



Utility Advisory Committee

2014 Utility Rate Recommendations

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Title

2014 Utility Rate Recommendations

Recommended Action

UAC Deliverable:
Recommended rate proposal for City Council consideration.

Body

Issue:

Review 2014 utility rate proposal and forward recommendations to City Council for final review during budget deliberations.

Staff Contact:

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Presenter(s):

Same as above

Background and Analysis

This year the City of Olympia is facing another challenging budget. As a result, we have been directed by the City Manager to take a "hold the line" approach to utility budgets and to develop rates that are focused on maintaining existing service levels and enhancing revenue stability.

Rate recommendations for 2014 reflect this direction. Where feasible, we have also sought to reduce expenditures and absorb inflationary increases in costs in order to lessen the need for rate increases in 2014.

2014 Rate Proposals

Storm & Surface Water Utility: 2% rate increase

The proposed Storm and Surface Water Utility 2014 budget is based on recently completed planning efforts and regulatory requirements under the NPDES (National Pollution Discharge Elimination System) Phase II permit. The proposed 2014 budget incorporates various inflationary increases, but no major new initiatives or costs.

Stormwater rates are based on a flat-rate monthly charge for single family and duplex residential accounts.

Other accounts including commercial, multifamily and institutional developments are charged based on the quantity of impervious surface on the site and the year of development. Older developments consistently provide less onsite stormwater treatment and storage infrastructure than newer developments. Therefore, these accounts incorporate a three-tiered rate structure with older developments paying more than new developments.

Overall, the proposed budget is projected to decrease \$58,000 or approximately 2% reflecting the retirement of the North Percival Stormwater Public Works Trust Fund Loan. As in 2013, the stormwater utility's budget will include half of the costs of the street sweeping program (\$121,000 annually) given the benefits to surface water quality.

Revenue

Based on projected 2014 revenue and expenses, staff projects the utility to be out of balance by approximately \$132,000.

Wastewater Utility: 4% rate increase

The preliminary operating and capital budgets for the Wastewater Utility are based on the draft *2013-2018 Wastewater Management Plan*.

The 2014 proposed budget for wastewater will increase by approximately \$512,000 or 3%. This is primarily due to inflation coupled with higher costs related to interfund payments and State and City taxes. The budget is projected to be out of balance by approximately \$445,520, or about 9% percent of billed revenue. Staff's recommendation is to increase rates by 4% and use fund balance above the required \$240,000 reserve to avoid a 9% rate increase. The projected reserve balance at the end of 2013 is \$425,260.

Following is a summary of the key drivers affecting the operating budget:

- Taxes increased approximately \$280,000 from 2013.
- Inflationary drivers include employee benefits (\$15,030). Conversely, salaries in the operating budget decrease by \$15,613.
- Interfund payments in Operations/Pump Stations/Planning and Engineering increased a total of \$60,000.
- Other increases include fleet rental rates (\$18,950), Maintenance Center rent (\$2,518) and liability insurance (\$4,400). Overtime is held at 2013 levels plus minor inflation.
- LOTT increase of 3% (\$1.02/ERU) which will result in an increase of \$28,330 in taxes.

The City Council elected in the past few years to use cash balances above reserve levels to cover rising costs, including higher municipal utility taxes. This allowed for no rate increase for the utility in 2012 and 2013, with the understanding that additional revenue would be needed in future years.

The Wastewater Utility relies upon flat-rates for single family residences and duplexes. However, a tiered system is being considered for potential implementation in 2014/2015. The tiered system would provide a lower rate for consumers that use very low quantities of drinking water and therefore generate low volumes of wastewater. An additional tier level could encourage water conservation among high drinking water users. Accounts other than single family residences and duplexes are currently charged a minimum flat rate plus charges based on drinking water usage.

Revenue

Revenue is anticipated to hold relatively constant in 2014. No grant funding or other appreciable revenues are anticipated for the operating budget.

Wastewater Treatment and Capacity Charges - LOTT Clean Water Alliance

The LOTT Clean Water Alliance operates a complex system of facilities worth an estimated \$750 million. LOTT's budgeting and revenue decisions are largely driven by infrastructure costs, including major upgrades to LOTT's Budd Inlet Treatment Plant that have been underway for the past several years. The infrastructure investment over the 2013-2018 planning period (capital improvements and debt service) represents 67% of LOTT's total projected expenses, with operating costs representing 33%

The Wastewater Service Charge (WSC), which is the monthly LOTT charge that ratepayers see on their utility bills, funds the Operating Budget and the portions of the Capital Improvements Plan that involve system repairs and needed upgrades. The Capacity Development Charge (CDC) is paid when users hook-up to the system, and is the primary funding source for projects that increase capacity for new growth on the system.

At the July 10, 2013 Work Session the LOTT Board was presented with a summary of the Preliminary Draft Budget and Capital Improvements Plan. Staff recommended a \$1.02 monthly increase, which continues the inflationary adjustment of 3% that was the basis for the 2013 rate. That adjustment is based on several factors governing construction materials, power, and chemical costs. This would result in a 2014 WSC rate of \$35.01.

