



Meeting Agenda

City Council

City Hall
601 4th Avenue E
Olympia, WA 98501

Information: 360.753.8447

Tuesday, July 21, 2015

5:30 PM

Council Chambers

Special Study Session

1. ROLL CALL

2. BUSINESS ITEMS

2.A [15-0562](#) Briefing on Volume-Based Wastewater Utility Rates

Attachments: [UAC Letter](#)
[Sample Rate Table](#)

2.B [15-0701](#) Briefing on the Preliminary Capital Facilities Plan (CFP)

3. ADJOURNMENT

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City Council

Briefing on Volume-Based Wastewater Utility Rates

Agenda Date: 7/21/2015
Agenda Item Number: 2.A
File Number: 15-0562

Type: work session **Version:** 1 **Status:** Study Session

Title

Briefing on Volume-Based Wastewater Utility Rates

Recommended Action

Committee Recommendation:

The **Utility Advisory Committee** (UAC) reviewed and supports the recommendations (see Attachment 1).

On July 8, 2015, the Council **Finance Committee** voted unanimously to forward the staff proposal to the full City Council for further consideration.

City Manager Recommendation:

Receive briefing. Provide initial guidance to staff to implement volume-based Wastewater Utility rates and incorporate the rates into the 2016 budget process.

Report

Issue:

Whether to create volume-based rates for the City Wastewater Utility as recommended by the Utility Advisory Committee.

Staff Contact:

Diane Utter, Water Resources Engineer, 360.753.8562

Presenter(s):

Diane Utter, Water Resources Engineer
Andy Haub, Water Resources Director

Background and Analysis:

The 2013 Council-adopted Wastewater Management Plan includes goals for rates and fees that support financial equity and affordability, minimizing rate increases, and maintaining consistent levels of service. The Plan supports evaluating the feasibility of volume-based wastewater utility rates for residential customers. Residential customers currently pay a flat wastewater rate regardless of how much drinking water they use and how much wastewater they generate.

The UAC initiated a discussion about volume-based residential wastewater rates as part of the 2013 Wastewater Management Plan. In May 2013, April and October 2014, and June 2015, City staff presented the UAC with options for both two- and three-tiered residential wastewater rates. The proposed rate structure would provide rate discounts for customers that produce low volumes of wastewater and to some extent further incentivize water conservation. Since wastewater is not metered, drinking water is used to estimate how much wastewater is generated. Most drinking water is converted into wastewater through household use. The UAC discussion recognized that in order to maintain the Utility's total revenues, reducing rates for some customers would necessitate increasing rates for others.

UAC supports the concept of volume-based residential wastewater rates and asked staff to complete a financial analysis of a three-tiered rate structure. The proposed rate structure would apply to single-family (and duplex) residential customers only. City Utility Billing confirms that proposed rate changes could be implemented without causing an excessive workload.

- **Standard Rate:** The majority of customers (approximately 70% of single-family residential customers) would be in the top tier and pay a flat rate per month.
- **Discount Rates:** Customers billed for less than 350 cubic feet (cf) of drinking water per month (700 cf for a 2-month cycle) would qualify for a volume-based discount. The lowest discounted rate (Tier 1) would be for customers consuming 250 cf or less of drinking water per month (500 cf for a 2-month cycle). Approximately 18% of customers are expected to qualify for the maximum discount. Tier 2 rates would progressively increase to the standard rate (Tier 3) with increasing water use. About 12% of customers are expected to qualify for the Tier 2 partial discount.

See Attachment 2 that shows sample wastewater rates/discounts based on the proposed structure.

Staff set the proposed volumetric rate thresholds and volume-based rates by analyzing the last five years of drinking water consumption data. The analysis verifies that wastewater utility revenue, under the new rate structure, will be equivalent to revenue collected under the existing rate structure.

On July 8, 2015, the Finance Committee votes unanimously to forward this proposal to the full City Council.

Neighborhood/Community Interests (if known):

Wastewater rates are a key element of overall City Utility charges. The new rate structure better reflects the amount of wastewater generated. It will continue to encourage water conservation.

Options:

1. Implement volume-based Wastewater Utility rates as proposed by staff and incorporate the rates into the 2016 budget process.
This option allows about 30% of single-family customers to see a discount on their wastewater bill starting January 2016.
2. Ask staff to investigate additional options for volume-based wastewater rates and return to Council for additional consideration.

