

# 2020 Budget Overview

<b>Department:</b>	<b>Line of Business/Program:</b>
Water Resources	Wastewater
<b>Funds 402-8404 and 402-8431</b>	

	2019	2020	Change (\$ or %)
<b>Revenue</b>	\$7,062,477*	\$7,402,913	\$340,436
<b>Expenses</b>	\$7,195,051**	\$7,203,914***	\$207,862
Operations	\$1,478,298	\$1,428,983	\$(49,315)
Pump Stations	\$993,213	\$971,705	\$(21,508)
Engineering & Planning	\$500,820	\$333,400	\$(167,420)****
Administration	\$2,873,186	\$3,122,416	\$249,230****
Debt Service	\$605,693	\$603,569	\$(1,896)
CIP	\$741,301	\$741,301	\$-
<b>FTE Staffing</b>	13.885	15.135	1.25

\*Projected revenue. Actual revenue was \$469,929 greater than projected in 2018.

\*\* The disparity between 2019 projected revenues and expenditures has not been accounted for.

\*\*\* Does not include COLA and enhancements

\*\*\*\* Note Engineering and Data Services moved from Engineering and Planning to Administration

## What are your primary budget drivers?

- The Wastewater Utility remains financial stable with few programmatic changes. Much of our work is proactive in nature. The major infrastructure expansion and retrofitting of past years is complete.
- Although revenue continues to grow, actual revenue has been more than 2% less than projected over the past three years. It requires further investigation, but this appears to be a result of overestimating LOTT pass through funding by approximately 7%. Utility programs and discretionary expenditures will remain essentially unchanged in 2019. Direct inflationary costs are modest with manageable increases in some in-house costs (i.e., rents, vehicles).
- Key in-house expenses include:
  - Staff salary and benefit adjustments (\$69,000, 1.0% rate implication).
  - Modest in-house (rent, fleet, services, etc.) increases (\$83,500, 1.2% rate implication).
- Additional potential cost increases associated with higher expenses include:
  - Projected 3% COLA for staff (\$57,000, 0.7% rate implication).
  - No additional municipal utility tax increase is anticipated. However, LOTT's 3% rate increase will cost an additional \$43,000 in utility taxes (not factored in calculations).
  - No increase in Lifeline customer assistance is anticipated.
- New funding requests include:
  - The greatest budget driver in Wastewater is a shift of 1.25 FTE from the Storm and Surface Water Utility to the Wastewater complement. This enhancement corrects an inequity in funding. Construction crews are shared between the Wastewater and Storm and Surface Water utilities. The construction workload distribution is nearly equal between the utilities. This request will split funding evenly so each utility funds 2.5 MWII FTEs and 1.0 MWI FTE.
- LOTT pass-through charges to our customers will increase by 3% in 2019 (\$410,000). LOTT's 2020 rate hike was approved by the LOTT Board in 2018.
- Debt service remains essentially unchanged for 2020 and probably for out years as well.
- The anticipated 1.0% growth in accounts and revenue helps offset increasing expenditures

especially since core service costs have remained modest. Looking at revenues for the past three years, without a rate increase, revenues are expected to be \$7,172,000, close to proposed 2020 expenditures.

### What is new or different about your budget? (Narrative - Budget Overview)

- As discussed above, the greatest budget driver in Wastewater is a shift of 1.25 FTE from the Storm and Surface Water Utility to the Wastewater complement.
- Converting onsite septic systems to municipal sewer, a primary goal of the utility, picked up substantially in 2018 and continues in 2019. LOTT's connection charge rebate has had significant impacts on the number of conversions. Importantly, the City's Neighborhood Sewer Extension Program prioritizes areas of the City known for water quality problems.
- The additional costs contributing to the proposed rate increase include:
  - As described above, new funding is needed to shift 1.25 FTE (\$114,000, 1.6% rate implication).
  - The locked 3% LOTT rate increase will cost the utility \$43,000 (0.6% rate implication).
  - Modest in-house (rent, fleet, services, etc.) increases (\$83,500, 1.2% rate implication).
  - Projected 3% COLA for staff (\$47,000, 0.7% rate implication).
  - An \$18,422 (0.12% rate implication) increase is proposed to fund the Cityworks software license.
  - A \$12,500 (0.08% rate implication) increase is needed in the interfund transfer to support city-wide IS projects.
  - No change to the municipal utility tax rate.
  - No change to the Lifeline customer assistance program.
- To account for the base budget, an additional \$9,000 (0.12% rate implication) is necessary.
- To account for the base budget and enhancements, an additional \$196,500 (2.7% rate implication) is necessary
- To account for the base budget, enhancements and a 3% COLA, an additional \$243,500 (3.4% rate implication) is necessary
- Wastewater revenues (not LOTT) over the past three years have beaten the projections by 1 to 2%. Therefore, along with a 1% account growth, we propose increasing the base revenue projection by \$100,000 (1.4%). This will result in a 2.4% decrease in above-stated rate increases. Therefore, to account for enhancements and a 3% COLA, a rate increase of 1.0% is recommended.
- We are proposing a worst-case 1.0% rate increase for 2019. *Again, LOTT pass through funding requires further investigation to justify this rate increase.* The 1.0% rate increase would show up as approximately \$0.43 on a typical single family residential bimonthly bill (\$0.21 monthly). The typical wastewater charge in 2019 ranges between \$27 and \$43 depending upon drinking water consumption.
- City wastewater rates were not increased in 2019.

