assume 560 cubic foot(CF)/month (Olympia average) and include utility taxes.

**Base Budget Changes**  
**Drinking Water Utility (Fund 401)**

	<b>2018</b>	<b>2019</b>	<b>Variance</b>	<b>Variance %</b>
<b>Salaries and Wages</b>	\$ 2,555,860	\$ 2,526,799	\$ (29,061)	-1.14%
<b>Benefits</b>	\$ 1,141,134	\$ 1,105,657	\$ (35,477)	-3.11%
<b>Supplies</b>	\$ 900,295	\$ 903,892	\$ 3,597	0.40%
<b>Services</b>	\$ 1,181,877	\$ 1,172,905	\$ (8,972)	-0.76%
<b>Intergov Payments</b>	\$ 50,067	\$ 49,067	\$ (1,000)	-2.00%
<b>Interfund Payments</b>	\$ 2,182,967	\$ 2,334,962	\$ 151,995	6.96%
<b>Debt Service</b>	\$ 3,379,216	\$ 3,380,136	\$ 920	0.03%
<b>CIP</b>	\$ 1,147,294	\$ 1,147,294	\$ -	0.00%
<b>Utility Taxes*</b>	\$ 2,213,161	\$ 2,213,161	\$ -	0.00%
<b>Total</b>	\$ 14,751,872	\$ 14,919,432	\$ 167,560	1.14%

\*Utility Taxes Have not been updated