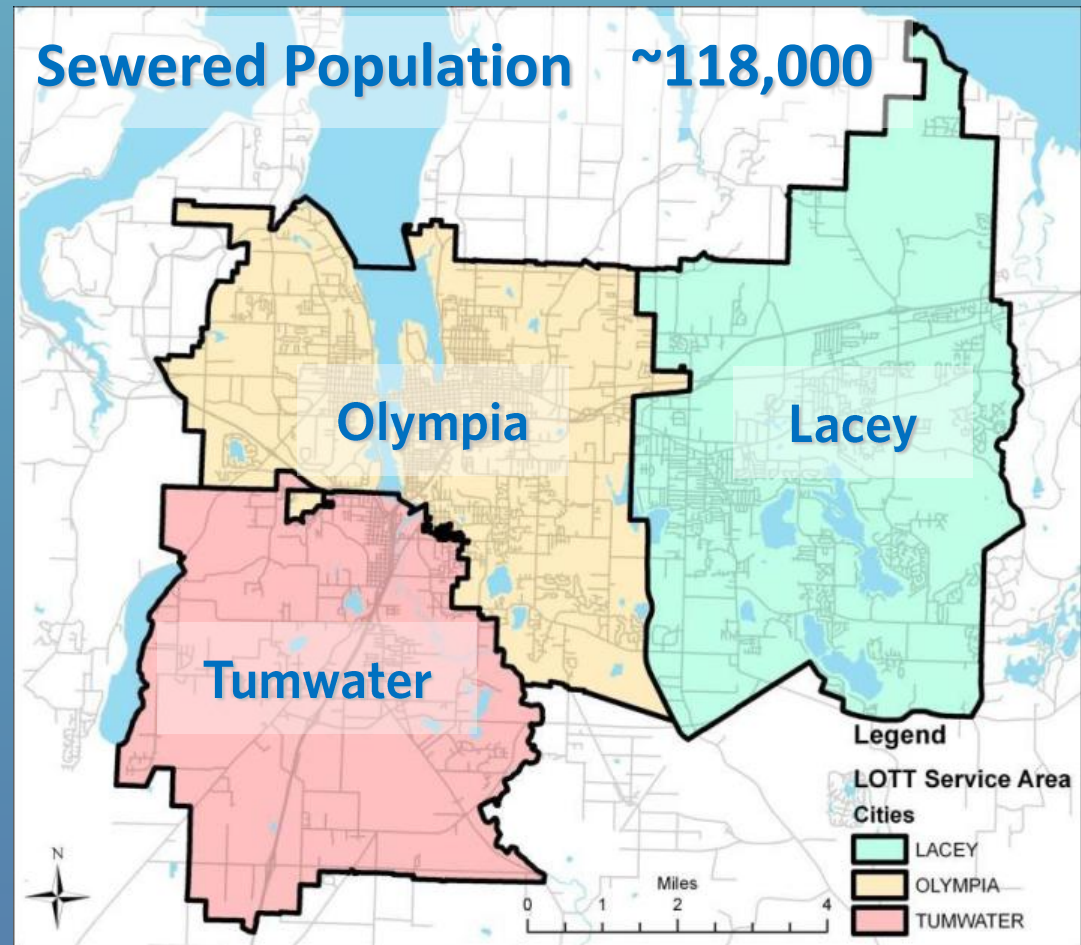


Financial Planning and 2017-18 Budget Overview

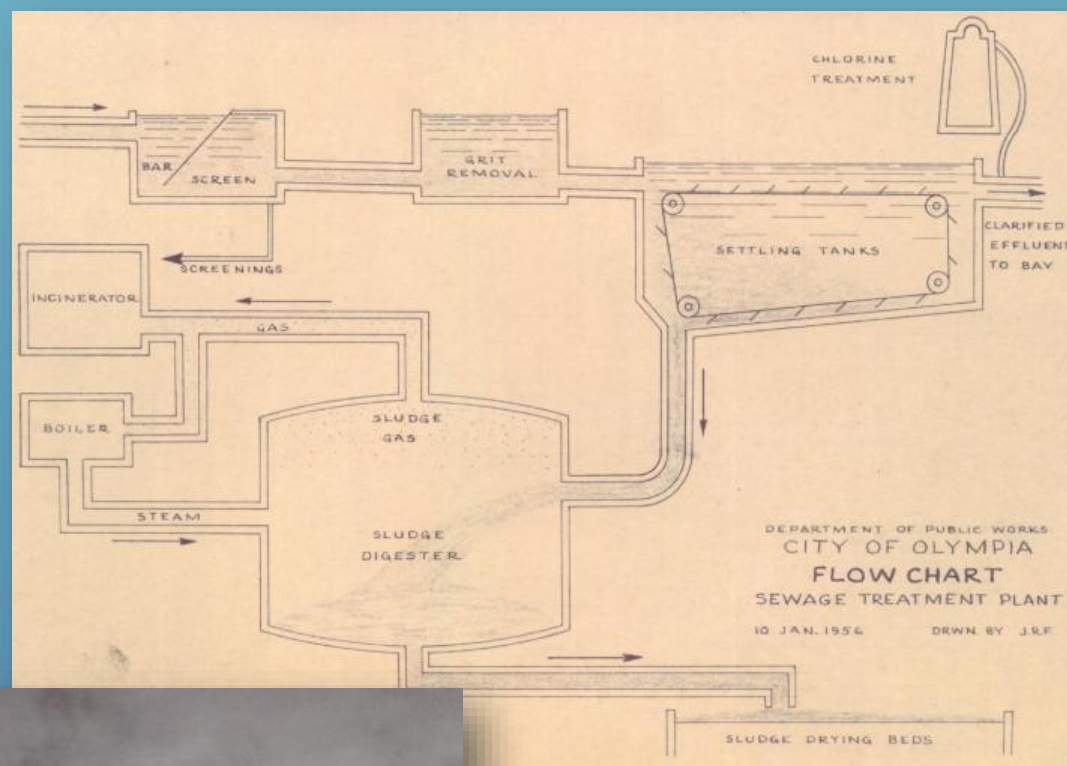


LOTT's Mission

- Preserve and protect public health and the environment by cleaning and restoring water resources for our communities
- Provide wastewater management services for the three cities' urban growth areas



