



Finance Committee

Preliminary Review of 2020 Utility Rates and General Facility Charges

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Title

Preliminary Review of 2020 Utility Rates and General Facility Charges

Recommended Action:

Committee Recommendation:

The Utility Advisory Committee (UAC) recommends the proposed 2020 utility rates and general facility charges.

City Manager Recommendation:

Move to recommend the proposed 2020 utility rates and general facility charges and forward to Council for further consideration.

Issue:

Whether to recommend a proposed 2.48 percent increase for the 2020 utility rates and a \$318 increase to the General Facility Charges and forward to Council for further consideration, as recommended by staff and the Utility Advisory Committee (UAC).

Staff Contact:

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Presenters:

Eric Christensen, Water Resources Director
Gary Franks, Waste ReSources Director
Mike Buffo, 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 \$265 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.

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.

The LOTT Clean Water Alliance (LOTT) charges monthly rates for operating the wastewater treatment facility. LOTT also has a capacity development charge (CDC) that is similar to the City's GFC. The rate and CDC increases are approved by the LOTT Board, collected by the City, and passed on to LOTT. LOTT's 2020 rates and CDC were set in 2018 by the LOTT Board of Directors with the 2019-2020 biennial budget.

Summary of Proposed 2020 Rates

With few exceptions, costs associated with providing the City's core utility services are relatively flat for 2020. 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 2020 include a one percent growth-related increase for Waste ReSources and the three water Utilities.

Even with additional revenue, we are bringing forward rate increases in three of the four City Utilities for 2020. LOTT is also proposing a rate increase of three percent. Overall key drivers to potential rate increases include:

- An approximately two percent salary cost of living allowance (COLA) for City employees.
- The need to increase depreciation funding in the Drinking Water utility.
- Deterioration of commodity markets for recyclables.
- A new operations and maintenance staff position (half-funded) to support a grant-funded street sweeper.
- Additional vehicle (\$6,600 annually) to support the Storm and Surface Water habitat program.
- Increases to in-house costs, (rent, fleet, software, services, taxes, etc.)
- No change in the municipal tax on utilities.

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

2020 Budget and Rate Analysis

Storm and Surface Water Utility: 2.51 percent rate increase proposed.

The Storm and Surface Water Utility is guided by the 2018 Storm and Surface Water Plan. The 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 municipal stormwater permit.

Total expenditures for 2020 are projected to be \$5,919,066, a \$202,000 increase from 2019. The expenditure increase is partially offset by increasing revenue.

Major new expenditures include:

- Salary COLA at two percent: \$35,000.
- New operations vehicle: \$6,600 annually.
- New half-funded operations and maintenance staff position to operate a grant-funded street sweeper: \$47,000.

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 \$1,309 per new single family residence to \$2,383. Also, the vehicle trip component of the GFC could be increased from \$6.00 per vehicle trip to \$19.04 per vehicle trip. The GFC was increased 10 percent in 2019.

Staff propose phasing in increases; a 10 percent base charge increase (\$131) and a \$0.60 per trip increase (totaling \$5.66 for new single family residences). GFCs for non-residential developments would see proportional increases.

Wastewater Utility: 2.0 percent rate reduction proposed.

The proposed operating budget for City wastewater services reflects the goals and policies of the City's 2013 - 2018 Wastewater Management Plan. A new Wastewater Management Plan, to be adopted in 2020, will guide the Utility moving forward.

The 2020 proposed budget for the City's Wastewater Utility is anticipated to increase by approximately \$173,000 to \$7,235,826. Additional expenditures are being offset by projected revenue growth and historical excess revenues. The total Wastewater Utility expenditures also include payments to LOTT (\$13,661,578 in 2019).

New expenditures include:

- Salary COLA at two percent: \$26,000.
- Utility tax on both the City's Wastewater Utility and on LOTT new pass-through revenue (\$42,250).
- A shift of 1.25 construction staff positions from Storm and Surface Water to Wastewater (\$114,000).

With increasing and consistent extra revenues helping offset costs, staff and the UAC recommend a

rate reduction of 2 percent in Wastewater for 2020. Revenues and expenditures will be monitored in 2020 and a rate increase may be considered for 2020.

Wastewater GFCs: No proposed increase.