This option could better respond to community needs as identified by Council.

3. Decline to pursue volume-based rates at this time.

This option would keep the rate structure as it is currently.

Financial Impact:

Staff anticipates that wastewater utility revenues will not be adversely affected by the proposed rate changes. Wastewater utility customers not affected by the discount will experience approximately a 5% rate increase to implement the new rate structure. This translates to about \$1.05 per equivalent residential unit per month. The number of customers in each rate group will vary with actual drinking water consumption. A 0.5% cushion was included in the revenue analysis to account for additional revenue volatility and potential incentivized water conservation.

Attachment(s):

Attachment 1 - UAC Letter

Attachment 2 - Sample Rate Table



October 24, 2014

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

Dear Council Members:

SUBJECT: 2015 Utility Recommendations, Including GFCs and Wastewater Volume-Based Rates

Thank you for the opportunity to comment on the proposed 2015 utility rates and general facility charges. Over the past few months, the Utility Advisory Committee (UAC) has reviewed financial information regarding the City utilities from both a capital and operational perspective. This is a fundamental role of our committee. We appreciate staff's willingness to help us understand the nuances of utility finances and the role our utilities play in meeting our community public health needs.

The UAC reviewed the proposed 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.

The following sections document the UAC's recommendations for the 2015 utility rates and general facility charges (GFCs). The recommendations are consistent with Olympia's utility master plans and the Comprehensive Plan.

The overall impact of the proposed rates to a typical residential customer for 2015 would be **four percent** or a **\$8.58 increase** in their bi-monthly bills (\$4.29/month). City general facility charges and LOTT capacity development charges will increase \$529 for a new single family home. Total charges in 2015 will be \$13,355.

Drinking Water

Six Percent Increase Proposed for 2015

We concur with staff's recommendation for a revenue increase of six percent. Each customer class (residential, non-residential and irrigation) will see an overall increase of six percent, although actual increases on customer bills will vary depending on water usage.

The proposed increase will cover a projected revenue shortfall of approximately \$350,000. Key budget drivers for 2015 include increasing debt service on the McAllister Wellfield and Service Meter Replacement Project (\$142,000), increasing State taxes (\$63,000), shifting some salaries from the Wastewater Utility to the Drinking Water Utility (\$104,000) and increasing City administration costs (\$67,000). Shifting salaries to Drinking Water more accurately reflects actual staff time spent working on drinking water tasks. The increase to drinking water is offset by corresponding savings in the Wastewater utility.

The revenue shortfall (\$350,000) generates a four percent rate increase. The additional two percent rate increase proposed by the UAC and staff begins to prepare for repayment of the State loan for the soon-to-be built Log Cabin Reservoir (construction begins in 2018). Annual loan payments will require a 7.5 percent rate increase. The UAC supports a rate “smoothing” approach that calls for modest rate increases over several years, rather than large spikes in rates. Revenue collected from the two percent rate increase will be reserved and dedicated to the reservoir project.

Reclaimed water rates were modified in 2014 and remain appropriate for 2015. Reclaimed water revenues closely mimic costs.

City staff is currently in the process of updating the Water System Plan for 2015-2020. The draft Plan will be brought to the UAC for review and to the City Council for adoption in mid-2015. A thorough financial analysis of the drinking water utility will accompany the 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 somewhat volatile and hard to predict due to our effective water conservation program and variable irrigation-related water use. The trend of annual cost increases and associated rate increases will probably continue in future years.

The proposed six percent rate increase will result in an average single family residential account increasing by \$1.39/month.

We recommend a 6.7 percent increase in general facility charges for drinking water which equates to \$3,687. A greater increase (20%) is justified based on current and projected infrastructure investments. The UAC recommends “smoothing” the total over several years.

Wastewater

Two Percent Increase Proposed for 2015

We concur with staff’s recommendation for a revenue increase of two percent.

Based on projected 2015 revenue and expenses, staff expects the wastewater utility to be out of balance by approximately \$95,000. The shortfall reflects both savings as a result of shifting some salaries to the Drinking Water Utility and increased costs associated with shifting salaries (\$71,000) from the Storm and Surface Water Utility to Wastewater. Crews from the three water-related utilities work together closely and efficiently. Workloads and finances are evaluated every few years and realigned as needed. The changes reflect a recent analysis of work and salary distribution.

