



October 12, 2015

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

Dear Council Members:

SUBJECT: 2016 Utility Recommendations, Including GFCs and Wastewater Volume-Based Rates

Thank you for the opportunity to comment on the proposed 2016 City of Olympia utility rates and general facility charges (GFCs). The Utility Advisory Committee (UAC) evaluated financial information regarding the City utilities from both a capital and operational perspective. This is a fundamental role of our committee.

The UAC reviewed the rates proposed by staff, 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 responsibilities of our municipal utilities must be provided effectively and without interruption.

The following sections document the UAC's recommendations for the 2016 utility rates GFCs. The recommendations are consistent with Olympia's utility master plans and the Comprehensive Plan.

Summary of Proposed Rates and GFCs

Rates

- Typical residential customer: 4.5% increase
- \$5.03/month, or a \$10.06 increase on bi-monthly bill

This increase includes a 3 percent increase for the LOTT Clean Water Alliance. With implementation of volume-based wastewater rate incorporated into the rate proposal, some customers would see modest decreases in total utility bills while others would see increases above the 4.5 percent average.

GFCs

- Single family home: \$549 increase
- Total 2016 charge for single family home: \$13,904

The UAC supports increasing City GFCs as justified by recent financial evaluations of infrastructure costs. GFCs collect funds from new development in acknowledgement of capital investments made by current residents. Both rates and GFCs for customers other than single family residential (e.g. commercial, multifamily) would increase by the same percentage.

Drinking Water

Rates

- Anticipated revenue shortfall: \$775,000
- 7.3% increase proposed
- Average single family residential account in 2016: \$1.64/month increase

We support staff's recommendation for a rate increase. Each customer class (residential, non-residential, and irrigation) will see the increase, although actual increases on customer bills will vary depending on water usage.

This rate proposal helps implement the *2015-2020 Water System Plan*. The Plan was adopted by City Council on October 6th and is expected to be approved by the State Department of Health this fall. The UAC supports the Plans adoption.

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 volatile and hard to predict due to the effectiveness of our water conservation programs and variable irrigation-related water use. While we seek to minimize future rate increases, the trend of annual cost increases is likely to continue.

Key budget drivers for the anticipated 2016 revenue shortfall include increasing debt service on the McAllister Wellfield and Service Meter Replacement Projects (\$140,000), salary and benefit increases which include a cost of living adjustment (\$111,000), and increasing indirect costs of \$170,000. Funding for new capital facilities is proposed to increase by \$50,000. Additionally, \$25,000 will be used to develop a lease program for managing privately-owned cell phone antennas on City water reservoirs. City and State taxes on the increased rates will be approximately \$125,000.

The shortfall also reflects the loss of revenue from wholesale water sales to the City of Lacey and Thurston PUD. Sales revenue of \$267,000 in 2015 will decrease to zero as the two entities bring new water sources online.

Reclaimed water rates were modified in 2014 and remain appropriate for 2016. Reclaimed water revenues closely follow costs.

The 2015 drought prompted high irrigation-related water use in Olympia. Sustained high water use over the spring and summer will generate unanticipated utility revenue of between \$1 and \$1.5M. The UAC deliberated at length about potential uses for the extra revenue. Members agree that this one-time revenue should be used to support Drinking Water's challenging capital budgets rather than defer the proposed rate increase. The UAC also recommends that 20 percent of this extra revenue be directed toward water conservation programming. With Council's approval, the UAC and staff will develop a strategy for one-time use of \$200,000-\$300,000 for conservation. If a viable strategy is not identified, the funds will be moved to the capital program.

GFCs

- 6.7% increase proposed
- Single family home: \$3,687

We also recommend a 6.7 percent increase in GFCs for drinking water. A greater increase (13 percent) is justified based on current and projected infrastructure investments. However, the UAC recommends “smoothing” the total increase over several years.

Wastewater

Rates

- Anticipated revenue shortfall: minimal
- No increase proposed

We agree with staff’s recommendation for no rate increase in Wastewater. The projected revenue shortfall is modest and can be covered with projected year-end fund balance. Although no rate increase is proposed, implementing volume-based wastewater rates will result in a rate decrease for some customers and an increase for others.

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. 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.

