City of Olympia

Drinking Water, Wastewater, and Storm and Surface Water Utility Rate Studies

June 4, 2026

Purpose of the Meeting

- General overview of the rate setting process
- Development of the technical analyses
- Status update on the studies
- Questions and discussions

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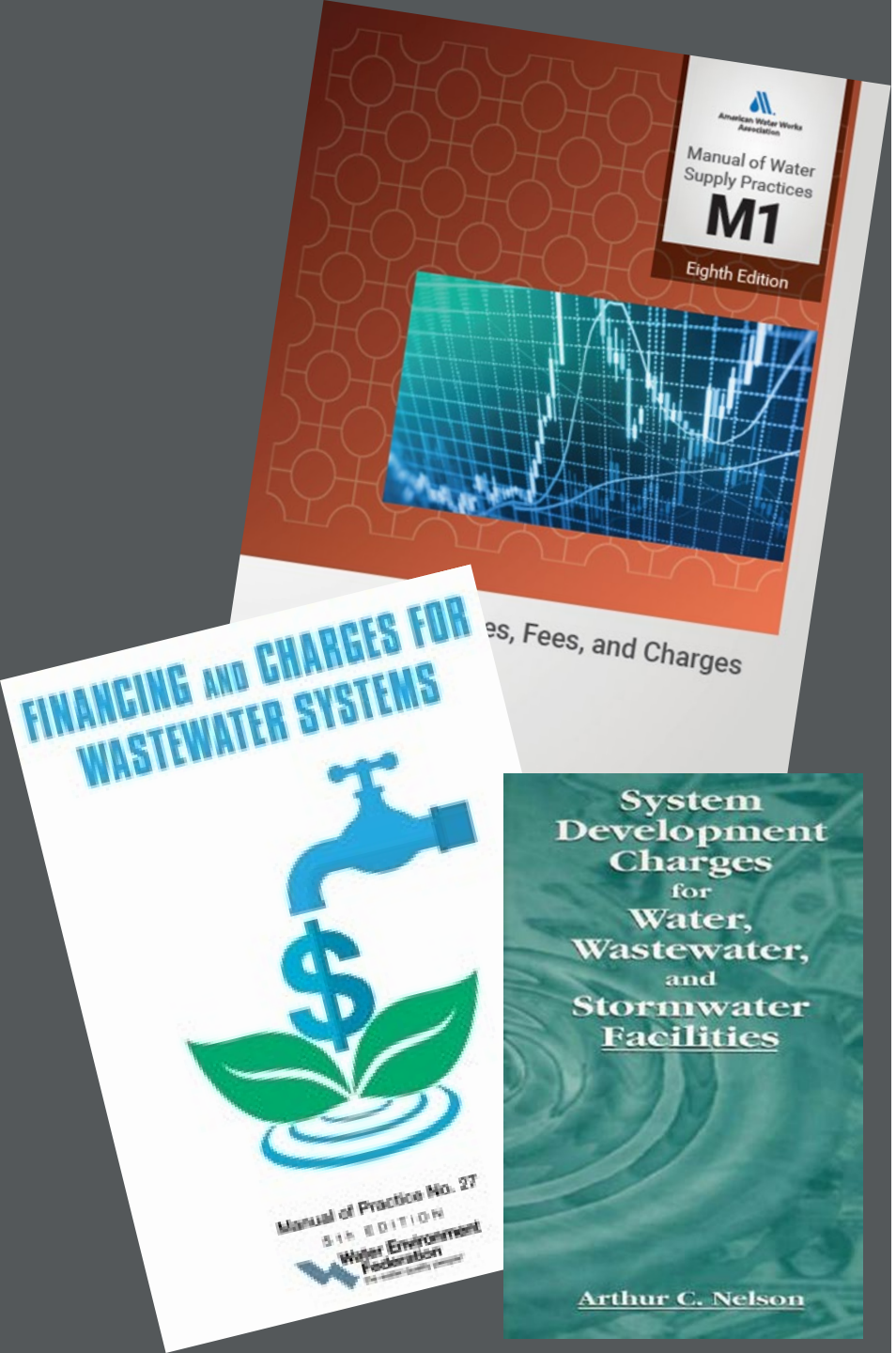
General Overview of the Rate and Fee Setting Process



Purpose of the Rate Study

- Reflect City financial policies
  - Meet target minimum reserve balances
- Develop a projection of revenues to prudently operate and maintain each utility
- Reflect prudent financial planning criteria
  - Prudent funding of annual O&M expenses
  - Adequately fund identified capital improvement and replacement needs
- Develop cost-based and proportional rates and GFCs
- Develop the study using generally accepted methodologies tailored to the City's utility systems and customer characteristics

Rate Study Overview

Revenue Requirement

Compares the revenue of the utility to the expenses to evaluate the level of overall rates

Cost of Service

Proportionally distribute the revenue requirement to the customer classes of service and develop average unit costs

Rate Design

Design rates to meet the revenue needs and cost of service while reflecting the City's rate design goals and objectives

Financial/Rate Setting Policies

Why Establishing Financial Polices is an Important Tool

- Provides management with clear direction
- Provides consistent and logical financial/rate decisions
- Provides future Council/staff with the basis or reasoning behind past decisions (documentation)
- Helps the City's customers to better understand the Council's philosophy
- Provides a strong message to the outside financial community (bond ratings)

Typical Financial/Rate Setting Policies

- Policy on capital improvement funding from rates
- Policy on funding renewal and replacements from rates (existing facilities)
- Policy on minimum target reserve levels
- Policy on target debt service coverage (above covenant requirements)

Role of Financial Polices

- Provides financial framework for decision making
- Maintains financial viability if followed
- Utilize as a capital planning tool
- Use as a strategic planning tool
- Use as a basis to develop and minimize rates

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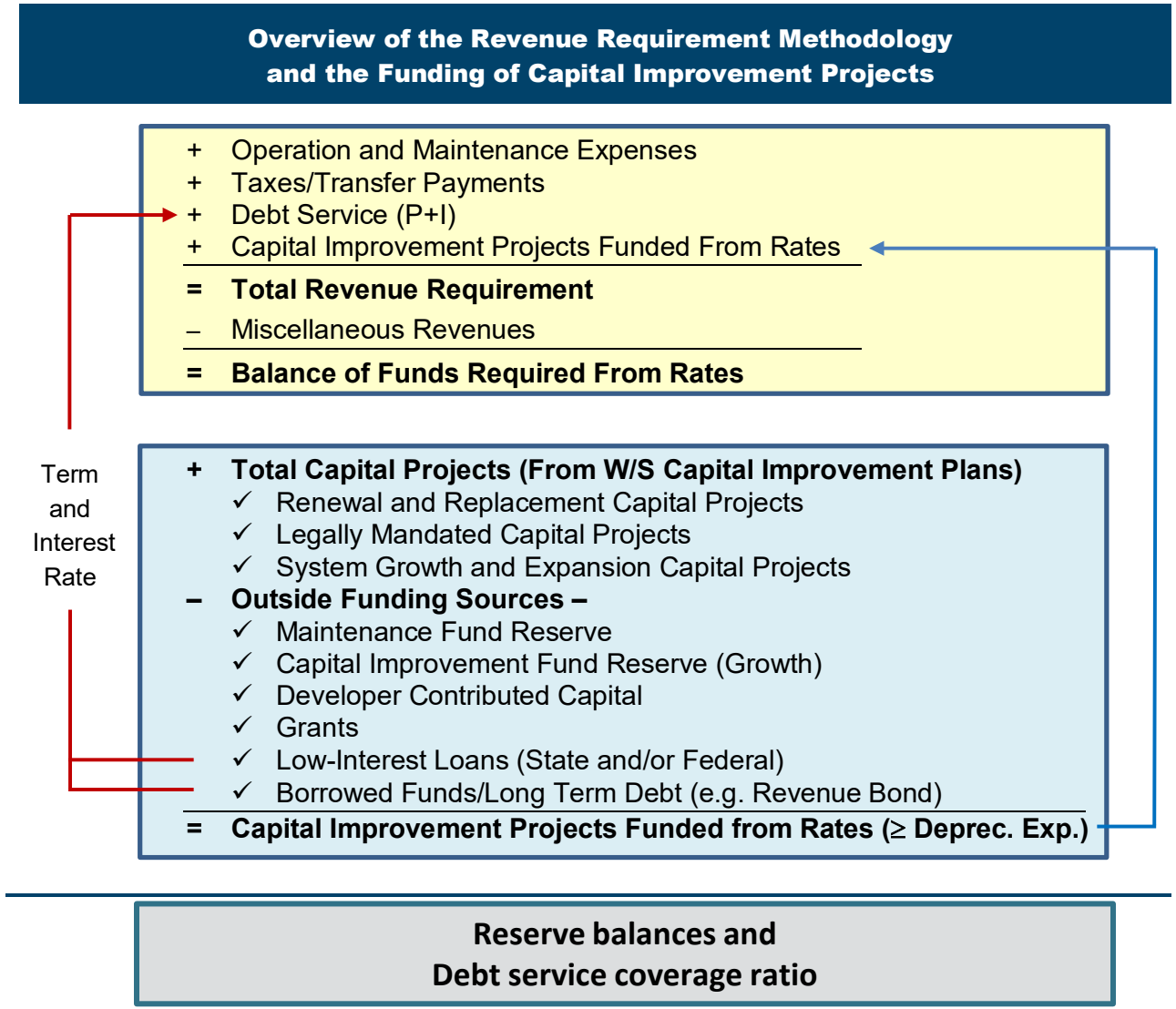
Revenue Requirement Analysis