Budd Inlet Treatment Plant - Then...



Budd Inlet Treatment Plant - Now...





Heavily Regulated

The Olympian
November 2, 1988

State warns LOTT: Make deadline

By John Dodge
The Olympian
Laboratorium

By John Dodge
The Olympian

A moratorium on septic tank permits and sewer hookups is a "done deal" if the regional sewer partners do not meet a state deadline for sewage treatment plant improvements, the forceful, face-to-face manager of Ecology Director is Lacey.

That was the forceful, face-to-face message state Department of Ecology Director Christine Gregoire gave Tuesday to Lacey, Olympia, Tumwater and Thurston County officials.

"It's a done deal," Gregoire told LOTT advisory committee. "You've got my word. We will enforce it."

The ecology boss was referring to a March 31 deadline for a LOTT engineering report on how it will upgrade wastewater discharged into Budd Inlet. The sept-

tank and sewer hookup bans will go into effect April 1 if LOTT fails to meet the deadline. "If we've heard the news, we've heard the debate over the dead

The LOTT officials heard the news, then entered into a heated debate over what to do next to comply with the deadline.

Without prior review by the city council members, Lacey representative offered a written motion authorizing the city of Olympia to complete the treatment plant improvements funded by all sewer taxpayers. He also noted that the sewer system is an urban growth area.

The motion also noted that the sewer service area would be the urban growth boundary previously agreed to by the four jurisdictions. Just what the sewer service areas should be is one of the sticking points with a LOTT sewer plan.

Tumwater City Administrator Leonard Smith quickly seconded the motion, and then the fun began.

Thurston County Commissioner Karl Fraser objected to the way the motion was presented without prior notice.

Smith said the motion was in the public's interest as a way to meet the deadline. He charged Olympia and Thurston County officials with stalling.

As the LOTT partners bickered, Gre
noire and several other top-ranking DO

LOTT —
From Page 1B

Now the ticklish question is: How can LOTT embrace an engineering report spelling out treatment plant improvements without agreeing on basic sewer planning data?

The LOTT "partners" split 2-2 on the motion, which will be reviewed and reconsidered at a Nov. 10 meeting.

As has been the case for several months, the officials from the county were struggling to move forward with the treatment plant where sewers will be treated.

Those question
year LOTT se
agreement. But
this summer u
from some me
ularly those in
county.

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WASHINGTON

UNITED STATES OF AMERICA,)

)

1

THE STATE OF WASHINGTON

Plot

1

v.)

THE CITY OF SEATTLE.

WASHINGTON

3

Defendant)

)

CONSENT DECREE

APPENDIX D: Capacity, Management, Operation and Maintenance Performance Program Plan

The City's Capacity, Management, Operation and Maintenance ("CMOM") Performance Program Plan will incorporate Asset Management and Risk Management processes. The City shall follow a performance based approach, which utilizes adaptive management to develop and periodically modify as necessary focused programs with the goal of eliminating all SSOs. The Program Plan shall include the following requirements:

A. CMOM Performance Program Plan:

1. The City manages its CMOM program according to asset management principles where condition assessment, risk and consequence of failure (SSO) are used in prioritizing maintenance, rehabilitation and repair of the system. The City shall annually review its CMOM Performance Program and update the program as necessary to ensure that the City is achieving the approved CMOM Performance Program Plan thresholds.

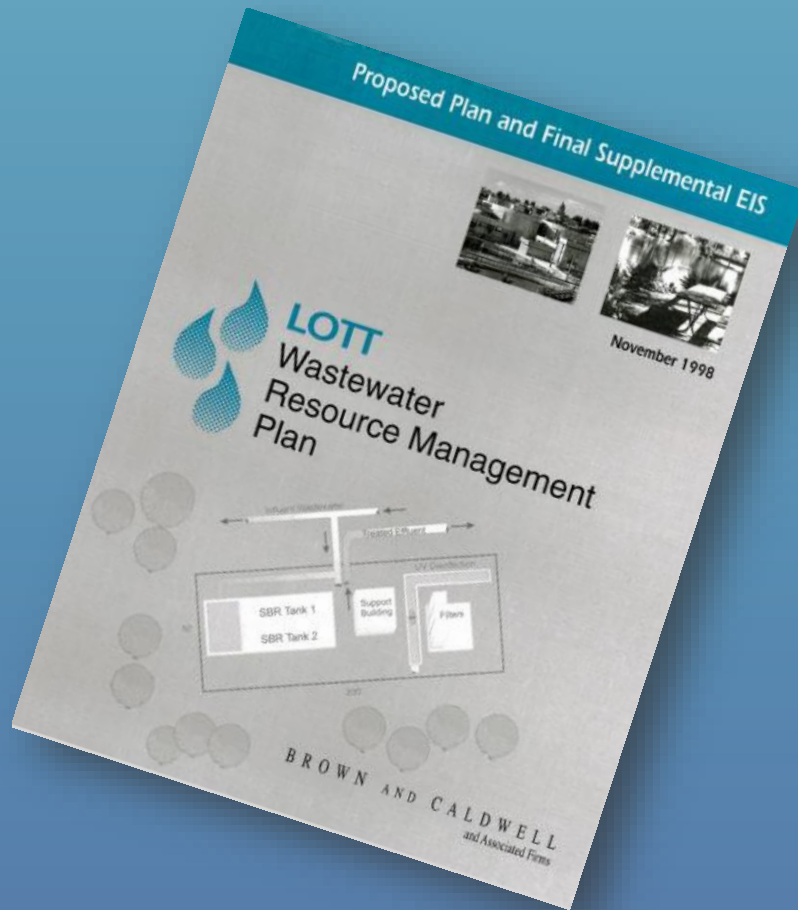
2. The City's CMOM Performance Program Plan shall include SSO performance thresholds with the goal of eliminating all SSOs:

