



## Utility Advisory Committee

### 2017 Utility Rate and General Facility Charges (GFC) Recommendations

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#### **Title**

2017 Utility Rate and General Facility Charges (GFC) Recommendations

#### **Recommended Action/UAC Deliverable:**

Review 2017 utility rates, including LOTT, and GFC proposals. Forward recommendations to Olympia Planning Commission, Council's Finance Committee and the City Council for review during budget deliberations this fall.

#### **Issue:**

Review 2017 rates, specifically the Wastewater and Storm and Surface Water Utilities (note: Drinking Water and Waste ReSources Utilities were reviewed during the August 18<sup>th</sup> UAC meeting).

#### **Staff Contact:**

Dan Daniels, Public Works Waste ReSources Director, 360.753.8780  
Andy Haub, Public Works Water Resources Director, 360.753.8475

#### **Presenter(s):**

Same as above

#### **Previous Utility Rate Work Items Before the UAC:**

The Utility Advisory Committee reviews City Utility finances, capital investments, and rates annually. The evaluation begins with review of the Capital Facility Plan (CFP) in June and concludes with Utility rate and GFC recommendations in September or October. UAC recommendations are important to subsequent City Council decision-making.

The 2017-2022 CFP was shared with the UAC on June 2. The UAC decided to continue the discussion in the context of overall utility finances and rates. A recommendation on the CFP is needed for the Olympia Planning Commission in September.

#### **Background and Analysis:**

The City Utilities provide vital public health services for our community - safe drinking water, sanitary sewers, waste reduction and disposal, flood management, and environmental protection. Utility staff emphasizes effectiveness and efficiency in the delivery of these services.

The City Utilities are municipal enterprise funds. They are financially self-supporting without the input of general tax funds. Conversely, Utility revenue does not support tax-based City programs. However, the Utilities pay a fair share of various City overhead costs (e.g., building mortgage, legal and executive services). Annual savings stay in the Utilities.

We are well aware of the financial burden of City Utilities on some members of our community. Utility rate increases over the past few years have been substantial. Last year, two of the utilities were granted 7percent rate increases. Staff began 2016 with a determination to bring forward modest, inflationary at most, rate increase proposals for 2017. We have not been successful. Once again, we are proposing substantial rate increases. The proposed rate increases ensure that Utility services continue reliably and without interruption.

Fortunately, the City Utilities are in good shape. Local, state, and federal public and environmental health mandates are either met or being addressed. We understand that our community expects this level of service. It comes at a cost.

The City Manager and Council's Finance Committee propose transitioning from bi-monthly Utility bills to monthly bills in 2017. The estimated cost is \$300,000 per year or \$75,000 per Utility. The Committee asks that the UAC weigh in on this proposal.

The proposed rates include a salary cost of living allowance (COLA) for all Utility employees. Union contracts and annual City sales tax revenue influence the amount of the COLA.

General facility charges (GFCs) are also reviewed during the annual budget process. GFCs are a one-time charge collected from new development. The charges reflect the financial value of the existing Utility infrastructure and the benefits the system provides to new development. Each of the water-related Utilities collects a unique GFC.

GFCs are determined by a State-guided set of calculations that define the value of the existing and planned infrastructure and the distribution of costs among current and future users. Every few years, City staff hires independent financial consultants to evaluate the GFCs.

LOTT Clean Water Alliance also charges monthly rates for operating the wastewater treatment facility as well as a capacity development charge (CDCs). The rates are approved and collected by the City and passed on to LOTT. LOTT CDC is similar to the City's GFC.

### **Summary of Proposed 2017 Rates**

As detailed in the following sections, the proposed 2017 City combined rate increases for a typical single-family residence includes the following:

- The three water-related Utilities would increase three percent or \$3.61 per month.
- Waste ReSources basic rates would increase one percent or \$0.23 per month. Additionally, optional yard waste/organics pick-up would increase 6.5 percent or \$0.62 per month. Commercial accounts would increase two percent.
- LOTT proposes a three percent or \$1.11/month increase.
- The total residential rate increase would be \$4.95 or \$5.57 per month, without or with yard waste pick-up, respectively.
- With these rate increases, typical City and LOTT bi-monthly Utility bills with yard waste service

would increase 4.7 percent from approximately \$235 in 2016 to \$246 in 2017 (\$123.50/month). Except for commercial waste pick-up, multifamily and non-residential accounts would increase at the same percentage.