The operating and capital budgets for the Wastewater Utility are aligned with the recently completed *2013-2018 Wastewater Management Plan*.

In general, the Wastewater Utility experiences stable revenues and expenditures. Capital infrastructure needs are manageable. A substantial amount of needed work is proactive and preventative in nature. The utility continues to provide financial support for the conversion of onsite septic systems to municipal sewer. We anticipate future financial needs of the Wastewater Utility to remain predictable and relatively modest.

The two percent wastewater rate increase will result in an average single family residential account increase of \$0.38/month.

No increase in Wastewater general facility charges is proposed. The GFCs were evaluated and increased in 2014.

Volume-based Wastewater Rates

The UAC also supports the implementation of volume-based rates for wastewater. Under the proposed rate structure, rates would be based on drinking water consumption. Wastewater volume-based rates have been under consideration by the UAC for several years and are a recommendation of the *2013-2018 Wastewater Management Plan*. We support staff recommendations for a three-tier rate structure that increases both rate equity and water conservation. With continued refinements to the rate structure and draft code revisions, the UAC encourages City Council to adopt the proposed tiered rate structure

Wastewater Treatment Services - LOTT Clean Water Alliance

The Lacey, Olympia, Tumwater, Thurston (LOTT) Clean Water Alliance collects revenue for its operations through the utility bills of the local jurisdictions. Increases to both LOTT monthly charges and new connection charges are proposed for 2015. The UAC plays a relatively minor role in LOTT's rate analysis and decisions. However, how the City collects what we owe LOTT for its services is entirely up to the Council; the UAC continues to be interested in the possibility of volume-based rates as a way to increase rate equity and conservation through this portion of citizens' utility bills as well, and may consider a recommendation to Council about this issue in the future if the LOTT Alliance as a whole does not adopt such a measure.

An inflationary adjustment in LOTT monthly rates of three percent is proposed for 2015. With the proposed rate increase, LOTT charges would increase \$1.05 per month for a single family residence. The current LOTT charge is \$70.02 bi-monthly for single family residences. Bi-monthly bills in 2015 would be \$72.12. Non-single family accounts would increase proportionately.

We support staff's proposal to increase the LOTT Capacity Development Charge (CDC) 4.3 percent, which is \$5,136 for a new single family home.

Storm and Surface Water

Three Percent Increase Proposed for 2015

The UAC supports staff's recommendation for a three percent increase for the Storm and Surface Water Utility. The increase will be applied across all rate classes. The proposed rate would result in single family residential accounts increasing by \$0.35/month.

The revenue shortfall for Storm and Surface Water is approximately \$168,000. Key drivers for the increase include salaries and benefits (\$36,000), State permitting (\$7,500), State taxes (\$36,000), City administration (\$55,000) and water quality treatment facility maintenance (\$41,000).

City staff and the UAC will work on a revision to the current Storm and Surface Water Management Plan in 2015. The Plan will refine expectations for the Utility. In general, the roles and environmental responsibilities of the Storm and Surface Water utility within our community are broad and sometimes challenging to fulfill.

The UAC recommends that stormwater general facility charges increase ten percent to \$1,190 for a new single family home. The increase is justified by a 2013-2014 analysis of infrastructure costs. The UAC will evaluate the trip-generation component of the GFC in 2015.

Waste ReSources

Variable Increases Proposed for 2014

The UAC concurs with staff's recommendation for a variety of rate increases in this utility. Policy direction is set by the *Towards Zero Waste: Olympia's Waste ReSources Plan 2008-2013*. Work to update the 2014-2019 Plan for the next six years is well underway.

Key drivers for the 2015 rates include inflationary increases in disposal/tonnage fees, salaries, equipment, and fuel. While the processing and handling fees for recycled materials remain stable, commodity values are still volatile and, in some cases, continue to decline. The revenue from recycled materials, which helps offset expenses, is expected to fall short of fees.

Thurston County raised disposal fees for municipal solid waste (garbage) over 48 percent in 2010. At the same time, Council adopted an increase in the municipal utility tax. In an effort to minimize the impacts to the customers, excess reserves above minimum requirements were used to help smooth out rate increases. These efforts were continued through this year and are expected to exhaust all excess reserves.