a) If the performance in the Annual Report indicates that the City has achieved an SSO rate that is better than the performance threshold defined in the CMOM Performance Program, the City continues to manage and update its own program according to asset management principles where condition assessment, risk of failure (SSO) and consequence are used in prioritizing maintenance, rehabilitation and repair of the system and the City provides an Annual Report of the results to EPA and the State.

b) If the performance in the Annual Report indicates that the City's SSO rate exceeds the performance threshold, then the City shall develop a focused corrective action plan for SSO

- NPDES Permit requires highest level of treatment on Puget Sound
- Required to conduct continuous planning

Planning for Future Capacity Needs

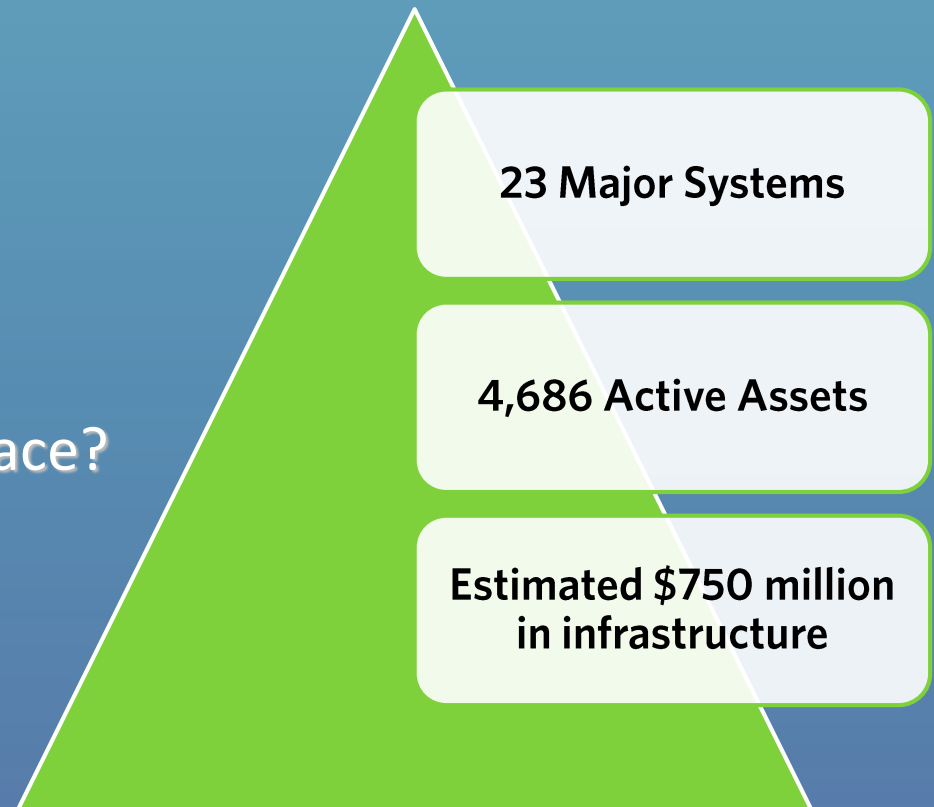


- Maintain ability to discharge into Budd Inlet
- Reduce flows to treatment facilities through water conservation and I&I removal
- Expand reclaimed water production and groundwater recharge

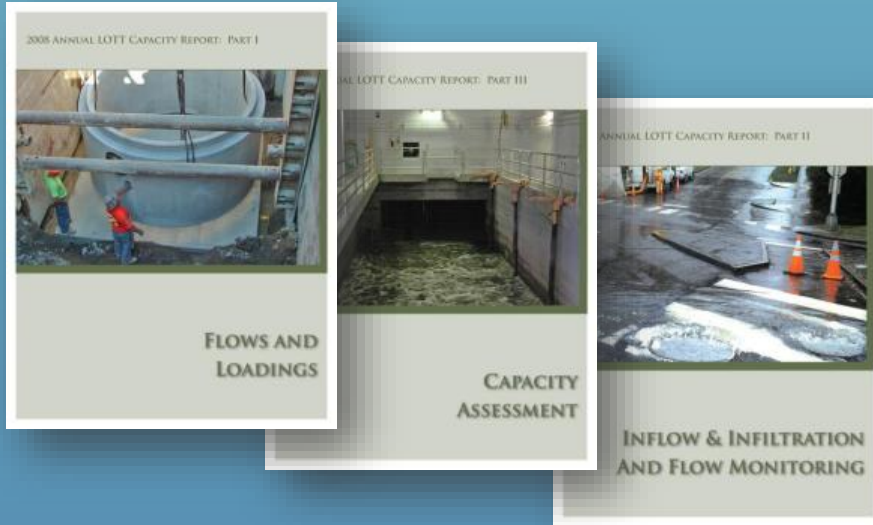
Sustaining the Existing System

Asset Management Program

- What do we own?
 - Physical attributes
 - Make, model, size, horse power, etc.
- What condition is it in?
- How critical is it?
- What is its remaining life?
- How much will it costs to replace?