GFCs

- 3% increase proposed
- Single family home: \$3,442

Volume-based Wastewater Rates

The UAC reinforces its support for implementing 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 the three-tier rate structure as presented to City Council on July 21, 2015. As proposed, approximately 17 percent of single family wastewater customers would receive a 35 percent rate reduction. Approximately 70 percent of all customers, including multifamily and commercial, would pay 5 percent more. The other 13 percent of customers would see little or no change. 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 2016. The UAC plays a relatively minor role in LOTT's rate analysis and decisions. However, the UAC continues to be interested in the possibility of volume-based rates for LOTT charges.

An inflationary adjustment in LOTT monthly rates of three percent is proposed for 2016. With the proposed rate increase, LOTT charges would increase \$1.08 per month for a single family residence. The current LOTT charge of \$72.12 bi-monthly for single family residences would increase to \$74.28. Non-single family accounts would increase proportionately.

The LOTT capacity development charge (CDC) is proposed to increase 4.3 percent to \$5,354 for a new single family home.

Storm and Surface Water

Rates

- Anticipated revenue shortfall: \$290,000
- 6.7% rate increase proposed
- Average single family residential account in 2016: \$0.80/month increase

The UAC also supports staff's recommendation for a 6.7 percent increase for the Storm and Surface Water utility. The increase will be applied across all rate classes.

The total Storm and Surface Water budget for 2016 is approximately \$5.2 M. The expected revenue shortfall is \$290,000. Key drivers for the shortfall encompass salaries and benefits including an employee cost-of-living adjustment (\$115,000), indirect costs (\$133,000) and new debt service (\$20,000). City and state taxes are also applied to the new revenue.

The UAC encourages staff to begin updating the current Storm and Surface Water Management Plan in 2016. The update should include a comprehensive financial analysis of the utility. Investigating and implementing incentives for development innovation should be included in the analysis. The UAC anticipates being involved in this evaluation.

GFCs

- Residential: no increase proposed
- Commercial: proposed trip generation component increase to \$4.80/trip

The UAC recommends that the base charge for stormwater GFCs be held at \$1,190 for a new single family home. The base charge was increased ten percent in 2015. Consistent with last year's decision to phase-in increases to the trip-generation component of the GFC, the UAC recommends increasing the component from \$3.15 to \$4.80 per vehicle trip. The trip-generation component of the GFC recognizes the water quality implications of vehicle use. Land uses with high vehicle use (e.g. convenience mart) pay a higher charge than land uses with modest vehicle use such as single family residential.

Waste ReSources

- Anticipated revenue shortfall: \$337,600
- Increases between 3% and 9% proposed, dependent on rate class:
 - Drop Box 3%
 - Residential 5.5%
 - Commercial 4%
 - Organics 9%

The UAC agrees 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 2015-2020*.

Key drivers for the 2016 rates include inflationary increases in disposal/tonnage fees, salaries, benefits, equipment, fuel and taxes. The revenue from recycled materials, which helps offset expenses, is expected to fall short of fees. Growth and annexations drive the need for an additional residential collection truck, as well as converting the current part-time Maintenance Worker I position into a full-time position.

All excess reserves above the ten percent minimum requirements were used to help smooth out rate increases from 2011-2014. The 2015 revenues are projected to cover expenditures in 2015 without the use of any reserve funds. Revenues for 2016 and beyond will need to cover expenditures without the use of any reserve funds.

Based on projected 2016 revenue and expenditures, the Waste ReSources budget would be out of balance by approximately \$337,600. Staff recommends implementing rate increases for all four service classes. Continuing to smooth and subsidize rates for the organics program through commercial rates is recommended as subscriptions continue to grow.

Thank you for the opportunity to comment and provide our recommendations. These proposals will support the important public health mandates of the four City utilities. The proposed utility rates reflect our responsibility to maintain and improve our essential public infrastructure.

Please let me, or Chair Thad Curtz, know if you have any questions.

Sincerely,



MARGARET DRENNAN

Vice Chair

Utility Advisory Committee

MD/lm

cc: UAC Members
Jane Kirkemo, Administrative Services Director
Dan Daniels, Waste ReSources Director
Andy Haub, Water Resources Director