Revenue Requirement Analysis Overview

Compares utility revenues to expenses	• Determines the level of revenue (rate) adjustment necessary
Uses prudent financial planning criteria	• Adequate funding of renewal and replacement • Maintaining sufficient ending reserve balances
Reviews a specific time period	• 10-year planning period • Typically, 2 – 5-year rate setting period
Utilities analyzed on a "stand-alone basis"	• No transfer of funds from other funds • Rates need to support operations and capital
Utilizes the "cash basis" methodology	• Generally accepted method for municipal utilities

Revenue Requirement
Funding Capital Improvement Projects

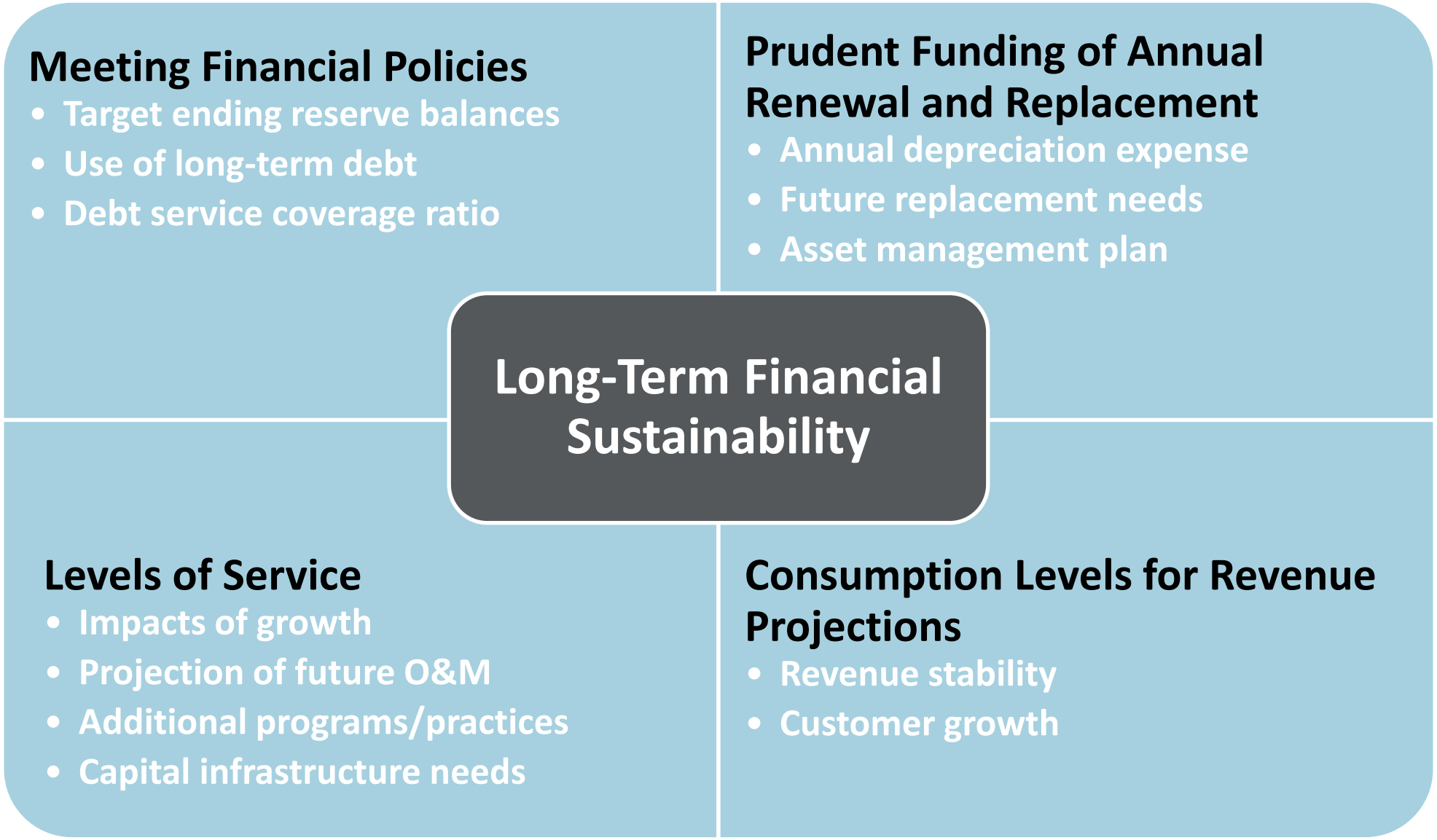


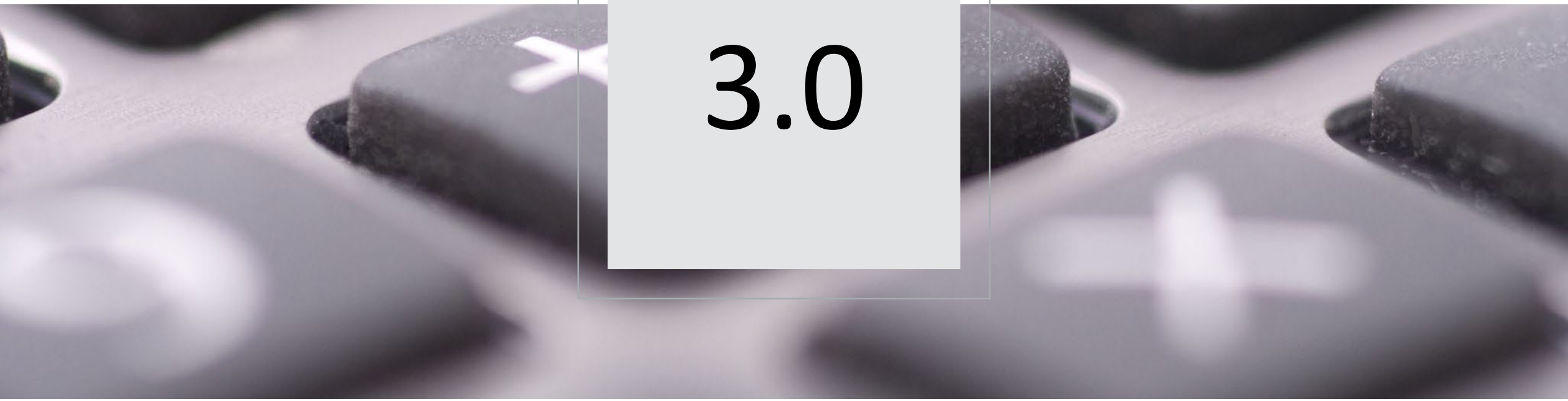
Policy: How rates are set – *"cash basis" revenue requirement*

Policy: How capital projects are funded - *capital project funding analysis*

Policy: How financial impact is communicated - *benchmarking*

Revenue Requirement – Policy Considerations





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Cost of Service Analysis

Cost of Service Analysis Overview

What is Cost of Service?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service

