



Finance Committee

Preliminary Review of Utility Rates

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Title

Preliminary Review of Utility Rates

Recommended Action

Committee Recommendation:

The Utility Advisory Committee has reviewed and recommends the proposed 2018 utility rates and general facility charges and recommends they be forward to Council for further consideration.

City Manager Recommendation:

Move to forward the proposed 2018 utility rates and general facility charges to Council for further consideration.

Report

Issue:

Whether to forward proposed 2018 utility rates and general facility charges to the full Council as recommended by staff.

Staff Contact:

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Presenter(s):

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

Background and Analysis:

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 the spring and concludes with Utility rate and general facility charges (GFC) recommendations in October. Utility staff can provide a verbal update on UAC proceedings at the Finance Committee meeting.

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. Annual savings stay in the Utilities.

The City Utilities continue to be 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.

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.

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

Summary of Proposed 2018 Rates

As detailed in the following sections, the proposed 2018 City combined rate increases for a typical single-family residence includes the following:

- All Utilities are assuming a 1.5 percent growth in residential and commercial accounts. This growth is the equivalent of approximately 225 new residential accounts. Growth is helping offset cost increases and therefore working to reduce potential rate increases
- Budgets include an estimated cost-of-living adjustment (COLA) for all Utility employees. Union contracts and annual City sales tax revenue influence the amount of the COLA.
- Other operating expenses including benefits are essentially flat. Funds are occasionally moved from one expenditure line item to another in order to better reflect costs of services, but overall the impact is neutral.
- The proposed combined rate increase for the four Utilities and LOTT is 2.7 percent. The bi-monthly utility bill would increase from approximately \$242 to \$249. This does not include optional yard waste collection (\$11.95/month).
- LOTT proposes a two percent increase (\$0.76/month).
- Drinking Water GFCs are proposed to increase \$253/single family residence to \$4,433. Wastewater and stormwater GFCs will not increase. LOTT's capacity development charge (CDC) would increase 4.1 percent to \$5,810. Combined City GFCs and LOTT CDCs for a new single-family home in 2018 would total \$14,875.
- Revenue collected through GFCs has been strong in 2016 and 2017. This revenue source has helped fund the three Capital Facilities Plans (CFPs).

2018 Rate Proposals

Storm & Surface Water Utility: Zero percent rate increase proposed.

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 current balancing position for 2018 (revenue less expenditures) for stormwater is approximately \$60,000. Total expenditures for 2018 are projected to be \$5,334,000, a \$23,000 increase over 2017. No appreciable program modifications or expansions are proposed.

While 2018 looks good, we anticipate financial challenges for the Storm and Surface Water Utility in coming years. The draft Storm and Surface Water Plan that staff will present to the UAC and City Council in early 2018 is the appropriate venue to discuss these challenges.

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.

Additional increases are justified. However, in light of the comprehensive financial evaluation associated with the draft Storm and Surface Water Plan, we recommend holding the GFC constant in 2018 and discussing the issue during the 2019 budget process.

Wastewater Utility: Zero percent rate increase proposed.

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 2018 proposed budget for the City's Wastewater Utility is anticipated to increase by approximately \$80,000 to \$6,960,000. Utility expenditures are flat except for the salary COLA and a few minor increases (i.e, building rent, energy, tax on LOTT rates). With a 1.5 percent growth in accounts, the current balancing position (revenue less expenditures) for 2018 is \$49,000.

Wastewater GFCs: No proposed increase.

Wastewater GFCs were increased three percent in 2016 to \$3,442/single-family residence.

LOTT Clean Water Alliance: Two percent rate increase. LOTT CDC increase of 4.1 percent.

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. LOTT staff briefed the UAC on their finances in June.

In August, the LOTT Board approved the two percent (\$1.13/month) rate increase as well as the CDC increase. LOTT charges for Olympia customers will increase to \$13,296,000 in 2018. The LOTT CDC will increase 4.1 percent (\$231) to \$5,810.

Drinking Water Utility: 4.4 percent rate increase proposed.

