

2013 WASTEWATER PLAN FINANCIAL ANALYSIS

City of Olympia
Utility Advisory Committee
May 2, 2013

Financial Analysis

- Fiscal policies
- Costs
 - Operating
 - Debt
 - Capital
- Revenue
 - Rates
 - Volume-based
 - General facility charges (GFCs)

Comprehensive Plan

- Utility Goal GU2:

Reliable service is provided at the lowest reasonable cost, consistent with the City's aims of environmental stewardship, social equity, economic development and the protection of public health.

Selected Policies

- PU2.4 Ensure that adequate funds are generated by the City's utilities....
- PU2.1 Ensure that new development projects pay for their own utility infrastructure needs.... Review new development charges (e.g., general facility charges) as part of utility master plan updates....
- PU2.2 Ensure that utility fees are structured so that they reasonably reflect the cost of providing services to each customer class and encourage water conservation and the reduction of wastewater treatment demands.
- PU2.3 Provide special rates for low-income senior and low-income disabled utility customers.

Utility Structure

- Existing customers pay for:
 - Cost of service
 - Decline in the value of infrastructure (depreciation)
 - Utility rates fund capital projects commensurate with depreciation
 - Repairs and upgrades to existing infrastructure
- New customers pay for:
 - Share of the existing capital costs
 - New infrastructure to support new customers

Revenue

LOTT	\$10,493,000 (64%)
City	<u>\$ 5,784,000 (36%)</u>
Total revenue	\$16,277,000

Bonds and Loans

- +/- \$8 million
- \$600,000/yr. repayment
- Mature in 2030
- Meet bond payment coverage
 - $1.25 \times (\text{Total revenue} - \text{operating costs})$
> debt payment

Capital Projects

- Two planning horizons....6 and 20 years
 - Average \$2.2 million/year
 - Assume 5.0% inflation for capital projects
 - Does not assume grant or loan funding
 - GFC revenues continue to increase due to population and inflation
 - Need to gradually increase depreciation funding
 - Financially supportable

2013 Utility Rates

- City
 - Residential – \$18.54
 - Multifamily – \$12.98
 - Non-residential – \$18.54 plus \$2.65/100 cubic feet of water for more than 900cf of usage
- LOTT
 - Residential – \$33.99
 - Multifamily – \$23.80
 - Non-residential – \$33.99 plus \$3.78/100 cf of water usage got more than 900cf
- Affordable.....<2% of median income (\$87)
 - Lifeline – 50% rates

Projected Operating Costs

- Inflation
 - Fixed operating costs.....Estimate at 1.8 – 2.1%/yr
 - Beyond next 5 years, use 3%
- Labor costs.....key driver
- Population growth
 - 1.2 – 1.9%/year

Future Revenue Needs

- City Rates
 - Project 3% - 4% rate increase for next 5 years
 - Inflation
 - Labor costs
 - +/- \$0.50/month
- Combined City and LOTT
 - 2.2% - 3.0% increase (+/- \$1.25/month)

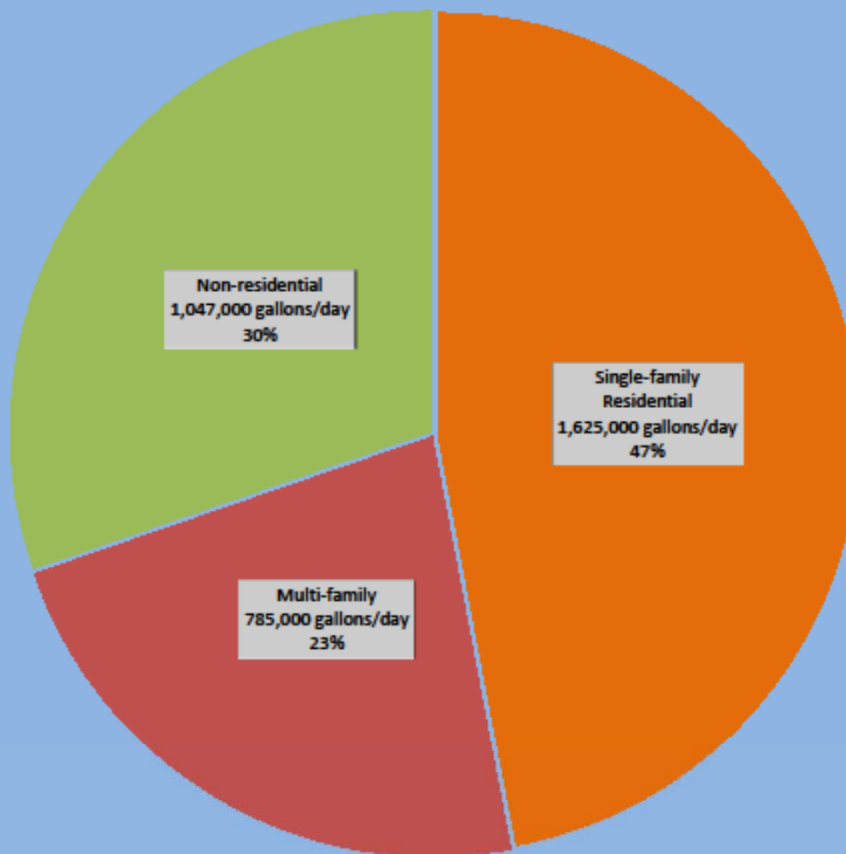
General Facility Charges (GFCs)

