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City Council

Approval of Ordinance Adopting the 2014 Utility Rates and General Facilities Charges

Agenda Date: 12/17/2013

Agenda Item Number: 4.P

File Number: 13-1021

Type: ordinance **Version:** 2 **Status:** Passed

Title

Approval of Ordinance Adopting the 2014 Utility Rates and General Facilities Charges

Recommended Action

Committee Recommendation:

The City Council Finance Committee reviewed and discussed the City's Utility Advisory Committee's (UAC's) 2014 Utility Rate and General Facility Charge (GFC) proposal and recommended forwarding them to City Council for final adoption. The Utility Advisory Committee (UAC) recommendations are attached.

City Manager Recommendation:

Move to approve on second reading the attached ordinance for 2014 utility rates and charges.

Report

Issue:

Whether to approve an ordinance for 2014 Utility Rates and GFC charges for Water, Wastewater, Storm and Surface Water, and Waste ReSources Utilities. Potential increases to LOTT Clean Water Alliance rates and development charges have been part the budget discussions and are included in this ordinance.

Staff Contact:

Dan Daniels, Director, Public Works Waste ReSources, 360.753.8780

Andy Haub, P.E., Interim Director, Public Works Water Resources, 360.753.8475

Presenter(s):

Consent Item - No Presenters

Background and Analysis:

The background and analysis information has not changed from the first reading. The proposed 2014 Utility Rates and General Facility Charges (GFCs) are consistent with the master plans of the respective City utilities and the Comprehensive Plan. Rate increases are proposed for the four utilities, while GFCs are proposed for the Water, Wastewater, and Storm and Surface Water Utilities. The Waste ReSources Utility does not collect a GFC. GFCs reflect the substantial historical and planned investments in the utility infrastructure system and the associated policy to recover

growth related costs from future customers that connect to the system.

The LOTT Clean Water Alliance Board of Directors has approved increases for both monthly rates and their Capital Development charge (CDC). The CDC implements a LOTT Alliance cost recovery policy similar to the City's GFC policy. The UAC has reviewed and support these increases. The City collects LOTT charges through its utility billing and development permitting processes. The collected revenues are forwarded to LOTT.

Summary of Proposed 2014 Utility Rates, General Facility Charges (GFCs), and Capital Development Charges (CDC) for the City of Olympia and LOTT Alliance

Water

Seven Percent Rate Increase Proposed

With the proposed City utility rate for drinking water, each customer class (residential, non-residential and irrigation) will see a typical billing increase of 7 percent in 2014. Actual increases for individual accounts will vary depending on water usage.

Key utility rate drivers for 2014 include significant capital investments implemented as part of the Water System Plan as well as inflationary increases (e.g., salaries and benefits), new debt service (e.g., McAllister Wellfield development, service meter replacements), and inter-City transfers for fire suppression costs consistent with recent State Legislation. The 2014 rate increase continues to implement the Water Utility's policy of adopting modest rate increases over several years rather than a large increase in any one year. As feasible, costly capital projects have been delayed and/or debt financed in order to both minimize costs and distribute costs over multiple years. However, projects and programs necessary to protect public health are implemented in a timely manner.

The water General Facility Charge (GFC) will increase from \$3,209 to \$3,456 (7.7%). The increase is based on the Engineering News Record's Seattle Construction Cost Index (CCI).

Wastewater - City Utility

Four Percent Rate Increase Proposed

City utility charges for conveying wastewater to the LOTT Clean Water Alliance treatment facility are proposed for a 4 percent increase in 2014. The increase is substantially less than the projected 2014 revenue deficiency of approximately 9 percent. Fund balances above required reserves of \$240,000 will be expended in 2014 in order to hold the 2014 rate increase to 4 percent. Needed revenue increases will potentially be distributed over the next several years. As proposed, residential flat-rate charges for City wastewater services will increase from \$37.09 to \$38.56 per two month billing cycle.

Wastewater GFCs will increase 4.5 percent based on Utility-specific financial calculations provided by the 2013 Wastewater Management Plan. Charge will be \$3,342 per single-family residence.

Wastewater - LOTT Alliance Wastewater Treatment

Three Percent Rate Increase Proposed

The LOTT Clean Water Alliance Board of Directors approved increasing the 2014 bi-monthly charge for wastewater treatment by 3 percent or \$2.04 per two month billing cycle. The 2014 charge will be

\$70.02 bi-monthly for each equivalent residential unit. Increased revenue will cover inflationary increases for construction materials, power, and chemicals.

The LOTT Board also authorized increasing LOTT's capacity development charge (CDC) to \$4,583.30 for 2014. Similar to the City's GFC, the LOTT CDC collects a one-time fee from new utility connections. The CDC reflects the value of connecting to the LOTT's existing and extensive wastewater treatment system. These changes to LOTT's rates and charges are collected by the City and are therefore included in the attached ordinance.

Storm and Surface Water

Two Percent Rate Increase Proposed

The UAC and staff recommend a 2 percent rate increase for the Storm and Surface Water Utility. The increase results in a \$0.44 rate increase per two month billing cycle. The increase will apply evenly across residential and non-residential rate classes. The modest increase offsets various inflationary cost increases for existing services.

Storm and Surface Water GFCs will increase by 7.7 percent consistent with the Seattle Construction Cost Index. As proposed, the new GFC will be \$1,076 per new single-family residence. Other types of development (e.g. commercial) will see proportionately increased GFCs.

Waste ReSources

Variable Rate Increase Proposed

Waste ReSources incorporates a variety of rates for different services and customers. Residential garbage rates are proposed to increase by 8 percent; yard waste/organics are proposed to increase by 6 percent; and commercial garbage rates are proposed to increase by approximately 5 percent. Drop-box charges are also increasing slightly.

Similar to the Wastewater Utility, the Waste ReSources Utility will use fund balances in excess of needed reserves to offset a more substantial increase in 2014. Cost increases incurred by the Utility include higher tipping fees, salaries and benefits, equipment, and State and City taxes.

Waste ReSources does not collect GFCs, as the utility does not support an extensive infrastructure system.

Neighborhood/Community Interests (if known):

The overall impact of the proposed utility rate increases to a typical residential customer in 2014 will be 4.8 percent or a \$9.82 increase in their bi-monthly bills.

City Council held a Public Hearing on the 2014 budget including proposed utility rates on November 12, 2013. No comments were received.

Options:

Option 1: Move to approve on second reading the attached ordinance approving utility rate and development charges increase for 2014.

Implications:

1. Supports essential City Utility services.
2. Increases rates for customers and charges for new development.

Option 2: Modify or decline the proposed 2014 increases.

Implications:

1. Avoids, or lessens, additional customer costs.
2. Potentially reduces staffing, operations, or infrastructure projects.
3. Could prompt larger rate increases in the future.

Financial Impact:

The rate and GFC increases will generate revenue to support implementation of the Council-adopted utility master plans and maintain financial reserves consistent with City policies.