



October 14, 2021

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

Dear Mayor Selby and Council Members:

SUBJECT: UAC 2022 Utility Rates, GFCs and 2022-2027 CFP Recommendations

Thank you for the opportunity to provide citizen committee recommendations on 2022 City of Olympia utility rates, general facility charges (GFCs) and the 2022-2028 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 utilities assume a growth for 2022 of one percent revenue and Waste ReSources utility assumes a growth of one-half percent revenue. 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 adjustments.

The UAC recommends the following utility revenue increases in 2022:

- Storm and Surface Water 5.0%
- Wastewater 6.0%
- Drinking Water 1.0%
- Waste ReSources 0.0%

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 2022, which will both increase 3.0 percent. Including the LOTT rate increase, the combined, weighted rate increase would be approximately 1.94 percent (\$5.30/bi-monthly bill) for a typical single-family residence.

Storm and Surface Water

Utility Rate: 5.0% 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 current expenditures. This reflects fixed increases in salaries, benefits, City administration, rent and insurance. It also reflects a 10 percent increase for inflation in materials and services and a \$130,000 increase in capital funding consistent with a financial consultant's recommendations.

The UAC also supports the proposed \$22,500 enhancement to hire an intern. This enhancement will support GIS mapping, data quality control, analysis of Stormwater Utility operations to improve level of service, and maintenance of sediment collection pattern and quantity records.

Restructured Rates

The UAC supports the Storm and Surface Water utility's revised rate structure for 2022. The proposed rate structure is possible because of new technology (such as computer mapping and aerial imagery) and new ways of managing data. Rate categories for commercial customers will be based on the level of stormwater management provided onsite rather than on the year of development. Typical residential customers will realize a rate decrease of about 1.3 percent (\$0.21 per month). Rate changes for commercial customers will vary based their new rate category. Some commercial customers will see rate decreases while others will see rate increases. Overall, the new rate structure will be more equitable since it will be based on actual, not assumed conditions.

GFC rate: \$284 increase per single family residence

The UAC supports increasing the Storm and Surface Water GFC in 2022 to \$1,428 per equivalent residential unit and \$9.09 per vehicle trip. The financial analysis performed for the Storm and Surface Water Plan justifies increasing the Stormwater GFC to \$2.383 per equivalent residential unit and \$19.04 per vehicle trip.

Wastewater

Utility Rate: 6.0% increase

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 deferred a rate increase in 2021 and instead bought down rates with cash on hand (resources above reserves) to help customers with economic hardships through the pandemic. In 2022, the utility anticipates total expenses to increase by about \$439,000 above current expenditures. This reflects fixed increases (salaries, benefits, rent, insurance, etc.), a \$111,000 increase in municipal and excise taxes, and a 10 percent increase for inflation in materials and services. The utility will not be increasing capital funding but anticipates the need to do so in future years.

GFC rate: \$74 increase per single family residence

The UAC supports increasing the Wastewater GFC in 2022 to \$3,754 per equivalent residential unit. The financial analysis performed for the Wastewater Management Plan (Plan), justifies increasing the Wastewater GFC to \$4,999.

Drinking Water

Utility Rate: 1.0% 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 water supplies for our community while protecting the environment. The Drinking Water utility anticipates total expenses to be \$467,000 greater than current expenditures in 2022. Similar to the other utilities, this reflects fixed increases (salaries, benefits, rent, insurance, etc.), and a 10 percent increase for inflation in materials and services. The utility will not be increasing capital funding but anticipates the need to do so in future years.

GFC rate: No change

Drinking Water GFCs were consistently increased between 2015 and 2018. An increase is currently not warranted in 2022. The new Water System Plan, to be adopted in 2022, will inform future adjustments to the Drinking Water GFCs.

Waste ReSources

Utility Rate: No change

Waste ReSources projected revenues are up approximately 1.8% and overall expenses are up 2.1 percent. However, revenue to expense remains positive by 0.3 percent. While recycle markets have improved since 2019, they have not reached pre-China National Sword numbers. Nevertheless, outlook for 2022 remains positive. Based on budget projections the UAC is supportive of staff's recommends for no rate increases in 2021 for Waste ReSources.

Capital Facilities Plan 2021-2026

On August 12, 2021, staff presented the proposed preliminary 2022-2027 CFP to the UAC and we unanimously approved it. We find 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 (pertinent to the utilities) anticipates that current projects can be funded with the estimated revenues. However, the UAC is aware of the capital project funding challenges faced by all the utilities.

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.

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

Sincerely,



CULLEN STEPHENSON

Chair

Utility Advisory Committee

CS/EC:lm

ec: UAC Members

Gary Franks, Waste ReSources Director

Eric Christensen, Water Resources Director