The increase in the CDC uses the same inflationary adjustment, but also includes an additional increase of \$64.10 for a total increase of \$205.67, resulting in a 2014 CDC charge of \$4,924.54. The annual \$64.10 CDC increase was established in 2002 to pay for new capacity projects through 2020, and is not an inflationary adjustment.

At the August 14, 2013 meeting, the LOTT Board directed staff to inform the partner jurisdictions of the preliminary estimates for 2014 rates as shown above. The LOTT Board will set final rates when it approves LOTT's 2014 Operating and Capital Budgets, currently scheduled for November 13, 2013.

Drinking Water Utility: 7% rate increase

The preliminary operating and capital budgets for the Drinking Water Utility are based on the 2009-2014 Water System Plan (WSP) adopted by City Council. The WSP proposes a series of phased rate increases over the six-year period to support paying for large capital projects currently under construction and future projects that will occur in the next few years. The preliminary operating and capital budgets continue to fulfill the WSP by focusing on water supply, system reliability, water use efficiency, ground water protection and efficient operations.

The proposed 2014 budget includes increases due to inflation, taxes and debt service payments. For example, taxes are increasing by \$115,000, operating permits are going up by \$35,000, and the debt service payments to cover \$15,800,000 of bonds and loans for the McAllister Wellfield and water meter replacement project which will begin in 2014. The budget also reflects a reduction of two FTEs as we begin to transition to automated water meters in 2014.

It is important to note that we are experiencing a decline in revenue from wholesale water sales. Payments from Thurston PUD are expected to be \$18,000 less than last year, which reflects the PUD's efforts to minimize City water use. Wholesale revenues from the City of Lacey are assumed to be stable in 2014.

The 2014 budget includes continued annual transfers into the capital fund at the budgeted 2012 level (about \$734,000). This is consistent with the system reinvestment policy.

Rate Projections

Based on projected 2014 expenses and revenues, the utility will be out of balance in 2014 by approximately \$850,000 primarily due to the large debt service payments. An overall rate increase of 7 percent is recommended. Actual rate increases will vary by customer class and usage [see attachment]. The rate

projection reflects “smoothed” or levelized rates, consistent with prior UAC and Council direction. The City’s Water System Plan will be updated starting next year for the years 2015-2020, so the out years are subject to change based upon plan direction.

Also, reclaimed water charges are being expanded to include engineering fees and rates for indoor use. Since 2005, a rate for reclaimed water has existed only for irrigation (outdoor use); however, reclaimed water now includes indoor use. The proposed engineering fees are the same as for the Drinking Water Utility. The reclaimed water rates are 70% of those shown on the attachment.

Waste ReSources Utility

The Waste ReSources Utility is comprised of four distinct classes: Drop Box, Residential, Commercial and Organics. The operating budget was developed based on the policy direction set in the *Towards Zero Waste: Olympia's Waste ReSources Plan 2008-2013*.

Key drivers for the 2014 rates include tipping fees, salaries, benefits, equipment expenses, and an increase in State and City taxes. Recycle commodity values have continued to decline over 91 percent on average for all materials since May of 2011. All paper products have seen the largest reduction in value with tin cans experiencing a 30 percent reduction. Processing and handling fees are stable at \$80 per ton. However, values of the commodities are projected to fall short of covering these fees. Staff is requesting a \$61,000 increase to the residential special disposal fees.

Starting in January 2010, disposal fees for Municipal Solid Waste has risen over 48%. At that time Council adopted a 3% increase in Municipal Utility Tax and elected to apply excess reserves above the required 10% to help minimize the impacts. This smoothing was continued through 2013.

Based on projected 2014 revenue and expenses, staff projects the budget to be out of balance by approximately \$747,000. In effort to continue with Council goal to minimize the rate impact to residential customers, staff is recommending to continue rate smoothing through 2014. We can do this by using excess reserve above the 10% requirement and subsidizing the Organics program through commercial rates. Actual rate increases will vary by service class [Attachment]. Following is a summary of the proposed 2014 rates.

- Drop Box
 - Delivery/Set-up Fee Temporary Box (15% increase)
 - Rental Fee/Maintenance - Repair/Replace (3% increase)
 - Haul Fee (5% increase)
 - Service Fee (1% increase)
- Residential 8% increase
- Commercial 5% increase
- Organics 6% increase

A summary of all the Utility budgets and sample bi-monthly bill for a single-family residential customer are attached.

Neighborhood/Community Interests (if known):

The Utility Advisory Committee conducts an annual review of proposed utility and LOTT rates during the October meeting. The UAC will make formal recommendations on the proposed rates at the Public Hearing with the LOTT Board, and in the form of a letter to the City Council.

Options:

1. Support staff recommendations for 2014 utility rates and forward to City Council for their review.
2. Revise staff recommendations for 2014 rates and forward to City Council for their review.

Financial Impact:

Under Option 1, the typical Single Family Residential customer in Olympia will experience approximately a 4.8% overall increase in their bi-monthly bill or \$4.91 monthly.

Staff Recommendation:

Support Option 1 and forward to City Council for their review and approval.