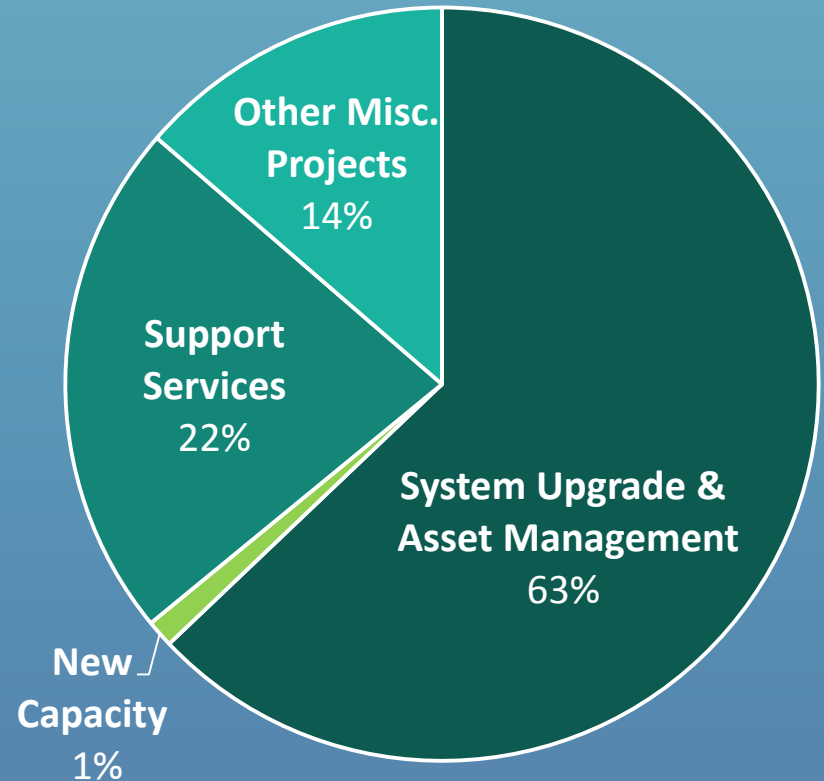
Capital Planning



2017-2018 Capital Budget / 2017-2022 Capital Improvements Plan				
Summary Page	Year Start	Year Complete	2017-2018 Expenditure	2017-2022 CIP
System Upgrade Projects			\$23,106,502	\$54,148,842
Budd Inlet Treatment Plant			\$17,715,359	\$42,656,093
16	Centrate Handling Improvements	2016 2017	\$662,423	\$662,423
17	Sludge Dewatering System Upgrade	2015 2018	\$13,148,419	\$13,148,419
18	DAFT System and Thickened Sludge Pumping Upgrade	2016 2017	\$625,691	\$625,691
19	Sludge Thickening System Upgrade	2020 2022	\$0	\$3,832,258
20	Biological Process Improvements	2018 2022	\$1,899,345	\$15,669,593
21	UV System Control and Power Upgrades	2018 2019	\$509,031	\$2,545,156
22	North Odor Scrubber and Air Handling Upgrades	2022 2023	\$105,967	\$1,059,668
23	Gas Utilization Upgrades	2019 2020	\$0	\$1,290,467
24	Centrate Building Rehabilitation	2018 2019	\$764,484	\$3,822,418
Conveyance			\$2,497,638	\$5,007,815
25	Influent Sewer Main Rehabilitation	2017 2017	\$468,838	\$468,838
26	Capitol Lake Pump Station Wet Well Coatings	2017 2017	\$228,800	\$228,800
27	Interceptors/Manholes Inspection and Rehabilitation	2008 Ongoing	\$1,800,000	\$4,310,176
Martin Way Reclaimed Water Plant			\$2,893,505	\$6,484,934
28	Reclaimed Water Plant Improvements	2017 2019	\$2,893,505	\$4,822,508
29	Membrane Filter Replacement	2022 2022	\$0	\$1,662,426
New Capacity Projects			\$222,845	\$1,147,321
30	Deschutes Valley Master Planning and Development	2017 2018	\$222,845	\$222,845
31	Henderson Conveyance Pipeline	2022 2023	\$0	\$924,476
Asset Management Projects			\$3,399,889	\$7,647,511
32	General Equipment Repair and Replacement (LERF)	2009 Ongoing	\$963,182	\$2,804,529
33	Instrumentation and Controls Replacement	2012 Ongoing	\$321,014	\$1,022,882
34	Budd Inlet Treatment Plant Groundwater Control	2017 2018	\$417,007	\$417,007
35	Digester Building Drain Replacement	2016 2017	\$201,591	\$201,591
36	Storage Warehouse	2021 2022	\$0	\$561,787
37	Laboratory Building Skylight Refurbishment	2016 2017	\$162,010	\$162,010
38	Digester Refurbishment	2015 2020	\$851,119	\$1,702,237
39	Budd Inlet Treatment Plant Roof Repair and Replacement	2016 Ongoing	\$483,967	\$775,468
Support Services and Projects			\$13,913,036	\$35,309,582
40	Annual Miscellaneous Professional Services	2006 Ongoing	\$771,000	\$2,058,682
41	Internal Engineering Support	2006 Ongoing	\$2,365,592	\$7,482,774
42	Allied Staff Costs	2006 Ongoing	\$4,557,535	\$14,401,964
43	Flow Monitoring Program	2006 Ongoing	\$466,900	\$1,487,734
44	Flow Reduction Programs	2006 Ongoing	\$600,880	\$1,914,649
45	Property Demolition	2019 2020	\$0	\$645,530
46	Miscellaneous Small Projects	2006 Ongoing	\$724,000	\$2,094,305
47	Reclaimed Water Infiltration Study	2012 2018	\$2,785,728	\$2,785,728
48	Information Technology Upgrades	2014 Ongoing	\$248,000	\$593,766
49	Water Quality and Habitat Improvement	2006 Ongoing	\$916,797	\$916,797
50	Records Management System	2017 2018	\$270,307	\$270,307
51	Energy Efficiency and Consumption Reduction Program	2014 Ongoing	\$206,297	\$657,345
52	Property Acquisition	2017 Ongoing	\$0	\$0
Total			\$40,642,272	\$98,253,256