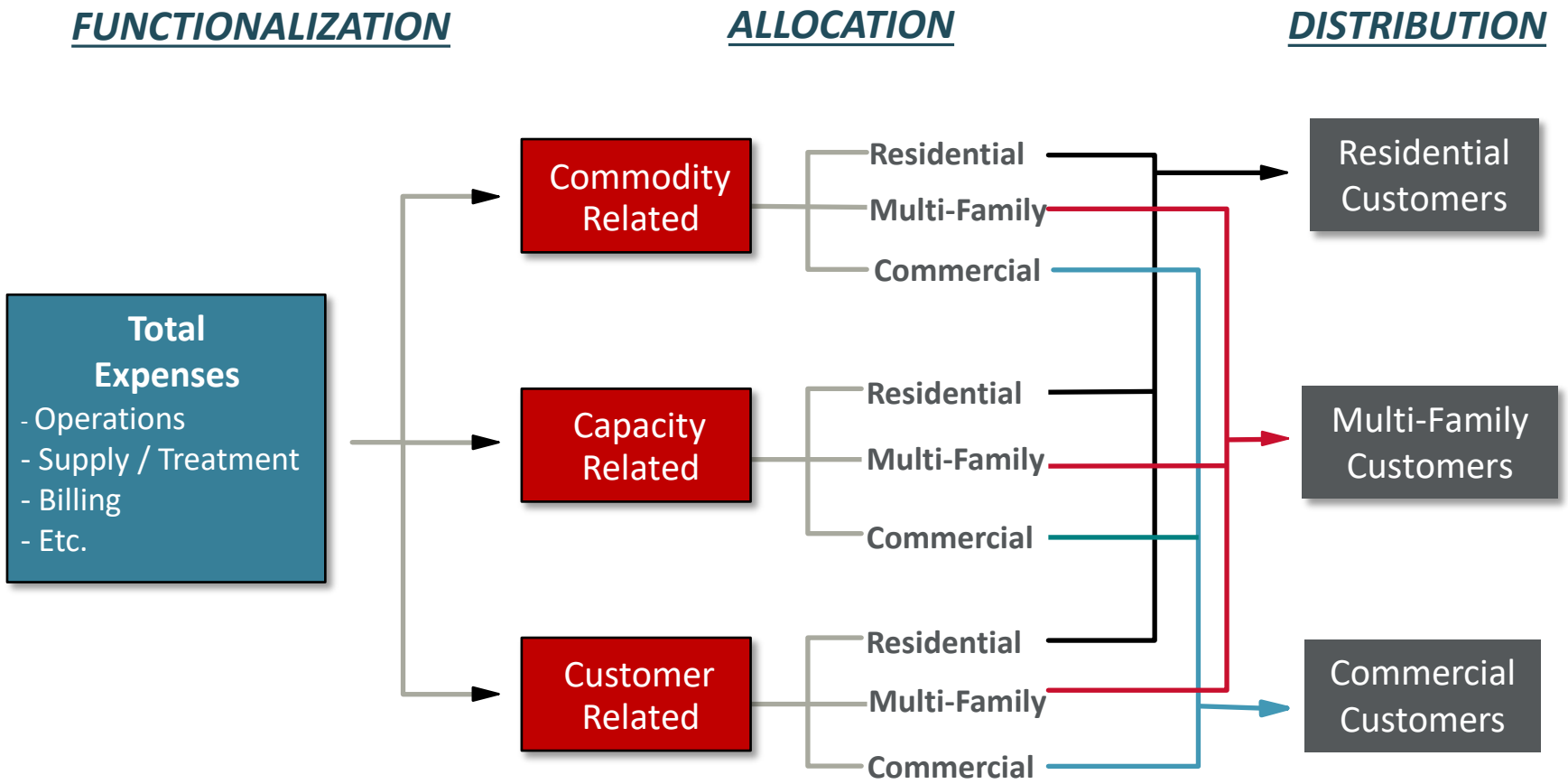
Why Cost of Service?

- Avoids subsidies
- Revenues reflect costs
- Provides an accurate price signal

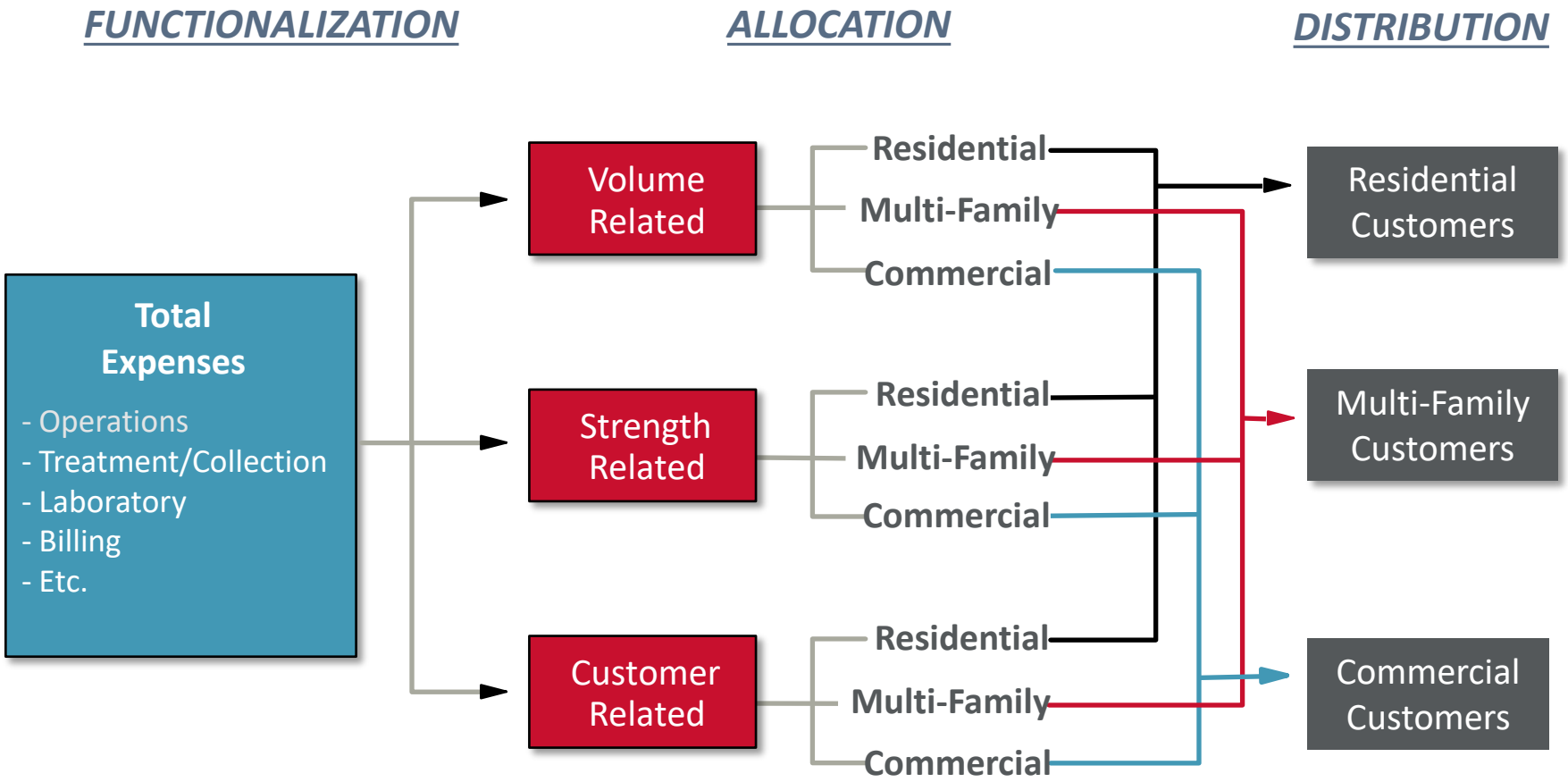
Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

