



Utility Advisory Committee

2018 Utility Rate and General Facility Charges (GFC) Recommendations

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Title

2018 Utility Rate and General Facility Charges (GFC) Recommendations

Recommended Action

Review staff's recommended rates and GFCs for 2018.

Report

Issue:

Review 2018 Utility rates, including LOTT, and GFC proposals. Forward recommendations to City Council for review during their budget deliberations. Council's Finance Committee plans to review Utility rates on October 11, 2017.

Staff Contact:

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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 the spring and concludes with Utility rate and GFC recommendations in September or October. UAC recommendations are important to subsequent City Council decision-making.

City staff shared the 2017-2022 CFP with the UAC in May. 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 Planning Commission in September or October.

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. Fortunately, the proposed 2018 rate increases are modest. Minimal internal cost increases combined with economic growth in the community has created a welcome relief from past rate increases.

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 and it comes 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 (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.

The UAC has requested supplemental information regarding rates and finances in preparation for the September UAC meeting. The information is summarized in various attachments. Staff can discuss in further detail the information at the UAC meeting.

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:

- A three percent salary cost of living allowance (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.
- 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.
- The proposed combined rate increase for the four Utilities and LOTT is 1.9 percent. The bi-monthly utility bill would increase from approximately \$242 to \$247. This does not include optional yard waste collection (\$10.86/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% 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 (See attachment - Utility GFCs). This revenue source has helped the three Capital Facilities Plans (CFPs).
- Projected year-end balances for 2017 are healthy.
- Current economic growth and new development are having a strong positive impact on our finances.

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 (revenue less expenditures) for stormwater is approximately \$60,000. Total expenditures for 2018 are projected to be \$5,334,000, a \$23,000 increase. The increase is associated with the salary COLA.

No appreciable program modifications or expansions are proposed. However, we are requesting City Manager support for moving funding for two positions from the CFP to the operating budget. This move is revenue neutral for one of the positions. Several options are being investigated for funding the second position, none of which would necessitate a rate increase.

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 late 2017/early 2018 is the appropriate venue to discuss these challenges. Rate and GFC increases may be needed in the future.

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. A minor increase (trip-generation charge) was approved in 2016.

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

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. 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.

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 would increase 4.1 percent (\$231) to \$5,810.

Drinking Water Utility: 4.4 percent rate increase proposed (\$1.12/month/single-family residence).

The Drinking Water Utility continues to have infrastructure needs. Some needs are required by our public health mandates; others reflect needed upgrades and replacements. 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 proposed a 4.4% 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 Pump 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 generates a current balancing position (revenue less expenditures) of -\$440,000 and the proposed 4.4 percent rate increase.

Last year, the UAC supported 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 to \$1,700,000/year. With the additional \$210,000, our current funding level is \$997,000. Given strong economic growth and new development, the drinking water GFC revenues are appreciably higher than budgeted (See attached). 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.

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.

With this rate proposal a typical water charge for a single-family residence would increase from \$25.50/month in 2017 to \$26.62/month in 2018.

Drinking Water GFCs: 6.7 percent increase proposed.

Given substantial recent capital investments, we are recommending an increase in the drinking water GFC. A 2014 calculation by independent consultants indicate that Drinking Water GFCs could increase from \$3,456 to \$4,433. 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 percent increase in 2018 would bring the GFC to \$4,433. The increase would generate about \$50,000 per year. All GFC funding is dedicated to capital projects.

Waste ReSources Utility: Varying rate increases proposed (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 budget is \$11,924,643, a \$925,856 increase over 2017. The major increase is due to expenditures now reflecting the full cost of trans-load/hauling and processing of recycle materials at \$806,080 with 100% of the commodity value received as revenue. The key drivers in the proposed 2018 budget remain the same with tipping/tonnage fees, salaries, benefits, equipment, fuel, and taxes making up over 86% of the total budget.

Annexations and growth are trending to exceed 1,000 combined commercial and residential customers over the next year. Commercial garbage tons are trending to increase of over 1,300 tons. Yard waste/organics subscriptions are up seven percent over and projected to add an additional 523 tons of material.

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 contracts have allowed us to separate the hauling and processing of materials enabling us to minimize the impact. Given this dynamic, revenues from the material values are predicted to offset the expenses and decrease the overall expense by \$10,000 over 2017.

Based on projected 2018 revenues minus expenditures, the Waste ReSources budget is out of

balance by approximately \$221,000. Staff recommends implementing rate increases for three service classes. Continuing to smooth rates and subsidize the organics program through commercial rates, as subscriptions continue to grow, is also recommended.

Staff will also present information at the September meeting regarding 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 and options for Public Works and Parks together. Additional background is contained in two recent staff reports to the Council Finance Committee (see related files number 17-0532 and 17-0771).

As discussed with Finance Committee in June and again in August, staff is recommending the creation of a future debt reserve to fund a new maintenance facility for Waste ReSources in approximately 2022. 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 beginning in 2018. Staff is prepared to present additional background and rationale at the upcoming UAC meeting. Additional presentation and discussion is planned as needed at the October meeting.

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. 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.

Options:

The UAC is expected to provide recommendations to Council in September or early October.

1. Support staff proposals for 2018 City utility rates and GFCs.
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.

Staff Recommendation:

Proceed with Option 1.

Attachments:

Proposed 2018 Sample Bi-Monthly Utility Bill and GFC-CDCs
Comparison of Local Utility Charges and 2018 Rate Increases

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Utility GFCs and Unanticipated Capital Costs

Utility Operating Expense Reports

Utility Year End Balances

Year-to-date Revenues

17-0532_MC Feasibility Study Finance Cmte_June2017

17-0771_MC Feasibility Study Finance Cmte_Aug2017