Capital Planning

- Multiple steps to develop Capital Improvements Plan
 - Evaluate
 - Find efficiencies
 - Prioritize
 - Review by staff, Technical Sub-Committee, Board
 - Further refine projects and costs during project implementation
- Most capital costs maintain the existing system



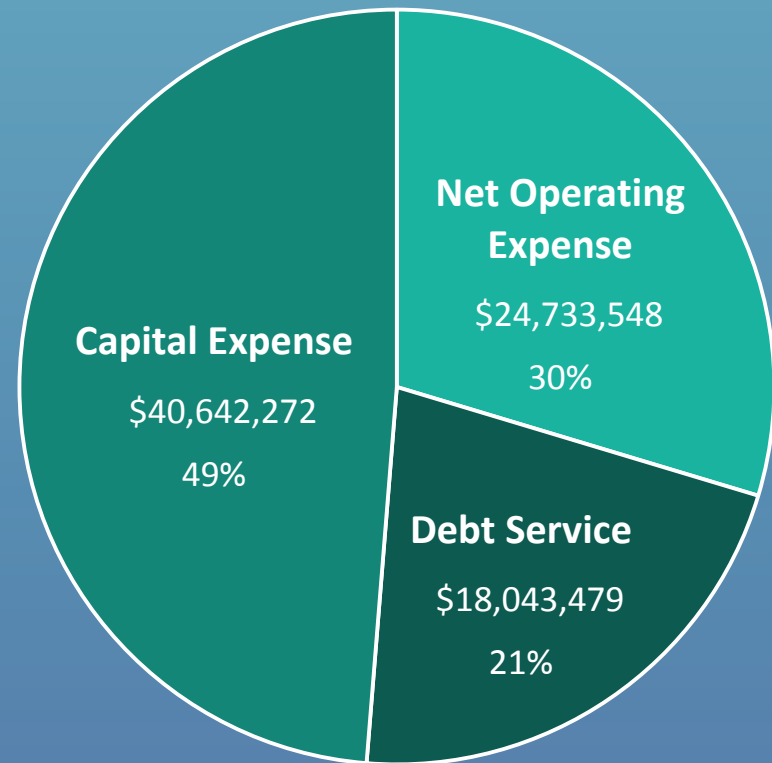
Financial Planning

Challenge:

- 70% of LOTT's costs are due to capital project needs
- Many large-scale, multi-year projects
- Escalating construction costs

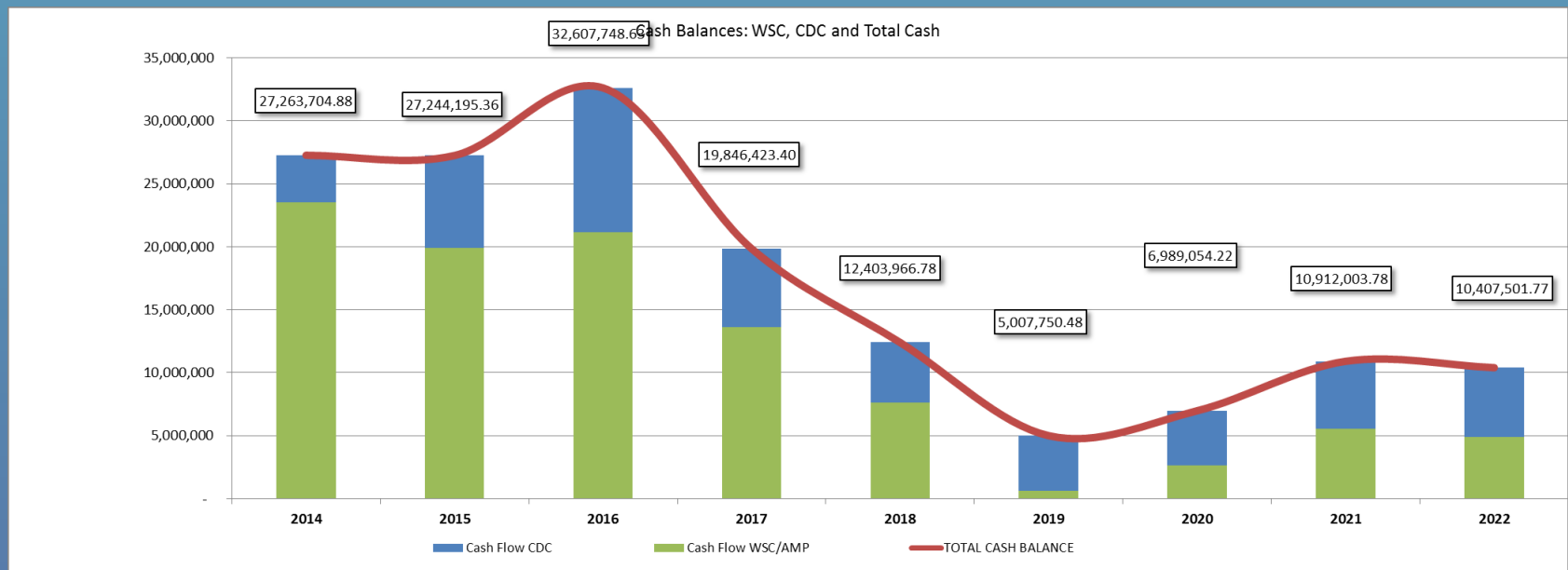
Approach:

