



October 7, 2023

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

Dear Mayor Selby and Council Members:

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

Thank you for the opportunity to provide citizen advisory committee recommendations on 2023 City of Olympia utility rates, general facility charges (GFCs) and the 2023-2028 Capital Facilities Plan (CFP). The members of the Utility Advisory Committee (UAC) understand that this work is a fundamental responsibility of our committee. The UAC also understands and supports the important public and environmental health work of the City's four utilities.

The UAC believes that City staff work hard to use resources wisely thereby minimizing customer costs. And we realize that rate increases must occur to maintain the level of service demanded by the community, to meet regulatory requirements and to account for changes in costs beyond the utilities' control.

When considering usage rates and GFCs, the UAC seriously considers the impact these increases may have on community members. When considering GFCs, the UAC also considers analyses provided by staff regarding the financial value of the existing utility infrastructure and the benefits of the infrastructure to new development since GFC charges are imposed at the time of initial development. GFC revenues are dedicated to capital budgets.

Summary of Proposed Rates and GFCs

For budgetary purposes, the City's Drinking Water, Storm and Surface Water and Waste ReSources utilities assume a growth for 2023 of one percent revenue and the Wastewater utility assumes a growth of one-half percent 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 City staff cost-of-living adjustments.

The UAC recommends the following utility revenue 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 would be approximately 5.89 percent (\$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 the 2023 budget.

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 through the pandemic, can be expected to continue. As a result, projected base revenues for 2023 have been adjusted downward by \$761,000. The 6.60% rate increase amounts to a 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 to \$4,683 per equivalent residential unit. The FCS financial analysis 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 through the pandemic. In 2023, the utility anticipates total expenses to increase by about \$885,000 above current expenditures. This reflects fixed increases (\$617,000 for salaries, benefits, City administration, rent, insurance, etc.), a \$199,000 increase in municipal and excise taxes, With the exception of capital funding, no increases for inflation have been built into the 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 the proposed \$13,080 enhancement to increase the Inventory Control Specialist by 0.125 FTE. This enhancement will support work order, inventory, and other data management.

GFC rate: \$249 increase per single family residence

The UAC supports increasing the Wastewater GFC in 2022 to \$4,003 per equivalent residential unit. The FCS financial analysis performed for the Wastewater Management Plan, 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 (\$761,000 for salaries, benefits, City

administration, rent, insurance, taxes, etc.). With the exception of capital funding, no increases for inflation have been built into the 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 also supports three enhancements: an increase to the Inventory Control Specialist by 0.125 FTE (\$13,080) to support work order, inventory, sediment and other data management; an intern to support pollution control inspections (\$7,800); and a Stormwater Engineer (0.2 FTE utility funded) to support development review (\$33,000).

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

GFC rate: \$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. The financial analysis performed for the Storm and Surface Water Plan 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 1.8% and overall expenses are up 2.1 percent. However, revenue to expense remains positive by 0.3 percent. While recycle markets have improved since 2019, they have not reached pre-China National Sword numbers. Nevertheless, outlook for 2022 remains positive. Based on budget projections the UAC is supportive of staff's recommends for no rate increases in 2021 for Waste ReSources.

Capital Facilities Plan 2023-2028

On August 4, 2022, staff presented the proposed preliminary 2023-2028 CFP to the UAC and we unanimously approved it. 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 the utilities) anticipates that current projects can be funded with the estimated revenues. However, the UAC is aware of the capital project funding challenges faced by all the utilities.

Thank you again for the opportunity to 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 while remaining cognizant on the impact rate increases may have upon community members.

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

Sincerely,

DENNIS BLOOM
Chair
Utility Advisory Committee

Olympia City Council

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DB/EC:lm

ec: UAC Members

Gary Franks, Waste Resources Director

Eric Christensen, Water Resources Director

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