- City GFCs would increase approximately \$262 for a newly constructed single-family home. LOTT's CDC would also increase \$224 in 2017 to \$5,579. Combined City GFCs and LOTT CDCs for a new single-family home in 2016 total \$13,904.

### **Supplemental Financial Information**

Staff is providing the following supplemental information for UAC members who are interested in more detail than provided in the staff report narrative. Please do not feel compelled to study it. We can discuss the information at the August 18<sup>th</sup> UAC meeting.

### **2017 Rate Proposals**

**Storm & Surface Water Utility:** 6.9 percent rate increase proposed (\$0.88/month/single-family residence).

The Storm and Surface Water Utility responds to flood mitigation, water quality improvement, and aquatic habitat enhancement needs. The Utility also leads City-wide implementation of the regulatory requirements of the State's NPDES (National Pollution Discharge Elimination System) Phase II permit.

The proposed 6.9 percent rate increase covers expenditure increases of \$301,000. The total Utility budget for 2017 is \$5,366,000. With the proposed rate increase, single-family residences would see a \$0.88 monthly increase in their storm and surface water rates. Rates in 2017 would be \$13.62/month.

The proposed budget incorporates increasing salaries including COLAs (\$56,000) and benefits (\$66,000) and various City overhead costs including City and Public Works administration, City Hall rent, Fire Department technical rescue services and taxes (\$80,000). Funding for transition to monthly billing is included (\$75,000). Additionally, the Utilities pay State and City taxes of approximately 11.5 percent on rate revenue.

No appreciable program modifications or expansions are proposed. However, we are requesting that the City Manager support, subject to City Council approval, a \$16,000 enhancement to begin implementing recently-adopted low impact development (LID) code revisions. The funds will support increased vegetation maintenance at stormwater management facilities. The UAC and City Council supported the LID code revisions.

Assuming continued UAC support, the aquatic habitat stewardship program will continue in 2017 and beyond. The two-year pilot program expires at the end of 2016. Funding for the program (\$360,000) has been provided in the CFP. One temporary, project employee will transition to a permanent position in 2017. The action is financially neutral and does not prompt a rate increase in 2017.

Revenue from new customer accounts is assumed to be one percent or roughly \$45,000. Unfortunately, we anticipate continued rate increases in the Storm and Surface Water Utility in the years to come. For example, response to sea level rise remains minimal in 2017

(\$120,000/annually).

Storm and Surface Water GFCs: No increase proposed.

Based on independent financial analysis (FCS Group, 2013), the City increased the storm and surface water GFC from \$1,094 to \$1,190 per single-family residence in 2015.

The financial analysis also justified increasing the trip-generated charge from \$1.80/vehicle trip to \$11.24/trip. The trip charge incorporates the fact that some new land uses result in a greater number of vehicle trips to and from the land use on a daily basis than other land uses. For example, a convenience store generates more trips per day and therefore more City-wide vehicle-related water quality problems than an art studio. Vehicle use generates the need for publicly-funded water quality retrofit of our streets. Estimated trips by land use type follow industry standards.

In 2016, the trip charge increased to \$4.50/vehicle trip. In light of the upcoming comprehensive financial evaluation associated with the 2016-2017 update to the Storm and Surface Water Plan, we recommending holding the trip charge constant in 2017.

**Wastewater Utility:** 4.5 percent rate increase proposed (\$1.07/month/single-family residence).

The City's Wastewater Utility safely conveys wastewater from our homes and businesses to the LOTT Clean Water Alliance treatment facility in downtown Olympia.

The proposed operating budget for City wastewater services reflects the goals and policies of the City's 2013 - 2018 Wastewater Management Plan.

The 2017 proposed budget for the Wastewater Utility is anticipated to increase by approximately \$260,000. The total Utility budget for 2017 is \$6,678,000. Wastewater salaries and benefits will increase by approximately \$81,000. Taxes associated with LOTT rates could increase approximately \$150,000. Some costs will decrease. Funds for the conversion to monthly billing are included (\$75,000).

Wastewater GFCs: No proposed increase.

Wastewater GFCs increased three percent in 2016 to \$3,442/single-family residence. A recent financial analysis justifies a \$13.00 increase. Staff recommends deferring the increase to a future year.