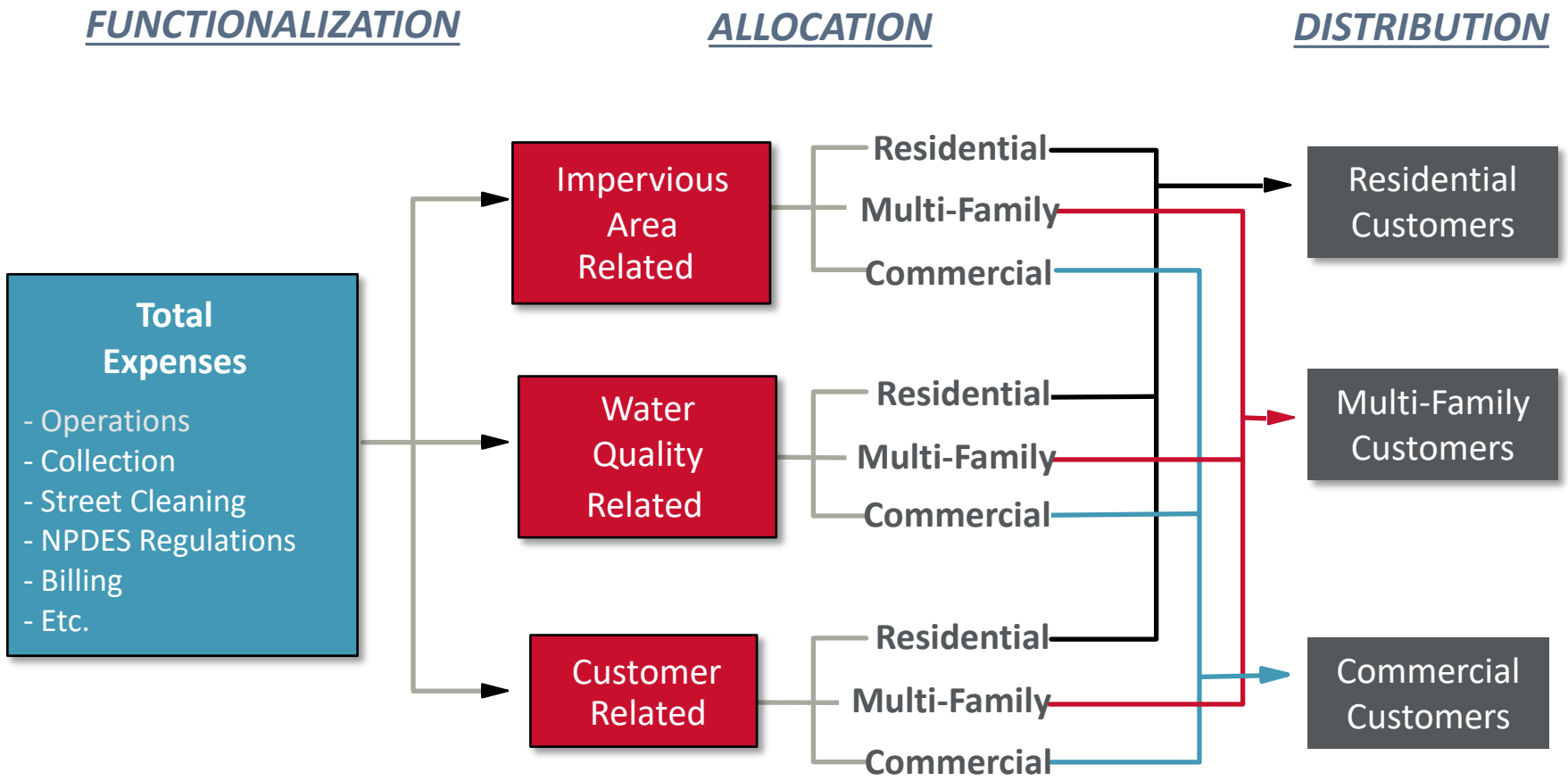
Generic Drinking Water Cost of Service Analysis



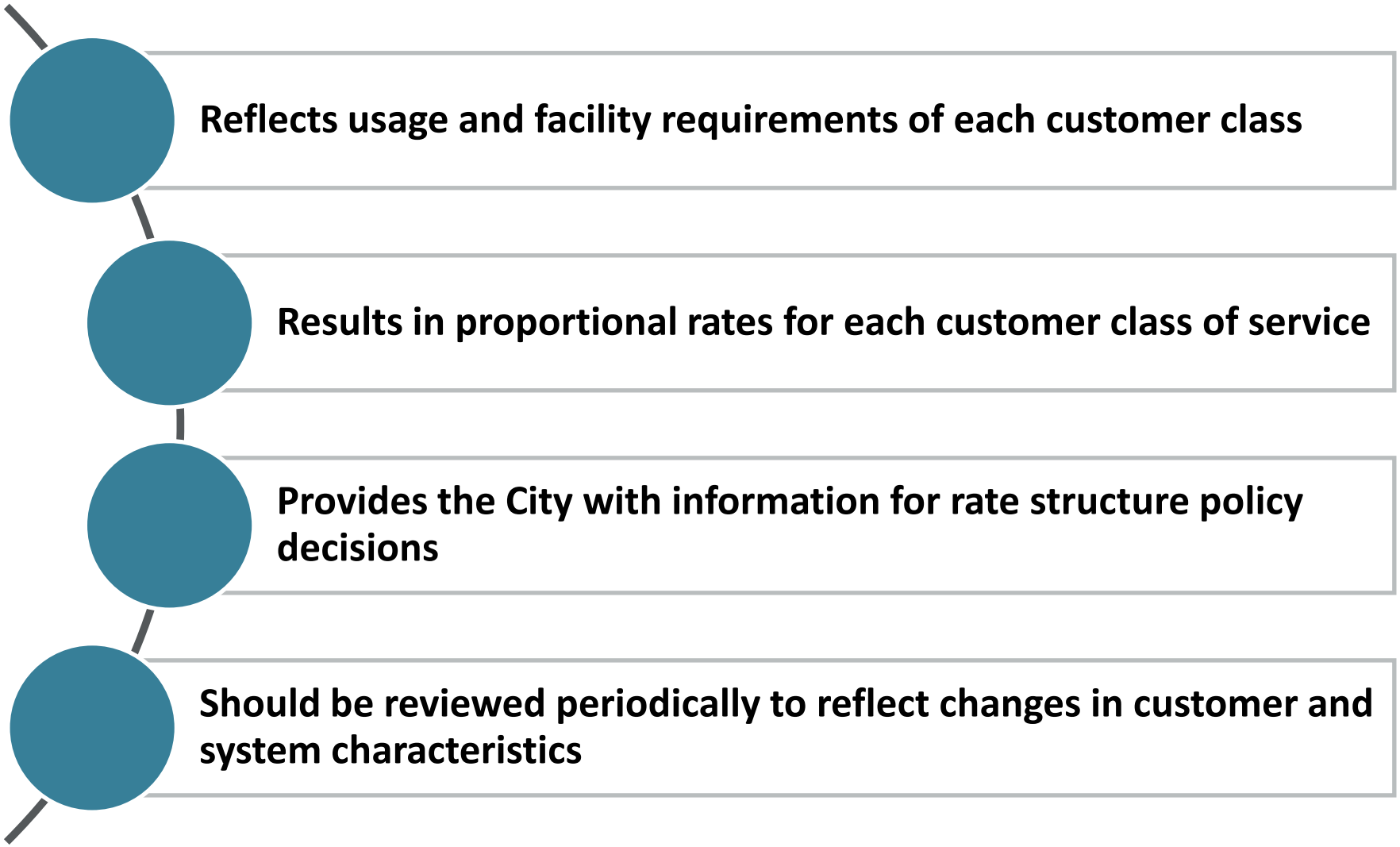
Generic Wastewater Cost of Service Analysis