- Calculations link
 - Existing and future population
 - Replacement, upgrade, and future-oriented capital project costs
- Charges generate approx. \$1 million/year
 - 2013.....\$3,198
 - Calculated 2014.....\$3,342 (4% increase)
- LOTT has a similar charge (\$4,719)

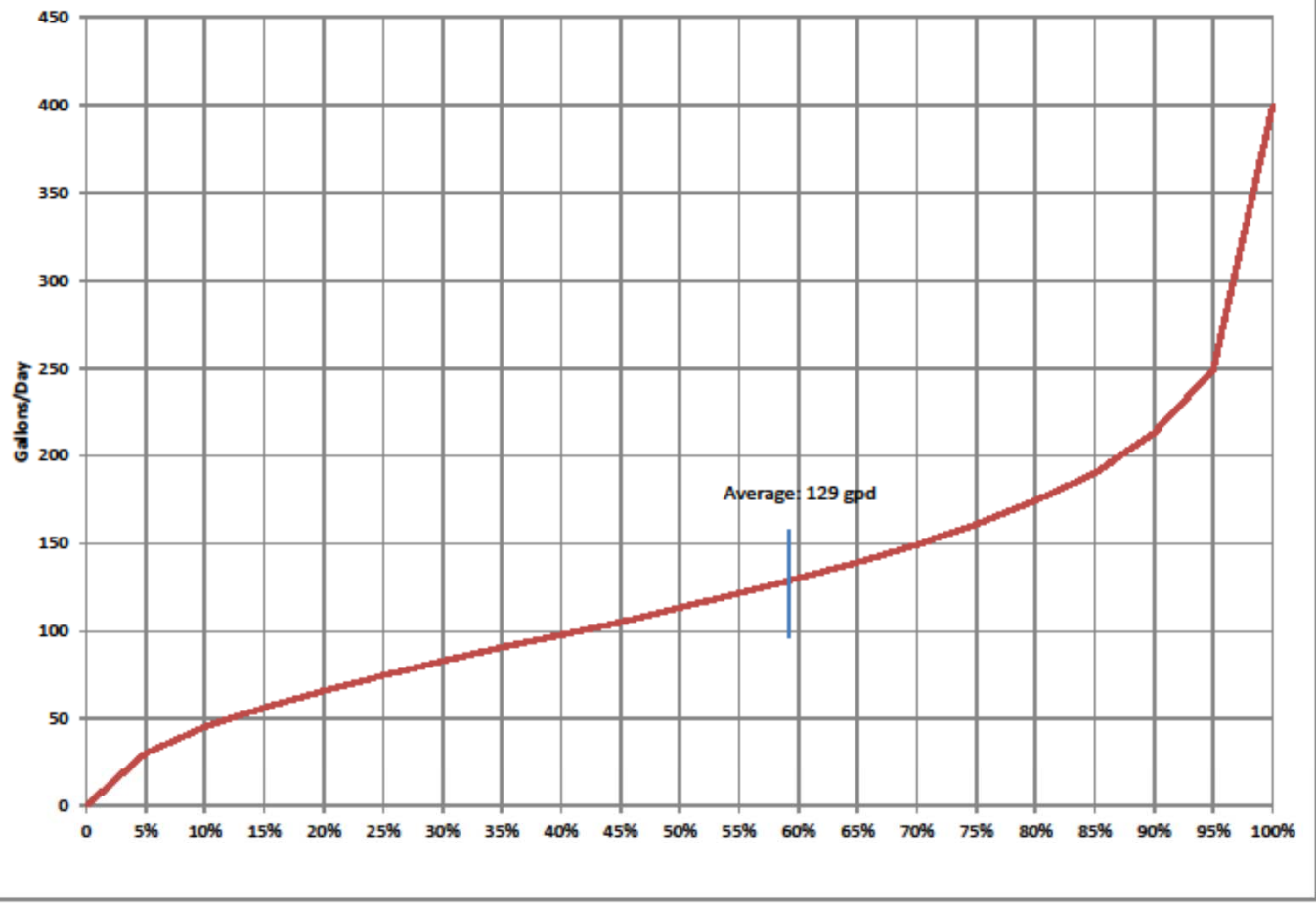
Volume-based Rates

- ❑ Create differential residential rates based on winter (non-irrigation) water usage
- ❑ Potential goals
 - Equity for low water usage
 - Incentive for conservation
 - Both
- ❑ Considering 2 or 3 rate classes
- ❑ Minimal financial risk