- Plan using 6 year periods
- Apply an inflationary adjustment based on construction industry
- Abide by financial benchmarks established by the Board

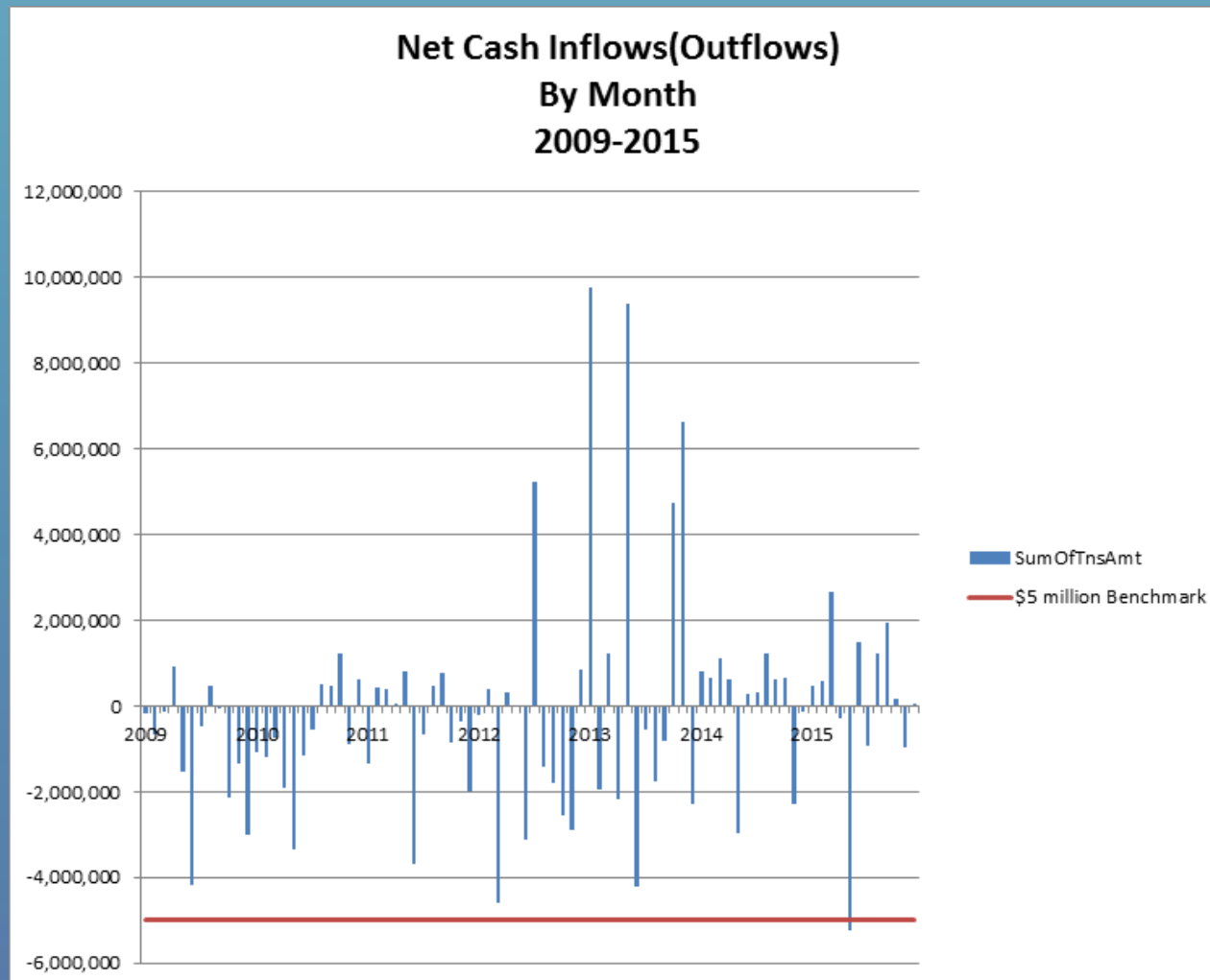


Financial Planning Tools

- Capital projects database
- The Wizard



Financial Benchmarks



Inflationary Construction Index

ENR 2Q COST REPORT ECONOMICS

By Tim Grogan and Bruce Buckley

Construction Costs Absorb Two Big Hits This Quarter

Brexit and a large tariff increase on Chinese steel imports will have little impact on costs

Two big events hit construction this quarter: Brexit—the U.K.'s exit from the European Union—and the U.S. government's decision to increase tariff rates on Chinese steel imports by 25%.