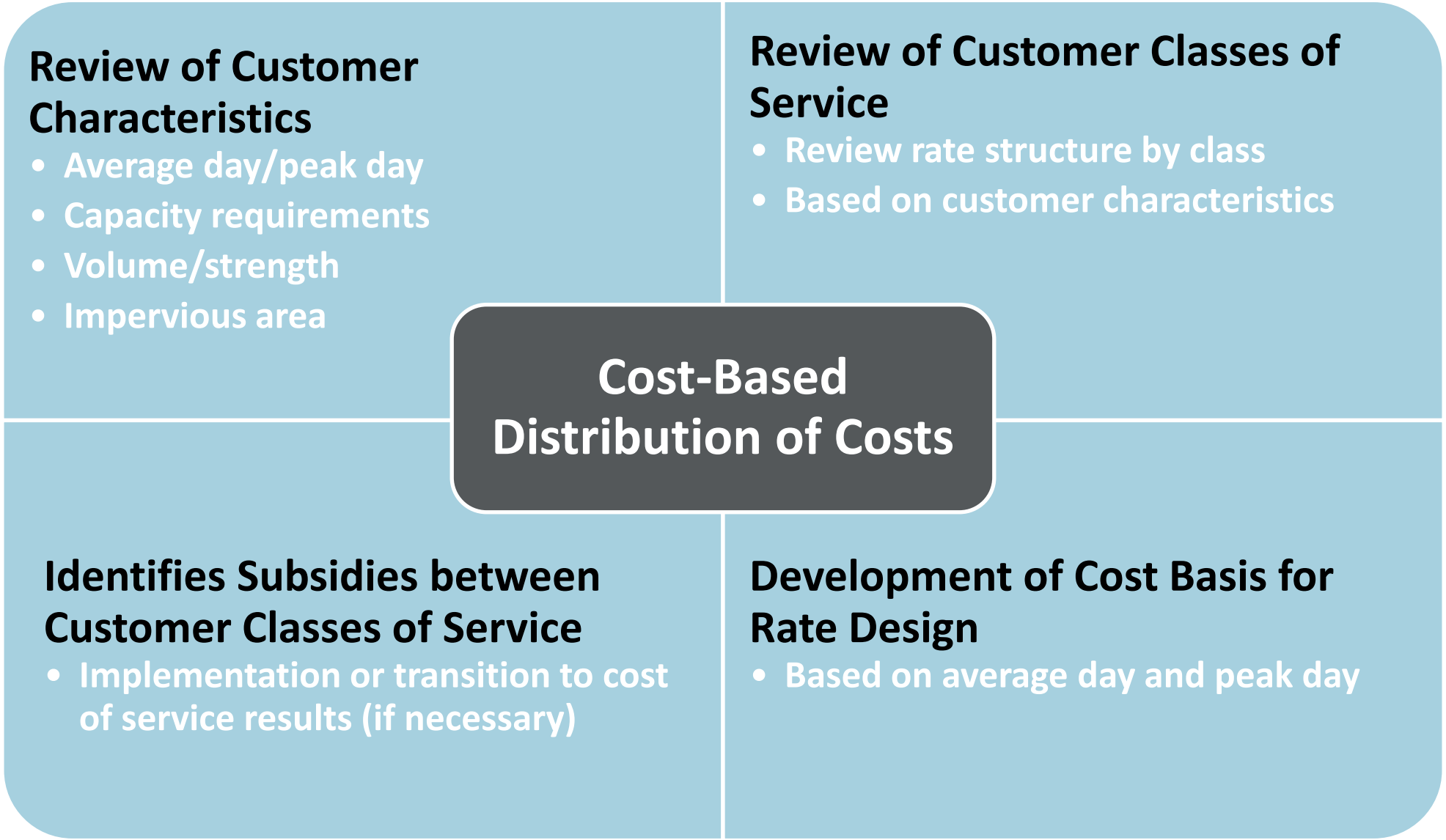
Generic Storm and Surface Water Cost of Service Analysis



