



October 26, 2012

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

Dear Council Members:

SUBJECT: 2013 Utility Rate Recommendations

Thank you for this opportunity to comment on the proposed 2013 utility rates. Over the past several months, the Utility Advisory Committee (UAC) has reviewed detailed financial information about the City utilities from both a capital and operational perspective. We view this as a fundamental part of our role, and as critical information to understand prior to making rate recommendations to the City Council. As always, Public Works staff has been professional and prepared in presenting this information to us, have answered our questions (often anticipating them) and welcomed our input. We appreciate their efforts and attitude.

Once again, we are mindful of the multitude of goals at play:

- keeping rates as low as possible, especially in today's economic environment;
- ensuring growth pays for growth;
- providing the levels of service our customers want and have come to expect;
- continuing to meet ever-increasing regulatory requirements; and
- responsibly managing our existing infrastructure as well as expanding/improving it to meet future needs.

The following are the UAC's recommendations for the 2013 utility rates and General Facility Charges (GFCs), which are consistent with the master plans of the respective utilities and the Comprehensive Plan. The overall impact to a typical residential customer for 2013 would be about 3.2 percent or a \$6.35 increase in their bi-monthly bills.

Drinking Water

Proposed 2013 Rates

We concur with staff's recommendation for a revenue requirement increase of 7 percent, slightly above the 6 percent projected for 2013 in the *2009-2014 Water System Plan*. Each customer class (residential, non-residential and irrigation) will see an overall increase of 7 percent, although actual increases on customer bills will vary depending on water usage.

Key drivers for 2013 rates include a continued decline in water revenue, inflationary increases in salaries and benefits and significant capital investments as outlined in the Water System Plan. Where possible, capital projects have been delayed to reduce rate impacts and delay the need for debt financing. Rate projections include inflationary

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increases in operating expenses, new debt service costs for capital projects, and a continued decline in water use (2 percent per year per capita).

Raising the revenue now helps avoid higher rate increases in subsequent years, and financial rating agencies view this positively. This helps to maintain lower interest rates on utility issued bonds. The UAC remains supportive of the rate “smoothing” approach that calls for modest rate increases over several years, rather than large spikes in rates. We also concur with staff’s recommendation to continue with the phased-in (second year of three years) increase in the fixed portion of the utility rate to help stabilize utility revenue.

UAC members also concur with staff recommendations to charge the fixed “ready-to-serve” fee for water even if a premise is vacant or the occupant is on vacation for more than 30 days. This is a change from current practices, which allow a customer to suspend their water, wastewater and garbage/recycling services if they are gone for more than 30 days. The water “ready-to-serve” fee is in place to help cover fixed costs to the utility that are present, even if no one is using water. Customers who are on vacation for longer than 30 days will still be able to suspend their wastewater and garbage/recycling services.

Wastewater

No Increase Proposed for 2013

The UAC concurs with staff’s recommendation for no rate increase in this utility. Based on projected 2013 revenue and expenses, staff projects the utility to be out of balance by approximately 8 percent of billed revenue. Staff projects an adequate balance above reserves that can be used to fully cover these costs in 2013, while leaving a balance to “smooth” rate increases in the future. As a result, no rate increase is needed for the Wastewater Utility in 2013. The preliminary operating and capital budgets for the Wastewater Utility are in keeping with the Council adopted *2007-2012 Wastewater Management Plan*.

Wastewater Treatment Services - LOTT Clean Water Alliance

For the first time this year, the UAC received a briefing from LOTT staff and provided feedback on the rate proposal. The LOTT staff recommended a \$0.99 per month increase in the LOTT wastewater treatment charges for 2013, raising the charge to \$33.99 per month for an equivalent residential unit (ERU). This is an inflationary increase of 3 percent in the LOTT treatment charges, and is influenced by construction materials, power and chemical costs.

The UAC also reiterated their support for an evaluation of converting both wastewater treatment and collection rates to volume-based rates rather than a flat fee. LOTT Alliance staff indicated that this evaluation is planned for 2013.

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Storm and Surface Water

Six Percent Increase Proposed for 2013

The UAC concurs with staff's recommendation for a six percent increase in this utility, which would be applied across all rate classes. Cash above reserves in this utility helped "buy-down" this rate increase by three percent. The preliminary operating and capital budgets for the Storm and Surface Water Utility are in keeping with the *2003 Storm and Surface Water Plan*, updated planning work performed in 2010-2011 with the UAC, and regulatory requirements under the NPDES (National Pollutant Discharge and Elimination System) Phase II permit. Key drivers for the 2013 rates include salaries, benefits, and debt service costs related to the Yauger Park Stormwater Improvements project.

In addition, as part of the 2013 budget, staff is recommending that half of the costs of the street sweeping program be borne by the Storm and Surface Water Utility, given the benefits to surface water quality. The other half will continue to be borne by the City's Transportation Program (General Fund). This shared funding approach is quite common in many communities. The UAC supports this approach and requests that staff develop a method to evaluate the effectiveness of the sweeper for improving water quality to ensure the utility gets the benefit that it is paying for from this service.

Waste ReSources

No Increase Proposed for 2013

The Waste ReSources Utility is comprised of four separate service classes: Drop Box, Residential, Commercial and Organics. The operating budget has been developed based on the policy direction set in *Towards Zero Waste: Olympia's Waste ReSources Plan 2008-2013*.

Key drivers for the 2013 rates include salaries, benefits, and higher fleet costs. In addition, recycling commodity values have declined while processing costs have increased, resulting in a \$35,000 budget increase to cover the costs of the recycling program.

Based on projected 2013 revenue and expenses, staff projects a deficit of approximately \$400,000 in the current 2013 budget across the residential, commercial and organics programs combined. Staff estimates a balance of approximately \$1,000,000 above reserves that can be used to fully cover these costs in 2013, while leaving a balance to "smooth" rate increases in the future. As a result, no rate increase is needed for the Waste ReSources Utility in 2013.

General Facility Charges (GFCs)

The UAC concurs with staff recommendation for a 3.9 percent inflationary increase in the GFCs for each utility listed below. This proposed increase is based on evaluation of the *Engineering News Record* and Seattle Construction Cost Index. As staff discussed, the GFCs will be more broadly reviewed and updated in the next two years and we will shift the GFC planning timeframe to 20 years.

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City of Olympia - General Facility Charges	2013	2012
Drinking Water	\$3,209	\$3,089
Wastewater	\$3,198	\$3,078
Storm and Surface Water	\$999	\$962

Utility Bill - Pricing and Tax Information

The UAC strongly recommends that the City pursue ways to list state and local tax rates and charges as well as City utility price information on the utility bill. A general message about tax rates on the bill will result in a more transparent communication of charges. The City is planning on updating utility billing software within the next two years, and the UAC will be involved in that process.

Thank you again for the opportunity to comment. Please let me or Barbara Day, UAC Vice-chair, know if you have any questions.

Sincerely,



THAD CURTZ

Chair

Utility Advisory Committee

TC/lmm

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ec: UAC Members
 Steven R. Hall, City Manager
 Rich Hoey, P.E., Director of Public Works
 Dan Daniels, Director of Waste ReSources