



October 22, 2024

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

Dear Mayor Payne and Council Members:

SUBJECT: UAC Recommendations for 2025 Utility Rates, GFCs and 2025-2030 CFP

At our most recent meeting on October 3, 2024, the City’s Utility Advisory Committee (UAC) received a final briefing and discussed with Utilities staff the proposed 2025 City of Olympia Utility Rates, Operating Budgets, General Facility Charges (GFCs) and the 2025-2030 Capital Facilities Plan (CFP). The committee voted unanimously to approve and recommend to City Council the proposed changes in utility rates, GFC charges and Capital Facilities Plan updates, which are outlined below.

While reviewing utility rates and GFCs, the UAC continues to consider the potential impacts changes in rates may have on community members now and into the future. This includes City policies, regulatory requirements, changes in revenue and, in some instances changes in costs that are beyond a particular utility’s control. The UAC also considers analyses regarding the financial value of the existing utility infrastructure and the benefits of that infrastructure to a new development. The GFC charges imposed at the time of initial development to buy into the system are then dedicated back to the capital budget. With that in mind, the UAC supported the program to provide a 50% GFC discount for projects meeting low-income housing criteria that was implemented in 2024, to reduce costs to construct new affordable housing units. Staff shared a list of current and future affordable housing projects that will benefit from the discount program. Recommended 2025 rates also include generation of revenue to support required offsite drinking water and wastewater utility infrastructure necessary to provide utility service to new affordable housing developments.

Summary of Proposed Rates and GFCs

For budgetary purposes, the Waste ReSources utility assumes a growth in accounts for 2025 of 1% revenue. Drinking Water utility assumes a growth of 1.5% of revenue. Wastewater Utility assumes 0.5% growth. The Storm and Surface Water utility is not assuming any new revenue growth this year.

Ongoing growth-related revenue increases help to offset rate changes. The proposed rates are expected to cover 2025 expenditures, including a staff cost-of-living adjustment and critical needs related enhancements. The UAC though continues to have concerns about the utilities funding historically general funded programs.

The UAC recommends to City Council the following utility rate increases for 2025:

- Waste ReSources 7.6%
- Drinking Water 3.9%
- Wastewater 5.3%
- Storm and Surface Water 5.2%
- LOTT 3.0% (Approved by LOTT Board)

The City's total utility rate increase includes LOTT (Lacey, Olympia, Tumwater, and Thurston Clean Water Alliance) charges as well. Their Rates and Capacity Development Charges (CDC) for 2025, include increases of 3.0% and 5.0% respectively. 2% of LOTTs 2025 CDC increase is related to offsetting revenue lost in supporting the affordable housing CDC discount of 50%. The proposed City and LOTT rates increase Olympia residents combined weighted utility rate 4.72% for 2025. For a typical single-family residence, this is \$14.52/bi-monthly increase over the 2024 typical household bill.

In consideration of the proposed increase, Utility staff also reviewed the potential impact on low-income households. Staff noted that a typical residential bill based on the proposed rates meets both a traditional median income-based metric; EPA guidelines suggest 2% of median income for drinking water and 4-4.5% for both drinking and sewer (City and LOTT charges), and those intended to assess burden on low-income households to pay for water related utilities (e.g. cost in hours of minimum wage work). The City's 2025 proposed typical residential water-related utility rates are within this affordability guidance.

Waste ReSources

Utility Rate: 7.6% increase

The UAC was briefed of the transition of the Clean Team Program into the Solid Waste Utility. The 2025 operating budget includes increased expenses related to salaries and benefits, and approximately \$900,000 to transition the Clean Team and associated Utility reorganization. A reduction of \$453,000 in capital facility funds to support the Carpenter Road facility project will be used to offset a portion of the added Clean Team expense. This reduction should not significantly impact progress on the project in 2025. With increases in operating expenses, the current budget is out of balance by 5.47% or \$919,642. In order to balance the Operating Budget in 2025, a reduction in capital funds plus a 7.6% rate increase is proposed.

Drinking Water

Utility Rate: 3.9% 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 drinking water supplies for our community while protecting the environment. The Drinking Water utility anticipates total expenses to be \$526,268 greater than current revenue projected in 2025 before a rate adjustment. The 3.9% rate increase reflects fixed increases in salaries, benefits, and liability insurance, increasing funding for transportation staff to repair and maintain roadway infrastructure related to the operation of the water system, and moving 0.5 FTE into the utility from Storm and Surface Water to better support Pump Stations Operations. The drinking water rate includes a 0.5% increase to generate funding for a pilot program to support required offsite drinking water main extensions for new affordable housing construction. The Drinking Water utility continues operating funds to capital transfers in accordance with the Water System Plan financial recommendations in 2025.