**LOTT Clean Water Alliance:** Three percent proposed rate increase.

The LOTT Clean Water Alliance (Lacey, Olympia, Tumwater, and Thurston County) collects revenue for its operations and capital projects through the Utility bills of the local jurisdictions. LOTT charges are approved by the LOTT Board of Directors which is comprised of one elected official from each of the four partner jurisdictions.

LOTT's budgeting and revenue decisions are largely driven by infrastructure costs, including major upgrades to LOTT's Budd Inlet Treatment Plant. Infrastructure investments including debt service over the 2013-2018 planning period represent 70 percent of LOTT's total projected expenses. Operating costs, including staffing, represent 30 percent of the total.

Preliminarily, LOTT rates are scheduled to increase by three percent or roughly \$1.11/month. The increases are being evaluated by the Board of Directors and City staff.

The LOTT CDC would increase \$224 to \$5,579.

**Drinking Water Utility:** 7.3 percent rate increase proposed (\$1.66/month/single-family residence).

Meeting the capital needs of the Drinking Water Utility remains our primary challenge. Drinking water rates were increased six percent and 7.3 percent in 2015 and 2016, respectively. The total Utility budget for 2017 is \$13,318,000, which is a \$990,000 increase from 2016.

The Drinking Water budget is more complicated than the other two water-related Utilities. Both expenditures and revenues are influenced by external dynamics including water sales to other jurisdictions, weather conditions, and water conservation. Compared to 2015, we expect 2016 and 2017 revenues to be down.

Services of the utility are consistent with the recently-adopted 2015-2021 Water System Plan. Utility finances were comprehensively evaluated in the Plan.

The costs associated with meeting State and federal public health directives are an ongoing challenge for the Drinking Water program. Our policies mandate full compliance with public health directives. Debt payments will increase for three major new construction projects (\$18 M) coming online in 2017-2018.

At the same time, we seek to maintain the overall integrity of our existing infrastructure system. The system is too extensive and costly to ignore. For example, the cost of sealing and painting a water reservoir is approximately \$650,000. Seismic retrofits of old reservoirs, while discretionary, seem prudent (\$1.2 M).

The proposed rate increase fulfills two key needs:

- Ramping up rates to begin covering \$1.2 M in new annual debt payments in early 2018. The 2017 rates as proposed will generate approximately \$420,000 of the needed \$840,000. An identical rate increase will be needed in 2018.
- Increasing annual capital funding by \$210,000 per year. Several years ago, our financial consultants strongly encouraged us to increase annual cash funding for drinking water projects from the current level of \$780,000 to \$1,700,000/year. We propose beginning this increase in 2017. However, this action is discretionary and subject to UAC discussion.

These two financial needs account for 6.25 percent of the proposed 7.3 percent rate increase. Loan repayment (4 percent) is not discretionary.

Salary and benefit increases including a COLA of approximately \$129,000. City overhead services are budgeted to be \$117,000 higher than 2016. Key financial drivers include fleet costs, insurance, engineering services and taxes. Funding for conversion to monthly bills is included (\$75,000). Revenue from telecommunication antenna leases for utility water towers continues to help the Utility budget (\$360,000).

Aside from these challenges, the Utility remains financially stable and meets its mandates. Our community's water quality is excellent and our water rights are adequate for at least 50 years.

The base water charge for a single-family residence in 2016 is roughly \$24.12/month. Under this rate proposal, it would increase to \$25.77. We anticipate a similar rate increases in 2018.

Drinking Water GFCs: 6.7 percent increase proposed.

A 2014 calculation by independent consultants indicate that Drinking Water GFCs could increase from \$3,456 to \$4,150, a \$692 increase per new single-family residence. The increase reflects the high level of ongoing capital investment.

Drinking Water GFCs were increased 6.7 percent in both 2015 and 2016. Another 6.7 percent increase in 2017 brings the GFC to \$4,180. The 2017 increase would generate about \$50,000 per year. All GFC funding is dedicated to capital projects.

**Waste ReSources Utility:** Varying rate increases proposed.

The Waste ReSources Utility provides a wide range of waste reduction, recycling and disposal services. It implements programs for residential, commercial, drop box, and organics customers. Policy direction is set by the *Towards Zero Waste: Olympia's Waste ReSources Plan 2015-2020*.