Summary of the Cost of Service Analyses

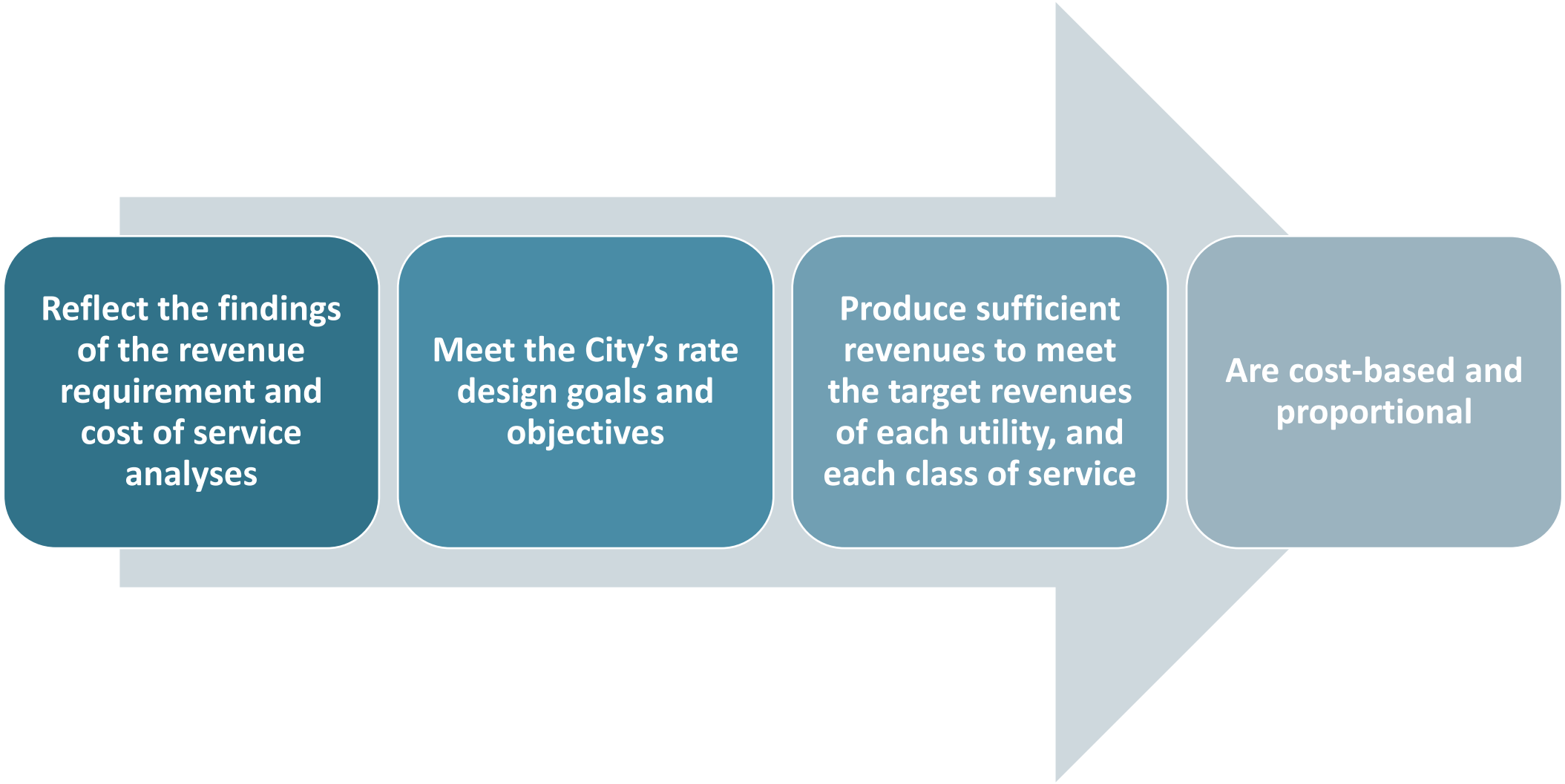


Cost of Service – Policy Considerations



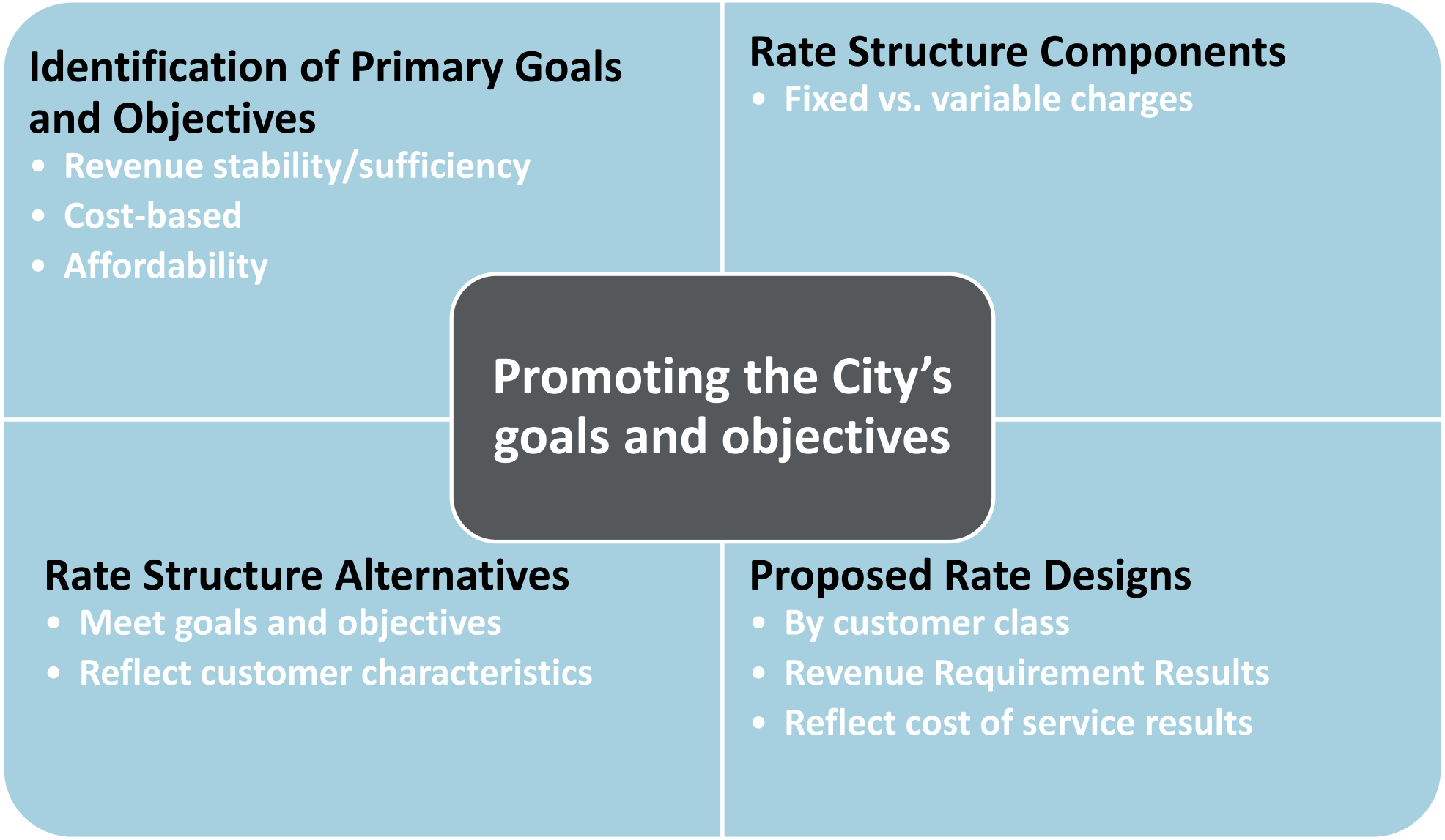
Rate Design Analysis

Rate Design Analysis Overview

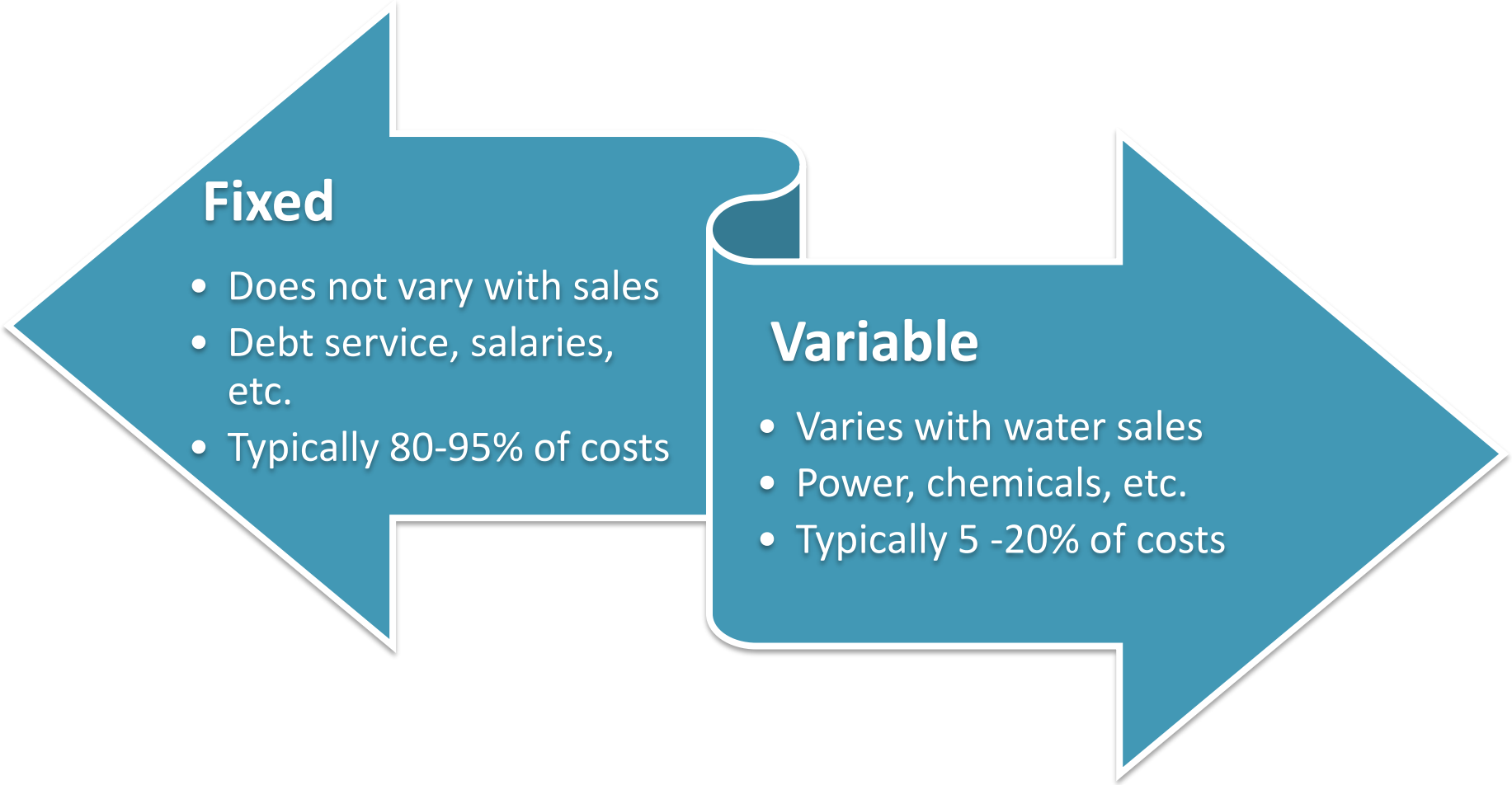


Common Rate Setting Goals and Objectives

Rate Design – Policy Considerations



Utility Cost Structure



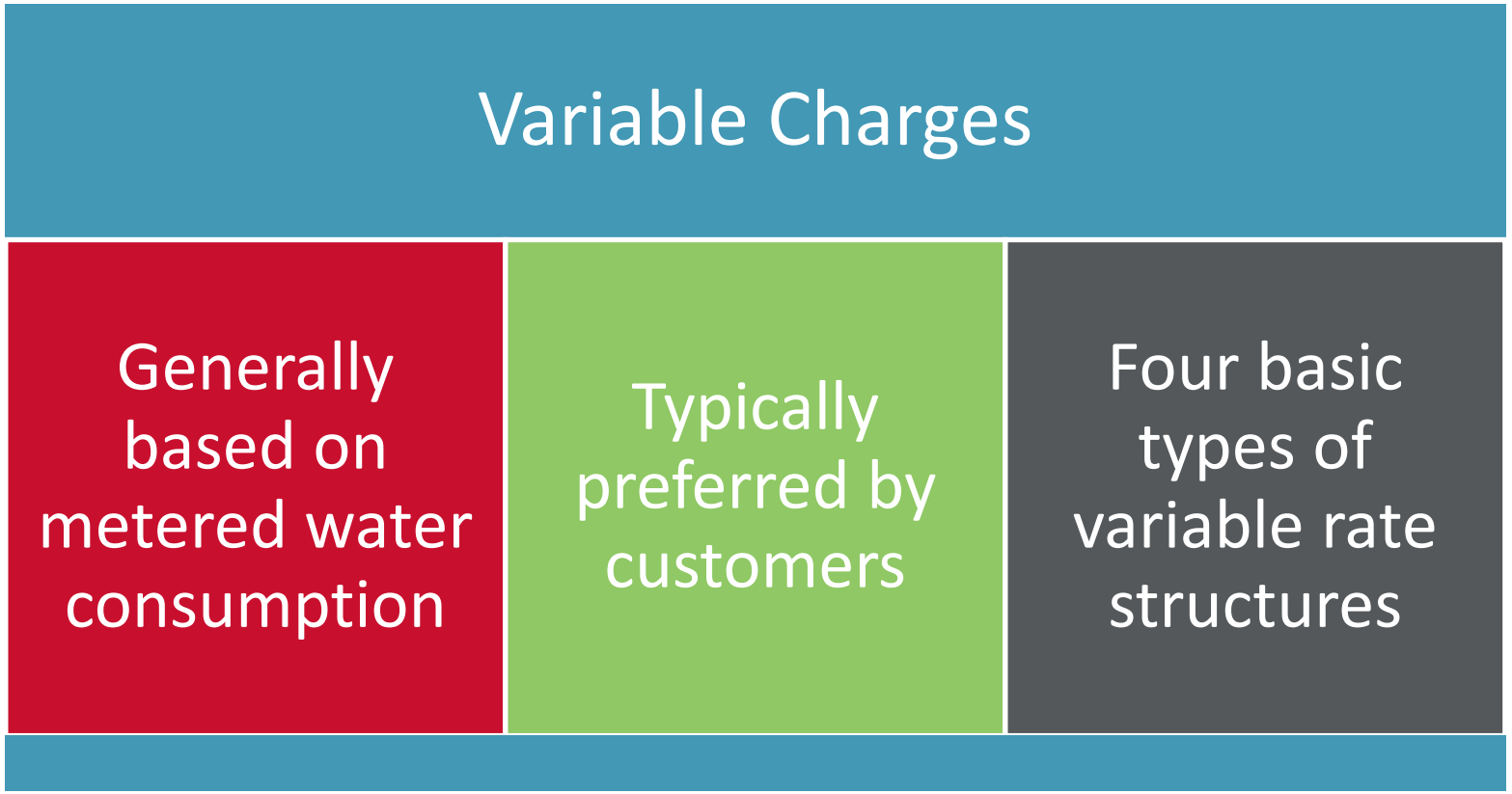
Rate Structure Components – Fixed Charges