Julian Anderson, president of Fisher Tower Building (F.T.B.), North American operations, has spent the past week in London talking with politicians, contractors, unions and economists about the potential effects of Brexit. Their initial conclusion is that the U.K. should leave for a recession that could spread to Europe. "Some large building projects are already being shelved for several years," he says.

However, the impact of that recession stacking across the pond will be small. Anderson says in the short term, the U.S. Fed probably will hold off on raising interest rates until it's clear how much the Brexit will unfold, and a move by the Fed would be good for construction, Anderson says. However, U.S. contractors working abroad may face more aggressive trade

from U.K. contractors, which will be helped by a weaker U.K. pound.

Earlier in the second quarter, the U.S. raised import duties on Chinese steel, which had been cut by a staggering 52.7%.

Despite this, there is no reason for contractors to panic. However, looking at the big picture, imported Chinese steel production in 2015 accounted for only 6.1% of all steel products imported into the U.S., according to the U.S. Census Bureau. In March 2016, it accounted for only 2.7% of the total. Drilling down a little further, of the 70,000 tons of steel imported from China in March 2016, only 807 tons were for structural steel and only 29 tons were for reinforcing bar.

"While it is possible that the tariff may have an effect on steel plate, pipe and rebar, ENR does not expect the tariff on Chinese steel to lead to an increase in the price of steel rebar used in building construction," says Anderson.

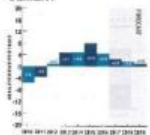
Contractors and suppliers report mixed reactions to the new pricing. For example,

discussant of presentation at PCT Construction says construction costs for a \$1.5-billion highway project in the U.S. were up 10% to 15% from last year, but the biggest one may be a shortage of rock, he says. "That's legitimate and trying to work it out." Over the next year, P.C.T. is estimating a 5% increase in costs in picking over materials.

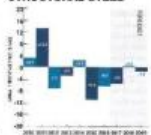
Then, Strick, vice president and chief estimator at Gilbane Building Co., says high levels of construction activity are pushing significant concrete price reductions in several major markets. "The major market—paving in New York City, Boston and Washington, D.C.—are going nuts," he says. In the past, for example, concrete has gone up by nearly 10% in the past 12 months, he says.

WILLIAMS GERT-SMITH, senior vice president at the National Ready Mixed Concrete Association, says the multifamily residential boom is driving demand in many regions across the U.S. She says green projects on the West

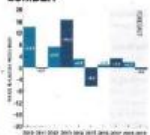
CEMENT



STRUCTURAL STEEL



LUMBER



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THE CONSTRUCTION RESOURCE

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WORKERS' VOICES | PART 2

WHAT
WORKERS
THINK

Craftworkers reflect on
their careers and
the future p. 30

ENR is a McGraw-Hill Construction Analytics publication.

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GURNEAU
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Associate, NY

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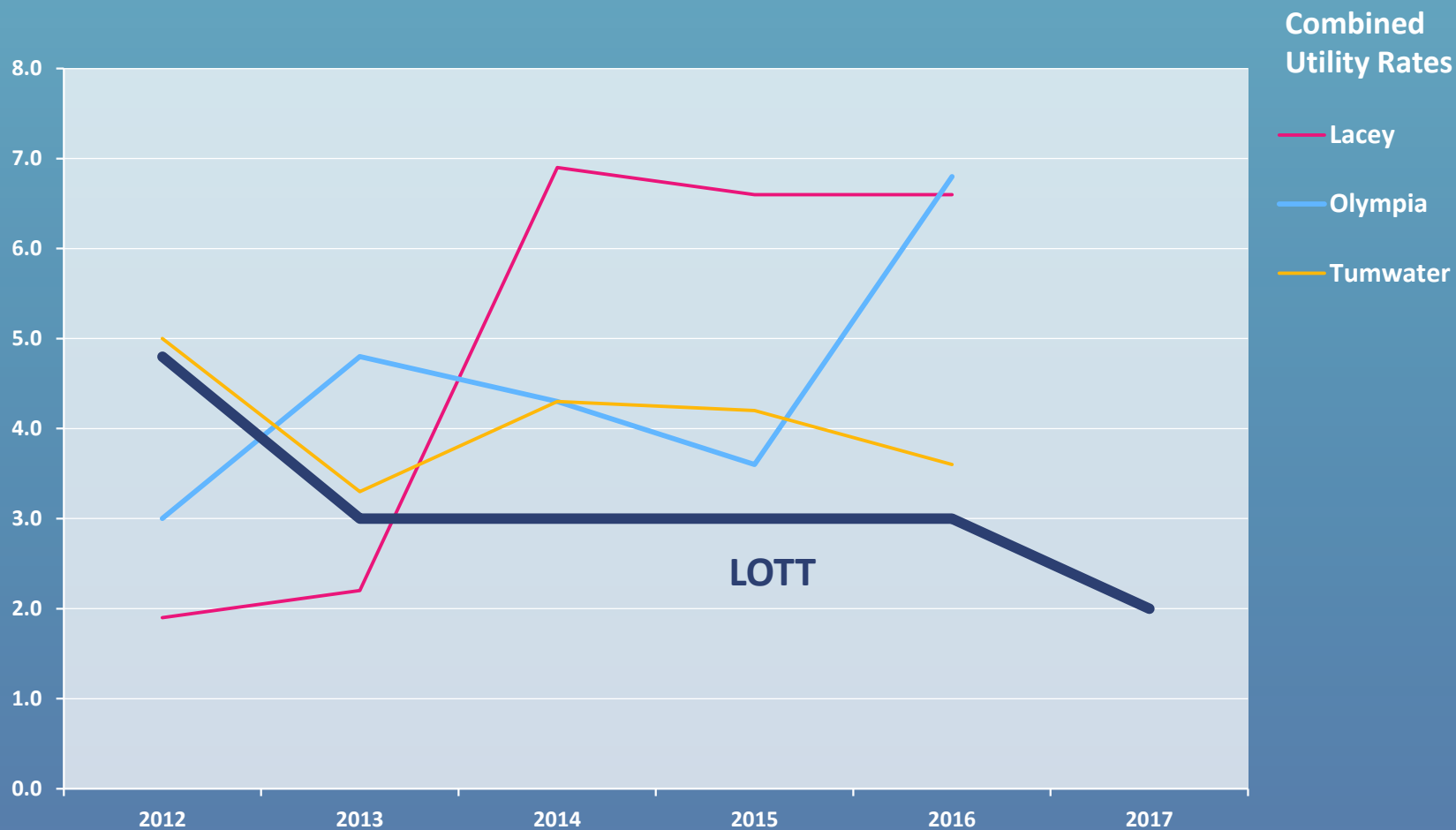
2017-18 Rate Planning

