



Finance Committee

Review 2014 Proposed Utility Rates

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Agenda Item:

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Committee Recommendation:

Develop recommendation to forward to full Council.

City Manager Recommendation:

Review the 2014 utility rate proposal and recommend the proposed rates to City Council for final review during budget deliberations.

Issue:

Utility rates are considered annually as part of the Council's budget deliberations, with advance review and a recommendation from the Finance Committee.

Staff Contact:

Clark Halvorson, Public Works Water Resources Director, 360.753.8426

Dan Daniels, Public Works Waste ReSources Director, 360.753.8780

Presenter(s):

Clark Halvorson, Public Works Water Resources Director

Dan Daniels, Public Works Waste ReSources Director

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 2014 Storm and Surface Water Utility 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 percent. In previous years, the City chose to use utility reserve funds to hold off the need for a rate increase during the economic downturn.

Revenue

Revenue continues to be fairly stable. Staff projects the utility to be out of balance by approximately \$132,000 in 2014.

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 percent. 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 percent and use fund balance above the required \$240,000 reserve to avoid a 9 percent rate increase. The projected reserve balance at the end of 2013 is \$425,260.

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.

Wastewater Treatment and Capacity Charges - LOTT Clean Water Alliance

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 percent 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 rate of \$35.01 per equivalent residential unit.

The increase in the development charge 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 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.

Drinking Water Utility: 7% rate increase

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 will begin in 2014 to cover \$15,800,000 of bonds and loans for the McAllister Wellfield and water meter replacement projects. The budget also reflects a reduction of two FTEs as we begin to transition to automated water meters in 2014.

Revenue is projected to decline as a result of decreased 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.

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].

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 percent 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 percent. At that time, Council adopted a 3 percent increase in Municipal Utility Tax and elected to apply excess reserves above the required 10 percent 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 percent requirement and subsidizing the Organics program through commercial rates. Actual rate increases will vary by service class (see 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 a sample bi-monthly bill for a single-family residential customer are attached.

Neighborhood/Community Interests (if known):

The Utility Advisory Committee (UAC) conducts an annual review of proposed utility and LOTT rates during the October 3 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 percent overall increase in their bi-monthly bill or \$4.91 monthly.