Meter Size	Rate Per Month
5/8-inch	$ 18.73
3/4-inch	$ 21.97
1-inch	$ 28.46
1-1/2-inch	$ 44.68
2-inch	$ 64.15
3-inch	$ 109.57
4-inch	$ 174.46
6-inch	$ 336.67
8-inch	$ 531.34
10-inch	$ 758.44

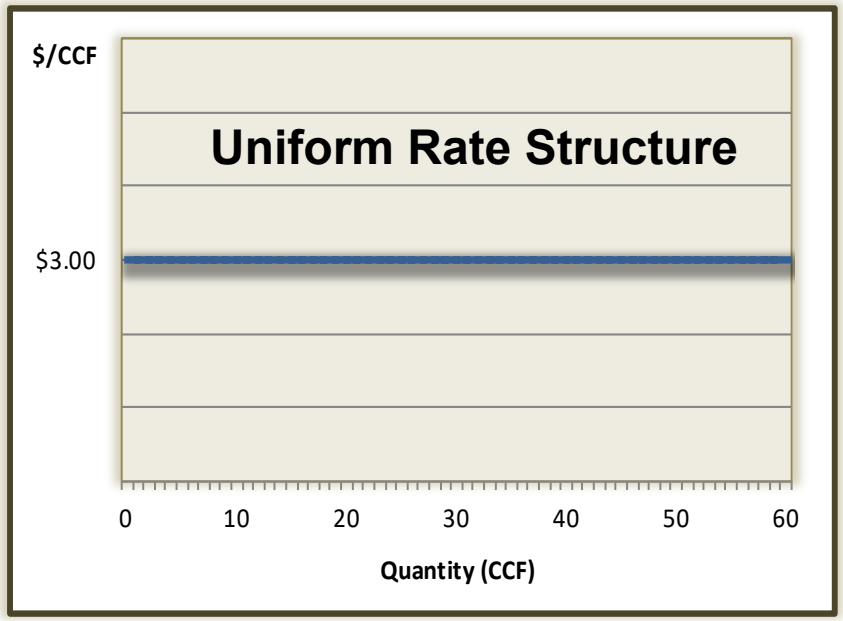
Fixed Charges

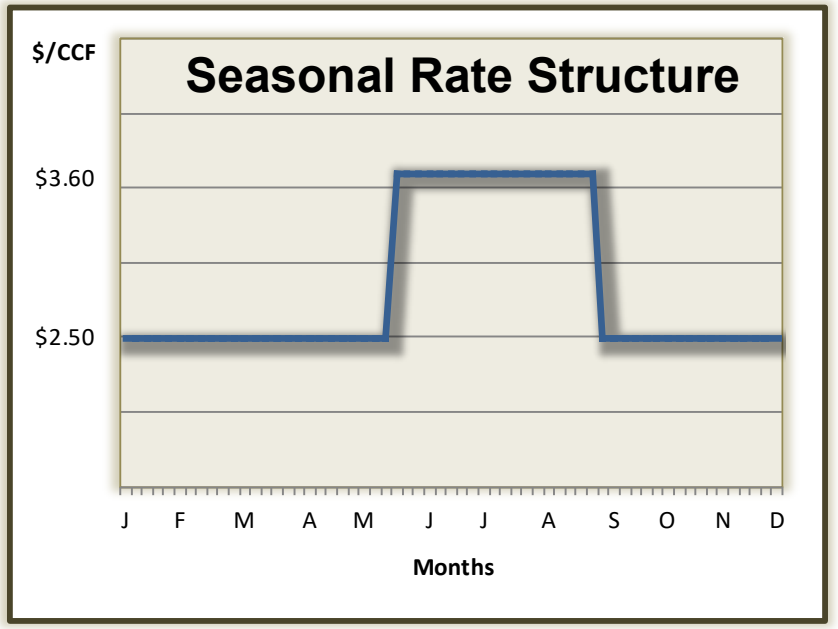
- Various names; meter charge, customer charge, minimum charge, etc.
- Promotes revenue stability
- Recovers customer related costs, plus other “fixed” costs of the system

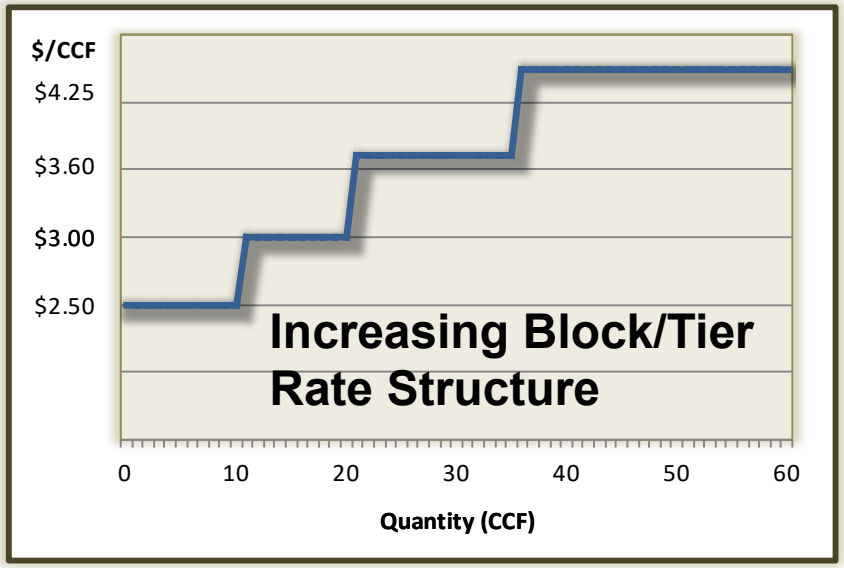
Rate Structure Components – Variable Charges

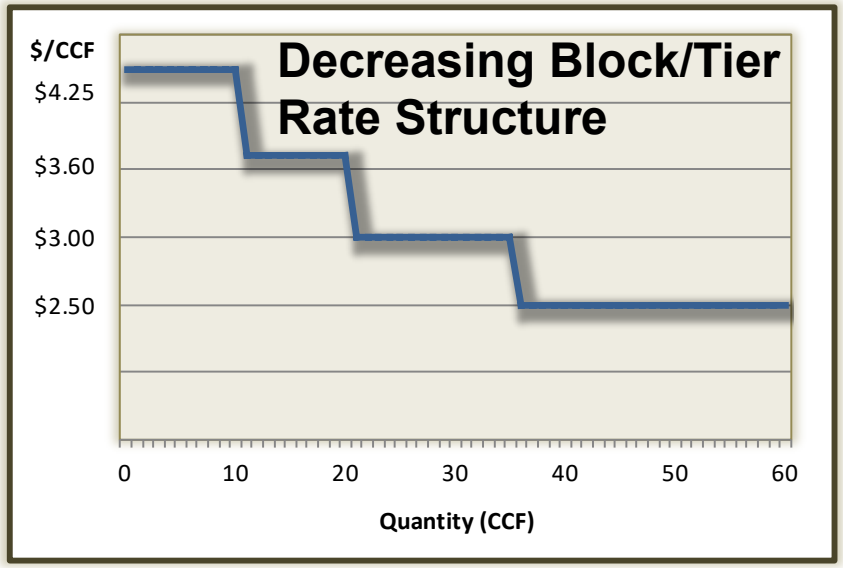


Variable Rate Structures – The Four Types









Current Rates – Drinking Water

Water Ready-to-Serve Fee

	Rate	Bill Cycle
3/4”	$32.76	*Bi-Monthly*
1” (Fire Sprinkler)	32.76	*Bi-Monthly*
1”	43.62	*Bi-Monthly*
1 ½”	70.74	*Bi-Monthly*
2”	103.18	*Bi-Monthly*
3”	189.82	*Bi-Monthly*
4”	287.46	*Bi-Monthly*
6”	558.34	*Bi-Monthly*
8”	883.50	*Bi-Monthly*
10”	1,262.76	*Bi-Monthly*
12”	1,642.08	*Bi-Monthly*

