



Finance Committee

Preliminary Review of 2019 Utility Rates and General Facility Charges

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Title

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Recommended Action:

Committee Recommendation:

The Utility Advisory Committee (UAC) recommends the proposed the proposed 2019 utility rates and general facility charges.

City Manager Recommendation:

Move to recommend the proposed 2019 utility rates and general facility charges and forward to Council for further consideration.

Issue:

Whether to recommend the proposed 2019 utility rates and general facility charges and forward to Council for further consideration, as recommended by staff and the Utility Advisory Committee (UAC).

Staff Contact:

Gary Franks, Waste ReSources Director, Public Works Department, 360.753.8780
Andy Haub, Water Resources Director, Public Works Department, 360.753.8475

Presenters:

Andy Haub, Water Resources Director
Gary Franks, Waste ReSources Director
Dever Haffner-Ratliffe, UAC Chair

Background and Analysis:

City Utilities are expected to provide uninterrupted public health services for our community. Our responsibilities include ensuring drinking water is healthy, sewer infrastructure safely conveys waste to the LOTT treatment facility, solid waste is managed for reuse or disposal, flooding is minimized, and our urban natural resources are protected.

Given these core public health mandates, Utilities are structured as municipal enterprise funds. Enterprise funds are financially self-supporting, rather than supported by general tax funds. The Utilities pay a fair share of various City overhead costs (e.g., building mortgage, insurance,

administrative overhead).

Typical single family residences pay a bi-monthly utility bill totaling \$250 for the four City Utilities and LOTT Clean Water Alliance. Multifamily, commercial, and institutional customers are charged on a similar rate structure that incorporates their variable use of utility services. Annual rate increases are expressed to the Utility Advisory Committee (UAC) and Council as changes to single family accounts, acknowledging that non-single family accounts see similar percentage changes in their bills.

Consistent with national trends, City utility rates often increase in excess of inflation. Many State and Federal mandates feed into these increases. Fortunately, our programs and infrastructure are in overall good shape compared to many cities. Still, we need to keep up with new needs while maintaining and upgrading our increasingly aging infrastructure.

In recent surveys, our community confirms that they understand both the importance of our services and the competence that we bring to our responsibilities. They apparently understand that our services come at a cost.

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 charges monthly rates for operating the wastewater treatment facility as well as a capacity development charge (CDC). The LOTT CDC is similar to the City's GFC. The rates are approved by the LOTT Board, collected by the City, and passed on to LOTT. The LOTT Board of Directors has already provided 2019 rate and CDC increases to the cities.

Summary of Proposed 2019 Rates

With few exceptions, costs associated with providing our core services are relatively flat for 2019. Economic growth in Olympia is generating additional revenue that helps offset these annual cost increases (e.g., salary, benefits, energy, insurance). Our revenue projections for 2019 include a one percent growth-related increase for Waste ReSources and a 1.5 percent increase for the three water Utilities.

Even with additional revenue, we are bringing forward rate increases in two of the four City Utilities for 2019. LOTT is also proposing a rate increase of three percent. Overall key drivers to potential rate increases include:

- A two to three percent salary cost of living allowance (COLA) for City employees.
- Deterioration of commodity markets for recyclables.
- A new operations and maintenance staff position.
- Raising the municipal tax on utilities by 0.5 percent.
- The need for continued sea level rise response funding.

The specific potential cost increases for each utility are discussed in subsequent sections.

2019 Budget and Rate Analysis

Storm & Surface Water Utility: 5.1 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 National Pollution Discharge Elimination System (NPDES) Phase II permit.

The current balancing position for 2019 (projected revenue less expenditures) for stormwater is approximately -\$37,000. Total expenditures for 2019 are projected to be \$5,511,000, a \$104,000 increase. The expenditure increase is partially offset by increasing revenue.

Major new expenditures include:

- Salary COLA at three percent: \$46,000 or a 1.0 percent rate increase.
- Sea level rise response: \$125,000 annually or a 2.7 percent rate increase.
- New operations vehicle: \$3,800 annually or a 0.06 percent increase. Cost is split with the Wastewater Utility.
- 0.5 percent increase in municipal taxes: \$30,000 or a 0.6% increase.

Storm and Surface Water GFCs: 10 percent increase proposed.

Based on an independent financial analysis, Storm and Surface Water GFCs could justifiably be increased from the current base charge of \$1,190/new single family residence to \$2,383. Also, the vehicle trip component of the GFC could be increased from \$4.50/vehicle trip to \$19.04/vehicle trip. The GFC was not increased in 2018.

Staff propose phasing in increases - a 10 percent base charge increase (\$119) and a \$1.50/trip increase (totaling \$12) for new single family residences. GFCs for non-residential developments would see proportional increases.

Wastewater Utility: No rate increase proposed.

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

The 2019 proposed budget for the City's Wastewater Utility is anticipated to increase by approximately \$74,000 to \$7,062,477. The total Wastewater Utility expenditures also include payments to LOTT (\$12,295,940 in 2018).