The Drinking Water Utility continues to have infrastructure needs. Some needs are required by public health mandates; others reflect needed upgrades and replacements of infrastructure. Services of the Utility are consistent with the recently-adopted 2015-2021 Water System Plan. Utility finances were comprehensively evaluated in the Plan.

Drinking water rates increased appreciably in recent years. This year's recommendation is more modest. We propose a 4.4 percent rate increase. The rate increase is entirely linked to our need to start making loan payments in 2018 on three major capital projects - Log Cabin Reservoir, Meridian Reservoir Corrosion Control Facility, and the Fones Road Booster Station. The three projects total \$18 million. We have gradually ramped up rates over the past two years to cover the loan payments - 2018 will be the final increase.

The proposed Utility budget for 2018 is \$13,905,000, a \$607,000 increase from 2017. The projected 1.5 percent growth in account revenue helps reduce new revenue needs and generates a current balancing position (revenue less expenditures) of -\$440,000.

Several years ago, our financial consultants encouraged us to increase annual cash funding for drinking water projects to \$1,700,000/year. Our current funding level is \$997,000. Given strong economic growth and new development, the drinking water GFC revenues are currently higher than budgeted. GFC revenues go directly to the capital budget. With this in mind, we recommending deferring further increases in capital funding that would necessitate a rate increase. This will re-evaluated next year as part of the 2019 budget review.

The Utility is becoming more financially stable and continues to meet its mandates. Our community's water quality is excellent and our water rights are adequate for at least 50 years.

With this rate proposal a typical water charge for a single-family residence would increase from \$51.00/bi-monthly to \$53.24/bi-monthly.

Drinking Water GFCs: 6.7 percent increase proposed.

Given substantial recent capital investments, an increase in the GFC is warranted. A 2014 calculation by independent consultants indicate that Drinking Water GFCs should increase from \$3,456 to \$4,433.

Drinking Water GFCs were increased 6.7 percent in both 2015 and 2016. The proposed 6 percent increase in 2018 would bring the GFC to the recommended \$4,433. The increase would generate about \$50,000 per year. All GFC funding is dedicated to capital projects.

Waste ReSources Utility: Proposed rate increases vary by customer class (see table).

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 proposed Waste ReSources 2018 expenditures are \$11,924,643, a \$925,856 increase over 2017. However, the cost is largely offset by increased revenue, including the value of recyclables and

increases in customers through annexations and growth. Based on projected 2018 revenues minus expenditures, the Waste ReSources budget is out of balance by approximately \$221,000.

Staff recommends base rate increases for three of the four service classes. Continuing to smooth rates and subsidize the organics program through commercial rates is also recommended. Staff will be prepared to discuss the option of lowering the proposed organics rate increase by slightly raising the proposed commercial rate.

Staff are also evaluating future facility needs for Waste ReSources. This is part of a larger feasibility study funded by City Council that is exploring future maintenance facility needs. Additional background is contained in recent Finance Committee staff reports (Files #17-0532 and #17-0771).

As discussed with Finance Committee, staff recommend the creation of a future debt reserve to fund the new facility. This future debt reserve would be funded through a phased set of rate increases over five years. The first rate adjustment would be 4 percent above the base rate beginning in 2018.

Based on the above, the proposed Waste ReSources rate increases for 2018 include the following:

Customer Class	Base	Debt Reserve	Total
Drop Box	2%	4%	6%
Residential	2%	4%	6%
Commercial	0%	4%	4%
Organics	6%	4%	10%

Waste ReSources GFCs: N/A. Waste ReSources does not collect a GFC.

Neighborhood/Community Interests (if known):

City Utilities provide essential public health services to Olympia residents. These services cost approximately \$125/month/single-family residence.

Options:

1. Support staff proposals for 2018 City utility rates and GFCs. Forward the proposals to Council for further consideration.
2. Propose alternative rate recommendations.

Financial Impact:

Under Option 1, including the additional debt reserve for Waste ReSources, the typical single-family residential customers will experience a 2.7 percent increase in their 2018 utility bill. Non-single family residential accounts would see proportional increases.

Attachments:

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Proposed 2018 Bi-monthly Utility Bill and GFCs