Water Consumption Charge

	Tier	$ / 100 CF
Residential		
Block 1	0 – 800 CF	$2.37
Block 2	801 – 1,801 CF	3.99
Block 3	1,801 – 2,800 CF	6.36
Block 4	> 2,801 CF	8.34
Multifamily and Commercial		
Winter (Nov-June)		$3.33
Summer (July-Oct)		4.96
Irrigation		
Winter (Nov-June)		$3.33
Summer (July-Oct)		9.82

Current Rates – Wastewater

Wastewater Fixed Fees

	Base	Bill Cycle
Residential & Duplex		
City Fee – Standard	$58.16	*Bi-Monthly*
City Fee – Discounted	36.00	*Bi-Monthly*
LOTT Fee – Standard	97.90	*Bi-Monthly*
Multifamily		
City Fee	$40.71	*Bi-Monthly*
LOTT Fee	68.53	*Bi-Monthly*
Commercial		
City Fee	$58.16	*Bi-Monthly*
LOTT Fee	97.90	*Bi-Monthly*

Wastewater Consumption Charge – Commercial Only

	Tier	$ / 100 CF
City Fee	> 1,400 CF	$4.15
LOTT Fee	> 1,800 CF	$5.44

Current Rates – Stormwater and Surface Water

Stormwater and Surface Water Fixed Charge

	Base	Bill Cycle
Residential		
Single Family	$41.24	*Bi-Monthly*
Duplex	41.24	*Bi-Monthly*
Non-Residential		
Category 0	$15.94	*Bi-Monthly*
Category 1	20.62	*Bi-Monthly*
Category 2	30.92	*Bi-Monthly*
Category 3	41.24	*Bi-Monthly*

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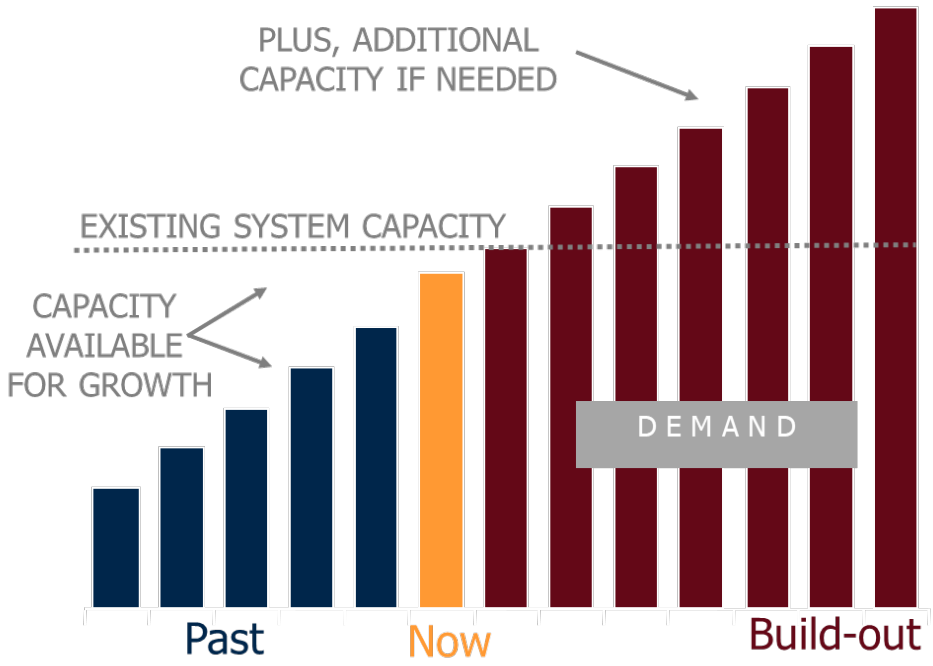
General Facility Charges

Current General Facility Charges

Utility	2026 $ / ERU or ESU
Drinking Water - per ERU	$5,551
Wastewater - per ERU	$4,646
Stormwater and Surface Water - per ESU	$2,051

Overview of General Facility Charges

- Growth pays for growth
  - Minimizes impacts to existing customers from the cost of system expansion for growth
- Reimburses existing customers for the value of capacity
- Maintain proportionality between existing and new customers



Overview of General Facility Charges

Establish the reasonable relationship between system capacity and needs of development and the fee to be imposed

Fee required of all new customers desiring water, sewer or stormwater service or existing customers requesting increased service capacity

Cannot exceed the calculated maximum cost

Based on system planning criteria and cost of existing and future infrastructure

Washington State Title 25, Section 92.025

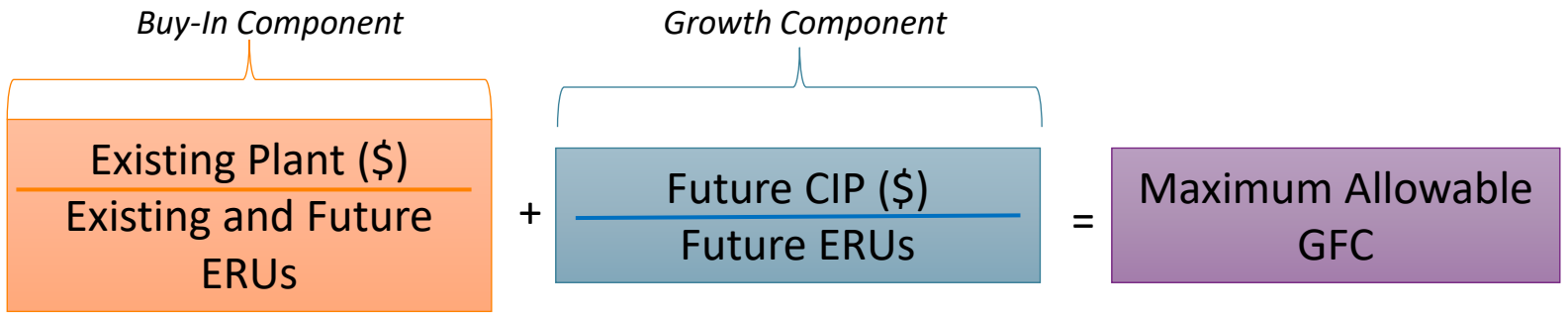
- Charge must be reasonably related to and attributable to the cost of infrastructure and improvements made necessary to serve new development
- Existing system value based on original cost plus maximum of ten year's of interest
- Improvements be the proportional share of the costs

General Facility Charge Calculation

The fee is determined by:

- Washington state law
- Accepted methodologies: AWWA, WEF

Basic Formula:



Utility Rate and GFC Study Status Update

- Study is being developed based on industry standard approaches and each utility's specific systems and customer characteristics
- Preliminary technical analyses are being developed and refined with City staff
  - Working through projections and assumptions to establish initial results for discussions and refinement
- Study assumptions and rate/fee drivers will be discussed with UAC
- Final study recommendations will be presented to Council for consideration and implementation
  - Inform 2027 budget and rates
  - Implementation target for 2028 budget and rates

Questions and Discussion

Rate Structure Terms Defined

Structure vs. Level	Fixed charges	Variable charges	Block/tiered rates	Block/tier thresholds
Rate *structure* is how the customer is charged	Not based on usage (e.g., a meter charge)	Based on metered consumption	A type of variable charge rate *structure*	Level at which different rates apply
Rate *level* is how much revenue is collected	Often varies by meter size	Rate can vary based on consumption	Rate charged varies over levels of consumption	May vary by class and meter size
	May include multiple "fixed" charges	Commonly charged per CCF or kGal	Incentive for conservation or increased usage	Send appropriate price signals for usage level