The key drivers in the proposed 2017 budget remain the same with tipping/tonnage fees, salaries, benefits, equipment, fuel, and taxes making up over 88 percent of the total budget. The 2017 budget also reflects the need to maintain one of the front-load collection trucks we plan to replace in early 2017 as a backup to the commercial fleet. Additionally, the rates include Waste ReSources' portion of the proposed monthly utility billing (\$75,000) and, in order to keep up with growth in both residential and commercial sectors, a new full-time collector position.

Annexations and existing growth is expected to add an additional 1,000 combined commercial and residential customers by the end of 2017. Commercial garbage tons are currently trending toward an increase of over 1,150 tons this year. Yard waste/organics subscriptions are up five percent over the last year, adding an additional 240 tons of material collected. Weights and volumes of these three programs are cause for additional routes and routing changes.

On the revenue side, increase in garbage customers and tonnages bring revenue to support them. Recycle commodity values continue on a slight roller-coaster. However, new recycle contracts have allowed us to separate the hauling and processing of materials enabling us to minimize the impact. The combined value of recycle commodities is still projected to fall short of customer fees. Given this dynamic, the 2017 proposed budget reflects a \$22,000 increase in residential special disposal fees.

Rate smoothing for the large 48 percent garbage disposal fee increase of 2010 at the Thurston County Waste and Recovery Center ended in 2014. Revenues for 2015 and beyond need to cover expenditures without the use of any reserve funds.

Based on projected 2017 revenues and expenditures, the Waste ReSources budget is out of balance by approximately \$266,496. Staff recommends implementing rate increases for all four service

classes. Continuing to smooth rates and subsidize the organics program through commercial rates, as subscriptions continue to grow, is also recommended.

Proposed rate increases for 2017 include the following:

- Drop box      three percent
- Residential   one percent
- Commercial   two percent
- Organics      6.5 percent

The proposed rate increase for an average residential customer (65-gallon with recycle, bi-weekly) follows:

	2016	2017	Difference
Garbage rate increase (1percent)	\$46.31	\$46.79	\$.46
Yard waste/organics rate increase (6.5percent)	\$19.25	\$20.49	\$1.24
Total bi-monthly with garbage, recycle and organics	\$65.56	\$67.28	\$1.70

Waste ReSources GFCs: N/A. Waste ReSources does not collect a GFC. The Utility budget is dominated by operating rather than infrastructure costs.

**Neighborhood/Community Interests (if known):**

City Utilities provide essential public health services to Olympia residents. These services cost approximately \$120/month/single-family residence. Rates have been increasing, and may continue to increase, at greater than inflationary rates.

**Options:**

The UAC is expected to provide recommendations to Council in September.

1. Support staff proposals for 2017 City utility rates and GFCs. Provide input on LOTT rates.
2. Propose alternative rate recommendations.

**Financial Impact:**

Under Option 1, typical single-family residential customers will experience a 4.7 percent increase in their utility bill.

**Staff Recommendation:**

Proceed with Option 1.

**Attachments:**

September 1<sup>st</sup> Attachments

Follow-up to Capital Facility Plan comments from June 2, 2016 UAC minutes

Monthly Billing Information

August 18<sup>th</sup> UAC Meeting Attachments   Water Resources

1. Drinking Water Charts
  - a. 2016 Costs by Program
  - b. 2016 Budget Items
  - c. 2016 vs 2017 Overhead and Taxes

- d. CFP and Operating Budget Expenditures
- 2. Wastewater Charts
  - a. 2016 Costs by Program
  - b. 2016 Budget Items
  - c. 2016 vs 2017 Overhead and Taxes
  - d. CFP and Operating Budget Expenditures
- 3. Storm and Surface Water Charts
  - a. 2016 Costs by Program
  - b. 2016 Budget Items
  - c. 2016 vs 2017 Overhead and Taxes
  - d. CFP and Operating Budget Expenditures
- 4. Operating Budget and Capital Program Cash Flows Table
- 5. Debt Service Table
- 6. Financial Parameters Table
- 7. City Utility Rate Comparison Tables
- 8. National Analysis of Municipal Utility Costs

Waste ReSources

- 9. Proposed 2017 Budget and Rate Information