### Trends, Challenges, & Opportunities (Narrative – Trends and Challenges)

- We expect the Wastewater Utility to remain stable and predictable in the years to come. Its needs are and will likely stay modest.
- Operations staff are prepared and anxiously await implementation of the Cityworks software.
- Wastewater GFC revenue (not factored in the operating budget) has increased noticeably in the past 3 years (likely as a result of emphasis on apartment construction) and provides helpful funding for growth-related capital projects.
- The State legislature recently increased the value for public works projects that City staff can construct from \$65,000 to \$116,155. This will greatly expand our ability to cost-effectively construct small projects. 2020 will be a transition year with potential budgetary implications (additional

seasonal staff) happening in 2021. This may effect some work requests with Engineering and Procurement.

- We will be completing the Wastewater Management Plan in 2019. The plan identifies a few unanticipated pipe capacity projects that will require substantial funding. The cost of these projects are being evaluated by our financial consultant and will be integrated in the 2021-2026 capital facilities plan.

## Revenues and Cost of Service

### Revenue

- Revenue projections assume a 1.0% growth rate in customer accounts and associated revenue (\$72,000). Revenues through July 2019 suggest a 2% growth in revenues in 2019.
- Although revenue continues to grow, actual revenue has been more than 2% less than projected over the past three years. *It requires further investigation, but this appears to be a result of overestimating LOTT pass through funding by approximately 7%.*

### General Facility Charges

- As in 2018, we do not recommend an increase in the Wastewater GFC in 2019.
- The current GFC for a new single family residence is \$3,442. This rate was set in 2016.
- The LOTT CDC is will increase by 3%. The current LOTT charge is \$6,049. The 3% increase will result in an increase of approximately \$181 for a single family home.

### Cost of Service

- The Wastewater Utility is stable and generally predictable. This dynamic is reflected in modest cost of service increases. Nationally, municipal utility rates are increasing roughly 5% per year. Olympia wastewater rates are well below that level.
- Olympia wastewater rates are lower than Lacey, but greater than Tumwater. The funding differential is directly attributable to Olympia's financial support for onsite septic system conversions and proactive infrastructure rehabilitation.

#### Comparative Utility Rates Monthly Bill for a Single-Family Residence (2019)

City	Average Monthly Water Fees *
Lacey	\$22.58
Olympia	\$13.29 to \$21.48
Tumwater	\$19.01

\* All rates include utility taxes.

**Base Budget Changes  
Wastewater Utility (Fund 402)**

	<b>2018</b>	<b>2019</b>	<b>Variance</b>	<b>Variance %</b>
<b>Salaries and Wages</b>	\$ 1,198,966	\$ 1,180,929	\$ (18,037)	-1.50%
<b>Benefits</b>	\$ 472,320	\$ 420,955	\$ (51,365)	-10.88%
<b>Supplies</b>	\$ 350,521	\$ 350,046	\$ (475)	-0.14%
<b>Services</b>	\$ 430,887	\$ 428,287	\$ (2,600)	-0.60%
<b>Intergov Payments</b>	\$ -	\$ -	\$ -	#DIV/0!
<b>Interfund Payments</b>	\$ 1,125,543	\$ 1,209,007	\$ 83,464	7.42%
<b>Debt Service</b>	\$ 605,693	\$ 603,569	\$ (2,124)	-0.35%
<b>CIP</b>	\$ 741,301	\$ 741,301	\$ -	0.00%
<b>Utility Taxes*</b>	\$ 2,269,820	\$ 2,269,820	\$ -	0.00%
<b>Total</b>	\$ 7,195,051	\$ 7,203,914	\$ 8,863	0.12%

\*Utility Taxes Have not been updated