



October 10, 2022

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

Dear Mayor Selby and Council Members:

SUBJECT: UAC Recommendations for 2023 Utility Rates, GFCs and 2023-2028 CFP

The Utility Advisory Committee (UAC) thanks you for the opportunity to provide recommendations on the 2023 City of Olympia Utility Rates, General Facility Charges (GFCs) and the 2023-2028 Capital Facilities Plan (CFP). We understand that this work is a fundamental responsibility of our committee and we continue our support for these important public and environmental health works of the City's four utilities.

The UAC also finds that City staff continues to work hard to maintain and use resources wisely, to minimize customer costs and to improve efficiencies of the Public Works Department. At the same time, we realize that rate increases are required to maintain the level of service the community needs, including regulatory requirements and for changes in costs that are beyond the utilities' control.

In reviewing usage rates and GFCs, the UAC considered the potential impacts changes in rates may have on community members now and in the future. Over the year we review and consider City policies, regulatory requirements, changes in revenue and, in some instances, changes in costs that are beyond a particular utility's control. In considering GFCs, the UAC also considers analyses provided by staff regarding the financial value of the existing utility infrastructure and the benefits of that infrastructure to a new development. Thus, charges imposed at the time of initial development means those revenues are then dedicated back to capital budgets.

After careful consideration, the UAC believes the proposed Utility Rate increases and GFCs for 2023 strike a reasonable balance given the current economic conditions, the ongoing financial impacts of the pandemic on our community and increases seen in supply costs. However, we would caution that substantial increases in indirect costs charged to the utilities may adversely affect future budgets and services. As you may know, to help limit these increases in 2023 there are proposals to defer some capital projects and maintenance. While staff has assured us that current operations are minimally affected this upcoming budget cycle, continued project and maintenance deferrals could result, we feel, in an ever-increasing risk of service disruptions, or worse, in the future.

Summary of Proposed Rates and GFCs

For budgetary purposes, the City's Storm and Surface Water and Waste ReSources utilities assume a growth in accounts for 2023 of one percent revenue and the Drinking Water and Wastewater utilities assumes a growth of one and a half percent of revenue. Ongoing growth-related revenue increases help offset rate changes. The proposed rates, along with cash on hand for the Wastewater utility are expected to cover 2023 expenditures, including a staff cost-of-living adjustment.

The UAC recommends the following utility rate increases in 2023:

- Drinking Water 6.60%
- Wastewater 9.82%
- Storm and Surface Water 9.88%
- Drinking Water 6.60%
- Waste ReSources 4.00%

We understand that City staff also support these specific increases. In addition, the LOTT Board of Directors has also approved rates and Capacity Development Charges (CDCs) for 2023, which will increase 3.0 percent and 3.5 percent respectively. Including the LOTT rate increase, the combined, weighted rate increase amounts to an approximate 5.89 percent increase (\$16.53/bi-monthly bill) for a typical single-family residence.

Drinking Water

Utility Rate: 6.60% increase

The Drinking Water utility provides and protects healthy drinking water for the community as part of a long-term vision that sustains present and future water supplies for our community while protecting the environment. The Drinking Water utility anticipates total expenses to be \$330,621 greater than current expenditures in 2022. This reflects fixed increases in salaries, benefits, City administration, rent and insurance. No increases for inflation have been built into this 2023 budget.

The FCS Group (FCS), a financial consultant, evaluated the utility's finances in 2022. FCS expects that the revenue trends, namely decreased commercial sales observed in 2020-2021 due to impacts of the pandemic, can be expected to continue. As a result, projected base revenues for 2023 have been adjusted downward by \$761,000. A 6.60% rate increase will produce an estimated revenue increase of \$984,734.

To help with past revenue shortfalls, FCS also recommends a one-year \$700,000 decrease in capital funding. This funding decrease has been factored into the 2023-2028 Capital Facilities Plan. Capital funding will be restored in 2024 when bond debt expires.

GFC Rate: \$250 increase per single family residence

The UAC supports increasing the Drinking Water GFC in 2023 by \$250 to \$4,683 per equivalent residential unit. The UAC would support further increases to the GFC based on the FCS financial analysis that justifies increasing the Drinking Water GFC to \$5,639 per equivalent residential unit.