GFC Rate: \$255 increase per single family residence

The UAC supports increasing the Drinking Water GFC in 2025 by \$255 to \$5,287 per single family home. For budget review purposes, a 2022 financial analysis performed for the Water System Plan justified increasing the Drinking Water GFC to \$5,639 per typical single-family home. A phased approach to reaching this GFC recommendation is being implemented (third year of a 4-year phase in).

Wastewater

Utility Rate: 5.3% increase

The Wastewater utility is responsible for safe conveyance of sewage from homes and business to the LOTT treatment facility in downtown Olympia. In 2025 the utility anticipates total expenses to increase by \$424,526 above projected revenue before any rate adjustment. This includes increases in salaries, benefits, liability insurance, and moving an existing 0.5 FTE into the utility from Storm and Surface Water to better support engineering needs. The Wastewater rate includes a 1% increase to generate funding for a pilot program to support required offsite sewer extensions for new affordable housing construction.

GFC Rate: \$87 increase per single family residence

The UAC supports increasing the Wastewater GFC in 2025 by \$87 that brings this up to \$4,425 per equivalent residential unit. For budget review purposes, a financial analysis performed for the Wastewater Management Plan in 2019 justified increasing the Wastewater GFC to \$4,999. This nominal increase in 2025 is proposed as the utility is planning a financial study in the next year to better understand existing capital financial needs and anticipates updating GFC recommendations for 2026.

Storm and Surface Water

Utility Rate: 5.2% 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 exceed projected revenue by \$392,539. Similar to the other utilities, this reflects fixed increases in salaries, benefits, liability insurance and city hall rent. The transfer of 1.0 FTE (Maintenance Worker II) and associated equipment from the Public Works, Transportation Streets section to perform roadside and ditch vegetation management, transitioning to 100% utility funding for the street sweeping program, moving 1.0 FTE out of the utility to other work groups (0.5 FTE to Wastewater Engineering and Planning and 0.5 FTE to Drinking Water Pump Stations) and enhancements below are included.

The UAC supports two staff enhancements. The first will make a term-limited 1.0 FTE Maintenance Worker II permanent to continue a grant funded position that operates the Utility's second street sweeper focused on water quality. The rate-funded cost of \$50,655 in 2025 covers the second half of the year to supplement grant funding the first 6-months. The second enhancement creates a permanent 1.0 FTE Maintenance Worker I in Vegetation Habitat Operations by reducing seasonal labor expenses. This position supports the utility's capacity to manage vegetation that impacts Utility operations and city services.

GFC Rate: \$41 increase per single family residence

The UAC supports increasing the Storm and Surface Water GFC in 2025 to \$1,953 per equivalent residential unit and \$13.83 per vehicle trip for a total increase of \$41, assuming 10 trips generated. For budget review purposes, a financial analysis performed for the Storm and Surface Water Plan in 2016 justified increasing the Stormwater GFC to \$2,383 per equivalent residential unit and \$19.04 per vehicle trip. The nominal increase in 2025 is proposed as the Utility is planning a financial study in the next year to better understand existing capital financial needs and anticipates updating GFC recommendations for 2026.

Capital Facilities Plan (CFP) 2025-2030

On September 5, 2024, staff presented the proposed preliminary 2025-2030 CFP to the UAC. The UAC unanimously approved the CFP on October 3rd. We found 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, as it applies to City Utilities, anticipates that current projects can be funded with estimated revenues. However, as mentioned earlier in this letter, we are aware of the capital project funding challenges faced by all four utilities and have concerns with capital projects being deferred.

In closing, thank you for the opportunity to provide our recommendations. The UAC believes the proposed 2025 Utility rate increases, and GFCs, strike a reasonable balance between current economic conditions, supporting utility services for the community and efforts to encourage and improve low-income housing options. It also reflects increases in costs for staffing, benefits and overhead costs, many of which are beyond the Utilities control.

The UAC would also like to acknowledge and expresses our appreciation to the Utilities staff for their expertise and responsiveness to our questions and concerns throughout the budget review cycle. We feel staff continues to work hard to maintain and use resources wisely, to minimize customer costs and to improve efficiencies not only of their respective Utility divisions but for the entire Public Works Department.

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

Sincerely,

Kristin Lamson

KRISTIN LAMSON

Chair

Utility Advisory Committee

KL/lw

ec: UAC Members
Shawn Ward, Interim Finance Director
Mark Russell, Public Works Director
Jesse Barham, Water Resources Director
Gary Franks, Waste ReSources Director
Mike Vessey, Drinking Water Utility Director
Susan Clark, Water Resources Engineering and Planning Manager
Olympia Planning Commission