	2012	2013	2014	2015	2016	2017	2018
WSC Increase	\$1.50	\$0.99	\$1.02	\$1.05	\$1.08	\$0.74	\$0.76
Total WSC	\$33.00	\$33.99	\$35.01	\$36.06	\$37.14	\$37.88	\$38.64
CDC Increase	\$214.10	\$199.68	\$205.67	\$211.84	\$218.19	\$224.74	\$231.48
Total CDC	\$4,519.20	\$4,718.88	\$4,924.54	\$5,136.38	\$5,354.57	\$5,579.31	\$5,810.79

**2%
increase**

Rate Performance

Annual Percentage Change



Rate Comparison



PERCEPTION

LOTT's rates are high

REALITY

All three cities are below the average of utilities in our region

Below the average

Name	2016	2014	2 year annualized % increase (14-16)	Flat or Volume	2016 Rank	2014 Rank
City of Shelton	124.69	103.02	10.5%	V	1	4
Tamoshan	115.70	115.70	0.0%	F	2	1
City of Chehalis (in city)	111.36	105.09	3.0%	V	3	3
City of Seattle	110.43	105.75	2.2%	V	4	2
City of Tenino	94.00	94.00	0.0%	F	5	5
City of Bellevue	87.57	79.03	5.4%	V	6	9
Olympic View	86.81	82.68	2.5%	F	7	6
City of Bonney Lake	84.33	75.78	5.6%	V	8	12
City of Centralia (in city)	84.07	82.58	0.9%	V	9	7
Boston Harbor	82.14	82.14	0.0%	F	10	8
City of Longview (in city)	80.23	75.69	3.0%	V	11	13
City of Sumner	78.01	76.09	1.3%	V	12	10
Grand Mound	75.81	75.81	0.0%	F	13	11
City of Bremerton (in city)	75.55	71.08	3.1%	V	14	14
City of Renton	70.26	68.60	1.2%	F	15	18
City of Auburn	66.32	62.91	2.7%	F	16	15
City of Puyallup	64.82	61.63	2.6%	V	17	16
City of Tacoma	61.49	54.66	6.2%	V	18	19
City of Everett	59.87	49.50	10.5%	F	19	26
City of Olympia	57.79	54.29	3.2%	F	20	21
City of Yelm	57.37	53.04	4.1%	F	21	22
City of Kelso	57.24	54.48	2.5%	F	22	20
City of Mount Vernon	56.30	56.30	0.0%	V	23	17
City of Lacey	55.95	52.51	3.3%	F	24	23
Lakehaven Sewer District (KC Metro)	53.81	50.78	3.0%	V	25	24
City of Tumwater	53.02	50.03	3.0%	F	26	25
Lakehaven Sewer District (Pierce Co)	49.58	48.26	1.4%	V	27	27
City of Vancouver	46.70	43.97	3.1%	V	28	28
Pierce County Sewer	45.64	42.82	3.3%	F	29	29
City of Snoqualmie	44.51	42.16	2.8%	F	30	30
City of Orting	42.59	40.15	3.0%	F	31	31
City of Bellingham (in city)	39.47	35.07	6.3%	F	32	33
City of Hoquiam	39.44	38.14	1.7%	F	33	32
City of Aberdeen	36.78	34.68	3.0%	F	34	35
Lakehaven Sewer District	35.81	34.85	1.4%	V	35	34
City of Edmonds	33.25	27.73	10.0%	F	36	36
Average	\$ 67.19	\$ 63.36				

Comprehensive Cost Control

- Asset Management program
- Finance management
- Business case evaluations
- Energy reduction efforts
- Human resources management
- Cost savings program



LOTT Rates: A Good Value

- Protect public health
- Protect quality of local waters
 - Prevented 10.6 million pounds of nitrogen from entering Budd Inlet
- Produce renewable resources
 - Class A Reclaimed Water
 - Biosolids
 - Electricity and heat energy
- Ahead of other utilities
 - LOTT already provides high levels of treatment
 - Many utilities in region will have to add treatment and raise rates to do it



Questions?