Wastewater GFCs are currently \$3,442 per single-family residence and have not increased since in 2016. A recent financial analysis performed for the update to the Wastewater Management Plan justifies an increase to \$4,999. Staff recommends waiting for the adoption of the Wastewater Management Plan and considering GFC increases in future years when projects are reflected in the Capital Facilities Plan.

LOTT Clean Water Alliance: 3 percent rate increase and a 3 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, represent 70 percent of LOTT's total projected expenses.

On October 10, 2018, the LOTT Board adopted their 2019-2020 biennial budget establishing a 3 percent (\$1.40/month) rate increase. With this rate increase, LOTT charges for Olympia customers would increase approximately for a total of \$390,000 in 2020. The 2020 CDC will increase \$181(3 percent) to \$6,230.69.

Drinking Water Utility: 5.25 percent rate increase proposed.

Although drinking water rates have increased appreciably in recent years (18 percent between 2015 and 2018) to primarily pay for debt service on several large capital projects, there was no rate increase last year. Instead, a rate increase was "bought down" using cash on hand. As a result, the Utility will begin 2020 with a revenue deficiency of \$565,000.

The proposed Utility expenditures for 2020 are \$15,079,630, a \$328,000 increase over 2019. A projected one percent growth in account revenue (\$142,000), combined with the revenue deficiency (-\$565,000), generates a current balancing position (revenue less expenditures) of -\$751,000.

New expenditures for the Drinking Water Utility include:

- Salary COLA at two percent: \$43,400.
- An increase in capital depreciation funding of \$100,000.
- An increase in meter replacement costs (\$15,000) and pavement reimbursement (\$21,200).

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

Drinking Water GFCs: No proposed increase.

The current GFC of \$4,433 per single family residence reflects recent capital investments. Drinking Water GFCs were increased 6.7 percent in both 2015 and 2016. In 2020, the City will hire a consultant to perform a 20-year capital plan and financial analysis as part of an update to the Water

System Plan, which may result in justified increases to the GFC.

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 2020 expense budget is \$13,377,932, a \$437,994 increase over 2019. Overall expenses are up 3.4 percent, a little above the Seattle Consumer Price Index (CPI) at 3.2 percent (August 2019). And, while expenses are up, revenue is down in the residential sector due to volatile recycling commodity markets and Drop Box Sector revenue remains flat. Recycle markets have reached historic lows, ultimately impacting the Utility financially. While revenue continues to be strong in the commercial sector it's not enough to balance the fund.

The 2019 adopted budget required use of cash resources in order to keep rates low in Residential Sector and still balance the fund. This equated to an expense budget of \$12,939,938 and revenue budget of \$12,717,152, or a use of \$222,786 dollars to balance the budget. Overall, since 2018, the total loss of recycling revenue has created a budgetary impact of around \$400,000. Uncertainty about commodity values is expected to continue for the near future, possibly another 18-24 months.

In addition to faltering recycle markets, Drop Box Sector revenue has not been pacing with expense and will need a rate increase to balance the program.

Based on projected 2020 revenues minus expenditures, the Waste ReSources budget is out of balance by approximately \$645,329. Staff and the UAC recommend implementing rate increases in all four sectors (i.e. Drop Box, Residential, Commercial, and Organics). Preceding rate recommendations balance the fund while keeping rates manageable for our rate payers. Based on the above, the proposed 2020 Waste ReSources rate increases are as follows:

Customer Class	Rate Increase
Drop Box	6.6%
Residential	2.3%
Commercial	2.3%
Organics	2.3%

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 2020 is projected to be \$55,897,000. With the recommended rate increases, typical residences and businesses would see a 2.48 percent increase in their bills. For residences, this increase would be approximately \$6.42 every two months. Optional yard waste service will also increase 2.3 percent (\$20.97 bi-monthly), but is not included in these estimates.

Overall, utility GFCs and the CDC would increase from \$15,290 to \$15,608 for a single family home.

Neighborhood/Community Interests (if known):

City Utilities provide essential public health services to Olympia residents.

Options:

1. Move to recommend the proposed 2020 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 2.48 percent increase (\$6.42 bi-monthly) in their 2020 utility bill.

Attachments:

UAC Letter