



October 26, 2013

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

Dear Council Members:

SUBJECT: 2014 Utility Rate Recommendations

Thank you for this opportunity to comment on the proposed 2014 utility rates. Over the past few 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 2014 utility rates, which are consistent with the master plans of the respective utilities and the Comprehensive Plan. The overall impact to a typical residential customer for 2014 would be about 4.8 percent or a \$4.91 increase in their bi-monthly bills.

We will review staff recommendations regarding Utility General Facility Charges (GFCs) at our Thursday, November 7 UAC meeting, and forward our recommendations to you after that meeting.

Drinking Water

Seven Percent Increase Proposed for 2014

We concur with staff's recommendation for a revenue requirement increase of 7 percent. 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 2014 rates include debt service on the McAllister Wellfield and Service Meter Replacement Project, the transfer of the costs of providing extra capacity for fire suppression from the General Fund to the Drinking Water Utility (as allowed in recent State legislation), and inflationary increases in salaries and benefits. Where possible, capital projects have been delayed to reduce rate impacts.

Given the large capital projects currently underway, the UAC remains supportive of continuing 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 third and final year of our phased-in increase in the fixed portion of the utility rate to help stabilize utility revenue.

The UAC also supports expanding reclaimed water charges to include engineering fees and rates for indoor use. Since 2005, a rate for reclaimed water has existed only for irrigation (outdoor use); however, certain indoor uses of reclaimed water are now allowed. The proposed engineering fees are the same as for the Drinking Water Utility. The reclaimed water rates would be 70% of those for drinking water.

The City’s Water System Plan will be updated starting next year for the years 2015-2020, therefore the rates for future years are subject to change based upon plan direction.

Wastewater

Four Percent Increase Proposed for 2014

We concur with staff’s recommendation for a revenue requirement increase of 4 percent. Based on projected 2014 revenue and expenses, staff expects the utility to be out of balance by approximately 9 percent of billed revenue. This is primarily due to rate increases that have been deferred over the past two years during the economic recession through the use of cash above reserve. The UAC appreciates the City’s efforts in recent years to avoid rate increases during these challenging economic times. The staff recommends increasing rates by 4 percent and using \$240,000 in fund balance above required reserves to smooth the needed rate increase over two years and avoid a one-time 9 percent rate increase. The UAC supports this rate smoothing approach. We also want to note that the funds above required reserves are dwindling and may not be available to absorb increasing costs this way in future years. The preliminary operating and capital budgets for the Wastewater Utility are in keeping with the recently completed *2013-2018 Wastewater Management Plan*.

Wastewater Treatment Services - LOTT Clean Water Alliance

The LOTT Clean Water Alliance operates a complex system of facilities worth an estimated \$750 million. LOTT’s budgeting and revenue decisions are largely driven by infrastructure costs, including major upgrades to LOTT’s Budd Inlet Treatment Plant that have been underway for the past several years. The infrastructure investment over the 2013-2018 planning period (capital improvements and debt service) represents 67 percent of LOTT’s total projected expenses, with operating costs representing 33 percent.

LOTT staff recommended a \$1.02 per month increase in the LOTT wastewater treatment charges for 2014, raising the charge to \$35.01 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. Recommendations from the UAC on volume-based rates will come forward in 2014 for possible implementation in 2015.

Storm and Surface Water

Two Percent Increase Proposed for 2014

The UAC concurs with staff's recommendation for a two percent increase in this utility, which would be applied across all rate classes. 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. The proposed 2014 budget incorporates various inflationary increases, but no major new initiatives or costs.

Waste ReSources

Variable Increases Proposed for 2014

The UAC concurs with staff's recommendation for a variety of rate increases in this utility. Key drivers for the 2014 rates include tipping fees, salaries, benefits, equipment expenses, and an increase in State and City taxes. In addition, average recycle commodity values for all materials have continued to decline over 91 percent since May of 2011 and are projected to fall short of covering processing fees.

Based on projected 2014 revenue and expenses, staff projects the budget will be out of balance by about 9.4 percent of billed revenue. In effort to continue with the Council goal to smooth out and minimize the rate impact to residential customers, the UAC supports staff recommendations to continue using fund balance above the required 10 percent reserve to avoid higher rate increases. As with the Wastewater Utility, the funds above required reserves are dwindling and may not be available to absorb increasing costs this way in future years. We would also continue subsidizing the Organics Program through commercial rates. Staff recommends increasing rates by the amounts shown below. Actual rate increases will vary by service class.

Following is a summary of the proposed 2014 rate increases:

- Drop Box
 - Delivery/Set-up Fee Temporary Box (15 percent increase)
 - Rental Fee/Maintenance – Repair/Replace (3 percent increase)
 - Haul Fee (3 percent increase)
 - Service Fee (1 percent increase)

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- Residential (8 percent increase)
- Commercial (5 percent increase)
- Organics (6 percent increase)

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, Waste ReSources Director
Andy Haub, Interim Water Resources Director