



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

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