New expenditures include:

- Salary COLA at three percent: \$34,000.
- 0.5 percent increase in municipal taxes: \$101,000. The City Wastewater Utility pays the tax on LOTT pass-through revenue. Since the combined City Utility and LOTT revenues total \$20 M, a 0.5 percent tax increase is substantial.
- Additionally, the Utility will pay taxes on potential new LOTT revenues associated with their

three percent rate increase: \$43,000.

- New Maintenance Work I staff position: \$35,000. Pump Stations Section has increased the number of critical facilities it operates from 38 to 87 in 20 years - without a staff increase. The cost of the position would be split with the Drinking Water Utility.
- Additional operations vehicle: \$3,800 annually. Cost would be split with the Storm and Surface Water Utility.

With increasing revenues helping offset costs, staff and the UAC do not recommend a rate increase in Wastewater for 2019. Revenues and expenditures will be monitored in 2019 and a rate increase considered for 2020.

Wastewater GFCs: No proposed increase.

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

LOTT Clean Water Alliance: 3 percent rate increase and a 4 percent increase in the CDC.

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

On August 8, the LOTT Board preliminarily approved a 3 percent (\$1.40/month) rate increase. With this rate increase, LOTT charges for Olympia customers would increase approximately \$400,000 in 2019. CDC will increase by 4 percent. The 2019 CDC will increase \$239 to \$6,049.21.

Drinking Water Utility: No rate increase proposed.

Drinking water rates have increased appreciably in recent years. Last year's increase was 4.4 percent.

The proposed Utility expenditures for 2019 are \$14,411,962 a \$327,000 increase over 2018. The projected 1.5 percent growth in account revenue generates a current balancing position (revenue less expenditures) of -\$226,000.

New expenditures for the Drinking Water Utility include:

- Salary COLA at three percent: \$72,000.
- Benefits correction: \$134,000. Annual benefit calculations in 2017 for 2018 came in too low. Unfortunately, the combined correction for 2018 and 2019 is substantial.
- New Maintenance Work I staff position: \$35,000. The cost of the position would be split with the Wastewater Utility.
- 0.5 percent increase in municipal taxes: \$30,000.

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

Similar to Wastewater, strong revenues are helping offset new costs. We expect this trend to continue in 2019 and can therefore defer a rate increase.

Drinking Water GFCs: No proposed increase.

The current GFC of \$4,433/ single family residence reflects recent capital investments. Drinking Water GFCs were increased 6.7 percent in both 2015 and 2016.

Waste ReSources Utility: Varying rate increases proposed (see table below).

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 2019 budget is \$12,814,200, a \$337,629 (or 2.7% increase) over 2018. While organics and commercial garbage expenditures remain relatively flat, we project a historic loss of revenue in residential accounts due to the recycle commodity values dropping to unprecedented levels since January. The loss of recycling revenue creates a budget impact of more than \$400,000. Uncertainty about commodity values is expected to continue for the near future, possibly 18-36 months.

Drop box accounts have seen an expense increase due to an increase in salaries, benefits, fuel, and replacements of drop boxes.

Other key drivers in the proposed 2019 expenditures remain the same with tipping/tonnage fees, salaries, benefits, equipment, fuel, and taxes making up over 86 percent of the total budget. As with the water-related utilities, proposed expenditures include salary COLA increases and a municipal tax increase of 0.5%.

On the revenue side, with a surge in the economy, commercial garbage is bringing in more revenue, which will help balance the overall fund.

Based on projected 2019 revenues minus expenditures, the Waste ReSources budget is out of balance by approximately \$425,781. Staff and the UAC recommend implementing rate increases for two service classes (residential & drop box). Continuing to smooth rates by subsidizing the organics program, and offsetting the revenue shortfall in residential with commercial revenue.

Based on the above, the proposed 2019 Waste ReSources rate increases are as follows:

<u>Customer Class</u>	<u>Rate Increase</u>
Drop Box	5.5%
Residential	5.5%
Commercial	0%

Organics 0%

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

Implications of Potential Rate Increases

The combined expenditures for the four utilities and LOTT in 2019 is projected to be \$54,196,000. With the recommended rate increases, typical residences and businesses would see a 2.6 percent increase in their bills. For residences, this increase would be approximately \$6.40 every two months.

Optional yard waste service is not included in these estimates. The service costs \$20.50 bi-monthly for a residence.

Overall GFCs would increase from \$14,911 for a single family home to \$15,254.

Neighborhood/Community Interests (if known):

City Utilities provide essential public health services to Olympia residents.

Options:

1. Move to recommend the proposed 2019 utility rates and general facility charges and forward to Council for further consideration. These rate and GFC increases will allow the Utilities to continue to provide necessary services to our community and are supported by both staff and the UAC.
2. Propose alternative rate recommendations.

Financial Impact:

Under Option 1, the typical single-family residential customers will experience a 2.6 percent increase in their 2019 utility bill.

Attachments:

None