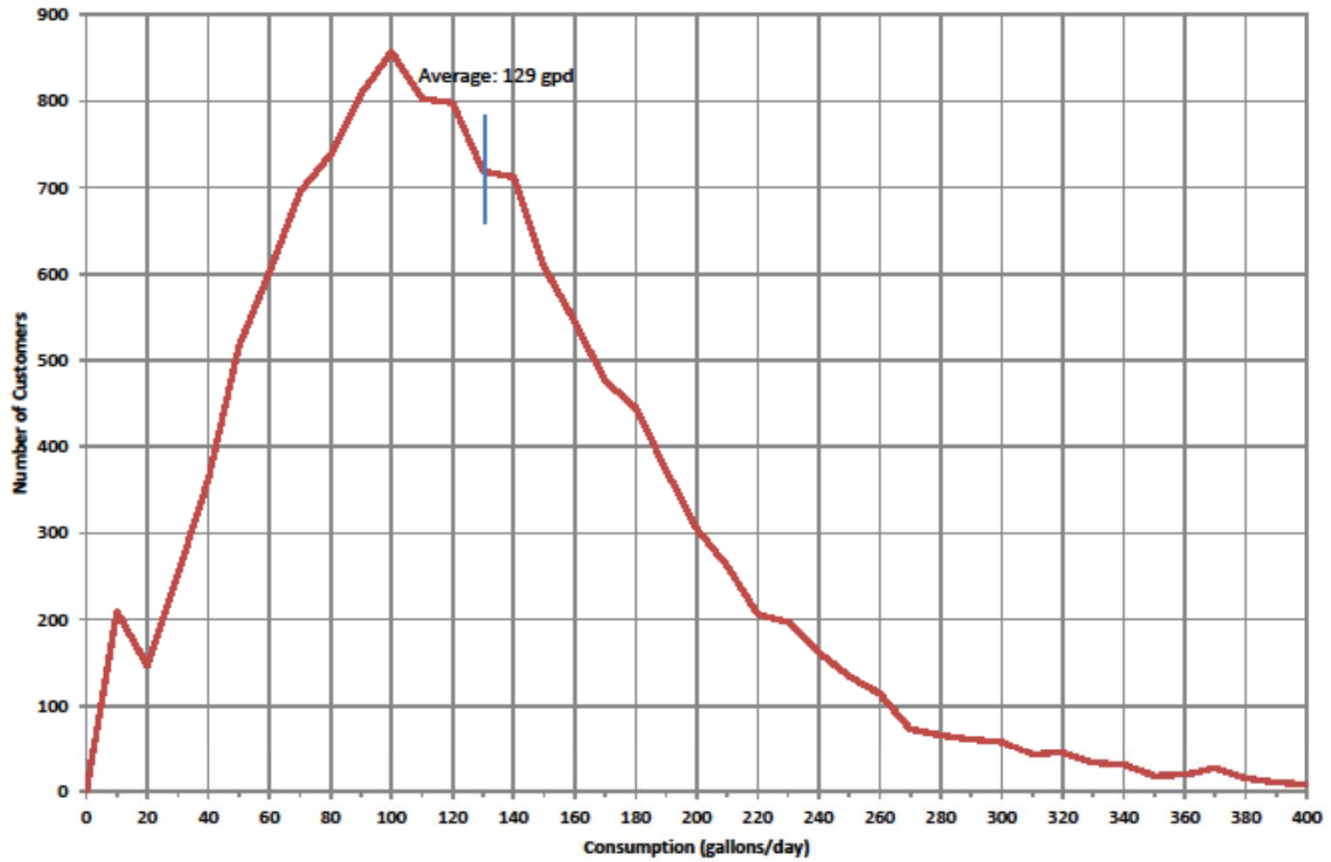
Water Consumption by Category (winter months)



Water Consumption



Number of Customers
(at each water consumption level)



Draft Scenarios

- ❑ **Alternative A:** Lowest 17% of water users pay 33% less than others
 - Baseline rates increase \$0.31/month
- ❑ **Alternative B:** Add a 15% reduction for the next lowest 25% of water users. Discount encompasses lower 42% of customers.
 - Baseline rates increase \$1/month
- ❑ **Alternative C:** Lowest 66% of water users receive a 15% discount.
 - Baseline rates increase \$2.50/month (est.)
- ❑ Others?

Potential Next Steps

- ❑ Recommend volume-based tiered rates in the WW Plan
- ❑ Explain goals and preferred scenarios to City Council
- ❑ Adopt Plan....2013
- ❑ Modify OMC....2014
- ❑ Implement new rates....2015
 - Measure winter flows rates first

UAC Needs?

- ❑ Additional cost, revenue, rates, CFP info?
- ❑ Different volume-based rate scenarios?
- ❑ Other?