Based on current projected 2015 revenue and expenditures, the Waste ReSources budget would be out of balance by approximately \$370,000. Staff recommends ending rate smoothing for municipal solid waste in 2015 and implementing rate increases for garbage, in both the residential and commercial service classes. Conversely, continuing to smooth rates and subsidize the organics program through the commercial rates, as subscriptions continue to grow, is recommended.

The following is a summary of the proposed 2015 rate increases:

- Residential Six percent
- Commercial Four percent
- Organics Eight percent
- Drop Box No rate increase proposed

Waste ReSource staff are revising the current management plan for UAC and City Council consideration in 2015. The planning process will include a comprehensive evaluation of Waste ReSource's costs of service.

Thank you again for the opportunity to comment and provide our recommendations. These proposals will support the important public health mandates of the four City utilities and help lower the long term costs of maintaining infrastructure by attending to developing needs in a timely way rather than passing more expensive repairs on to future residents. The proposed utility rates reflect our responsibility to maintain and improve our essential public infrastructure.

Please let me, or UAC Vice-Chair Chris Ward, know if you have any questions.

Sincerely,



THAD CURTZ

Chair

Utility Advisory Committee

TC/lm

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ec: UAC Members
Jane Kirkemo, Administrative Services Director
Rich Hoey, P.E., Director of Public Works
Dan Daniels, Waste ReSource Director
Andy Haub, Water Resources Director

Table - Sample Volume-based Wastewater Rates*

Drinking Water Consumption	Flat Rate (current 2015)	Volume-Based Rate (proposed 2016)	Difference
<u>Tier 1</u> Below 250 cf/month	\$19.67	\$13.47	35% lower
<u>Tier 2</u> 250 cf/month to 350 cf/month	\$19.67	\$13.47 to \$20.72	17% lower, on average
<u>Tier 3</u> (Standard Rate) Above 350 cf/month	\$19.67	\$20.72	5% higher

* Actual rates would be set as part of the 2016 rate setting process.



City Council

Briefing on the Preliminary Capital Facilities Plan (CFP)

Agenda Date: 7/21/2015
Agenda Item Number: 2.B
File Number: 15-0701

Type: work session **Version:** 1 **Status:** Study Session

Title

Briefing on the Preliminary Capital Facilities Plan (CFP)

Recommended Action

Committee Recommendation:

The Finance Committee had a briefing on July 8. No recommendation was made.

City Manager Recommendation:

Receive briefing. Concur with forwarding of the Preliminary CFP to the Planning Commission for review and comment.

Note: Copies of the Preliminary CFP will be distributed to Councilmembers at the meeting and posted on the City's website (olympiawa.gov) for online access and viewing the morning of July 22.

Report

Issue:

Shall the preliminary CPF as presented be forwarded to the Planning Commission for review and comment?

Staff Contact:

Jane Kirkemo, Administrative Services Director, 360.753.8499

Presenter(s):

Jane Kirkemo, Administrative Services Director

Background and Analysis:

The City Manager is required to present a six-year CFP to the City Council for adoption. The CFP must be balanced (revenues received realistically pay for proposed projects). Such planning involves determining when and where the facilities will be needed, and how much they will cost to construct and maintain.

Since the City of Olympia collects impact fees for the Olympia School District, their CFP must be incorporated into our CFP document before final adoption. Their Preliminary CFP has been included. In addition, any Thurston County projects within the Olympia boundaries or the Urban Growth

Management Area will be included in the final document for reference.

The six-year plan is slightly less than the current plan. The decrease is due to a \$12 million grant for Water included in the current plan.

The Preliminary CFP assumes 100% of the Real Estate Excise Tax (REET) money will be spent on capital projects. As the operating budget progresses, Council could choose to use some portion of REET funds to balance the operating budget. This change in legislation will sunset at the end of 2016.

The CFP goals and policies are included in the CFP. The policies have been edited and approved by the Planning Commission.

Neighborhood/Community Interests (if known):

Comments are welcome from all members of the public throughout the review process. As in past years, Olympia advisory committees and the Coalition of Neighborhoods are encouraged to review and comment on the draft CFP throughout the process.

Financial Impact:

The 2016-2020 CFP is \$133 million. The 2016 budget is \$23.3 million. The CFP does not assume the establishment of a Metropolitan Park District (MPD). If an MPD is established, no funds would be received until 2017. Also, this document makes no assumptions regarding increases in the Transportation Benefit District authorized by the State this year.