Wastewater

Utility Rate: 9.82% increase

The Wastewater utility is responsible for safe conveyance of sewage from homes and business to the LOTT (Lacey, Olympia, Tumwater, and Thurston) Clean Water Alliance treatment facility in downtown Olympia. The utility bought down rates with cash on hand (resources above reserves) in 2021 and 2022 to help customers with economic hardships get through the pandemic. In 2023 the utility anticipates total expenses to increase by about \$885,000 above current expenditures. This reflects fixed increases in salaries, benefits, City administration, rent, insurance (\$617,000) and an increase in municipal and excise taxes (\$199,000). With the exception of capital funding, no increase for inflation has been built into this 2023 budget. The utility is increasing capital funding 9.0% for inflation (\$66,717) and anticipates additional increases in future years consistent with FCS's recommendations.

The UAC also supports a proposal to increase the use of an Inventory Control Specialist by 0.125 FTE. This \$13,080 enhancement will support work orders, inventory and other data management needs.

GFC Rate: \$249 increase per single family residence

The UAC supports increasing the Wastewater GFC in 2023 by \$249 to \$4,003 per equivalent residential unit. The UAC would support further increases to the GFC based on the FCS financial analysis performed for the Wastewater Management Plan that justifies increasing the Wastewater GFC to \$4,999.

Storm and Surface Water

Utility Rate: 9.88% increase

The Storm and Surface Water utility is responsible for flood mitigation, water quality improvement and aquatic habitat enhancement. The utility anticipates total expenses to increase by about \$880,000 above current expenditures. Similar to the other utilities, this reflects fixed increases in salaries, benefits, City administration, rent, insurance and taxes (\$670,000). With the exception of capital funding, no increase for inflation has been built into this 2023 budget. The utility is increasing capital funding 9.0% for inflation (\$35,568) and anticipates additional increases in future years consistent with FCS's recommendations. Fees for the transport and disposal of street waste have also increased \$83,000.

The UAC supports three staff enhancements: an increase to the Inventory Control Specialist by 0.125 FTE (\$13,080) to support work orders, inventory, sediment and other data management needs; an intern to support pollution control inspections (\$7,800); and a Stormwater Engineer (0.2 FTE utility funded) to support development reviews (\$33,000).

The Storm and Surface Water utility successfully implemented a revised rate structure in 2022 and revenues remained stable.

GFC ate: \$211 increase per single family residence

The UAC supports increasing the Storm and Surface Water GFC in 2023 to \$1,619 per equivalent residential unit and \$11.08 per vehicle trip for a total increase of by \$211. The UAC would support further increases to the GFC based on the financial analysis performed for the Storm and Surface Water Plan that justifies increasing the Stormwater GFC to \$2,383 per equivalent residential unit and \$19.04 per vehicle trip.

Waste ReSources

Utility Rate: 4.00% increase

Waste ReSources projected revenues are up approximately 7% and overall expenses are up 10.6%. However, revenue is not keeping pace with expenses. A 4% rate increase is recommended in the Drop Box, Residential, and Commercial Sectors. Overall, recommending a 4% rate increase in Drop Box, Residential, and Commercial Sectors. This proposed budget includes use of a fund balance transfer to buy down the rate from 6% to 4%.

Capital Facilities Plan (CFP) 2023-2028

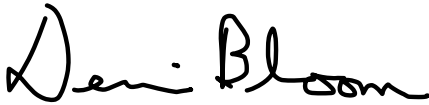
On August 4, 2022, staff presented the proposed preliminary 2023-2028 CFP to the UAC. We unanimously approved the Plan. We find it guided by, and consistent with, the utility management plans which were developed to be reflective of the growth and development objectives established in the City's Comprehensive Plan. In general, the CFP (pertinent to City utilities) anticipates that current projects can be funded with the

estimated revenues. However, as mentioned earlier in this letter, we are aware of the capital project funding challenges faced by all four utilities.

Thank you again for the opportunity to provide our recommendations. These proposals continue to support the important public health mandates of our City utilities. The proposed utility rates reflect our responsibility to help maintain and improve essential public infrastructure while remaining cognizant of the impact rate increases can have upon many community members. Lastly, the members of the UAC want to express our appreciation to the utility staff for their expertise and responsiveness to our questions and concerns throughout this budget review cycle.

Please contact me at dbloom@ci.olympia.wa.us if you have any questions. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Dennis Bloom". The signature is fluid and cursive, with the first name "Dennis" and last name "Bloom" clearly distinguishable.

DENNIS BLOOM

Chair

Utility Advisory Committee

DB/EC:lm

cc: UAC Members