

# CITY OF OLYMPIA

## FINANCIAL AND RATE SERVICES ANALYSIS – SCOPE OF WORK

### Introduction

The following scope of work was developed by HDR Engineering, Inc. (HDR) and the City of Olympia (City) consistent with the Phase I Scoping Effort. The purpose of this Phase II work is to support a long-range financial plan for Olympia’s drinking water, wastewater, and storm and surface water utilities. This work will include a revenue requirement, cost-of-service, and rate design analyses and will result in a rate and fee model each utility can utilize in the future to assist in the annual budgeting and rate setting process. Given the importance of the studies, a multi-year phased approach has been developed to work within the City’s budgeting process. Taking a multi-year approach to the project is purposeful with progress made each year designed to build upon the next year’s work to build staff knowledge and support for this work effort. This scope also includes presentations and reviews to the City’s Utility Advisory Committee (UAC) to gain feedback and input in the process, which will be completed at the City’s request at the appropriate time if necessary.

### 2025 Activities

#### **Task 1. Data Collection and Review** (Fourth Quarter 2025/First Quarter 2026)

A written data request will be provided to the City that lists the data required to conduct the study. This data should generally be readily available from the City’s budgeting and utility billing systems. If the data requested is determined to be too time-consuming or costly to provide, HDR will work with the City to resolve the data issue and discuss with the City the importance of the data and the potential for using industry standards or substitute data. As the study progresses, additional data refinements or requests will be provided to the City to develop and conduct the analyses. As feasible, HDR will work with the City to assist in the data-gathering process. As needed, HDR will provide to the City the requested data format for the requested information.

#### **City Responsibilities**

- Gather the requested data to conduct the study
- As needed provide additional data or data clarifications during the course of the study

#### **Deliverables**

- Review of the data provided
- Identification of outstanding or additional data needs

#### **Task 2. Project Kickoff Meeting** (Fourth Quarter 2025/First Quarter 2026)

An initial project kickoff meeting will be held at the City’s offices. It is proposed that this meeting be approximately 2 hours in length and attended by HDR’s project manager, Shawn Koorn, and

assistant project manager/technical lead, Josiah Close. The main objective of this meeting is to introduce the project team members, discuss key objectives for the study, and review the approach/scope of services. This meeting will also allow the City to provide input into the development of the technical analyses and rate alternatives that will be developed. The project schedule will also be reviewed and finalized during this meeting.

#### **City Responsibilities**

- Have key City project team members attend a two-hour in person kick-off meeting attended by up to two HDR staff

#### **Deliverables**

- Review of the data provided
- Identification of outstanding or additional data needs

### **Task 3. Financial/Rate Policy Review (Fourth Quarter 2025/First Quarter 2026)**

The establishment of written financial policies is an important financial planning and rate-setting tool. The purpose of Task 3 is to review the City's current financial policies, philosophies, and practices and - as appropriate - recommend additional financial policies/practices. The objective of Task 3 is to outline and recommend financial/rate-setting policies that are designed and intended to provide financial stability and sustainability to the utilities. The development of the policies will be based on industry BMPs, along with guidance provided by the Government Finance Officers Association (GFOA) and bond rating agencies. Key rate study policies can include a review of the establishment of adequate and appropriate minimum reserve levels for operations, capital and rate stabilization, prudent debt service coverage (DSC) ratio target levels, and minimum annual funding from rates for renewal and replacement capital funding from rates. HDR will review the City's existing policies and provide recommendations on additional policies to consider.

#### **City Responsibilities**

- Provide current financial policies and needed clarification of current policies/practices
- Review and discuss additional financial/rate setting policies recommended as a result of this task

#### **Deliverables**

- Review of the existing written financial/rate setting policies
- Document electronically, as appropriate, recommend changes/additions to the existing financial/rate setting policies

### **Task 4. Development of the Baseline Revenue Requirement Analysis (Fourth Quarter 2025/First Quarter 2026)**

Develop an initial multi-year financial/revenue forecast for the drinking water, storm and surface water, and wastewater utilities to determine the adequacy of existing rate levels to fully fund operations, capital needs, and reserves. It is proposed that the analysis be developed for a 10-year projected period, with a focus on the near term for rate-setting purposes. The task will

develop the initial revenue requirements to meet the City’s financial planning criteria for each utility for initial staff and advisory committee discussion.

The starting point of the analysis will be the development and projections of rate revenues, at current rate levels, for each utility. This provides the basis for comparison to each utility’s operating and capital costs. Next, the current budgeted operating and maintenance expenses are projected over the period. A key element of the analysis for each utility will be the capital funding analysis. HDR will work collaboratively with City staff to develop the funding approach for each utility’s capital needs as outlined in the City’s current CFP for each utility. This will include the use of annual rate revenues, available reserves, GFC revenues, and long-term borrowing if necessary.

The results of the baseline revenue requirement will provide the City with an understanding of the overall needed revenue (rate) adjustment for each utility over the projected period given the operating and capital funding assumptions. At the completion of the draft revenue requirement, a project meeting will be held with City staff to review the revenue requirement approach, assumptions, and preliminary recommendations. It is proposed that a 3-hour meeting be held, at the City’s offices, to review the draft revenue requirement for each utility. Up to two HDR project team members will attend this meeting. At the completion of this meeting, the draft final revenue requirement will be developed. A one-hour virtual project meeting with City staff will be held to review the draft final baseline results. At the completion of the review, the baseline revenue requirement analysis will be completed and the starting point for alternative scenario development in Task 8.

#### **City Responsibilities**

- Provide data refinements or additional data needs as determined during the process of developing the baseline revenue requirement
- Assist in the development of the capital funding analysis
- Attend a three-hour in-person project meeting to review the draft revenue requirement analysis for each utility
- Attend a one-hour virtual project meeting to review the draft final baseline revenue requirement for each utility

#### **Deliverables**

- Draft and draft final baseline revenue requirement for each utility provided electronically

### **Task 5. Review of GFCs (Fourth Quarter 2025/First Quarter 2026)**

This task will review the development and methodology of the City’s current drinking water, storm and surface water, and wastewater GFCs. GFCs are capital recovery fees generally established as one-time charges assessed against developers or new customers as a way to recover all or a part of the cost of additional system capacity constructed for their use. A GFC is typically established based on the value of the utility’s capacity and the amount of capacity needed to serve the new customer. The objective of these charges is to maintain parity between existing and new customers. The development of cost-based GFCs is also important from the perspective of the overall financial stability of the utilities. GFC revenue is used to finance growth-

related infrastructure. As a general philosophy, most utilities prefer to have “growth pay for growth.” This statement implies the development and implementation of cost-based GFCs.

This first phase of the review of the City’s GFCs will review the existing GFC methodology and determine if alternative methodologies should be discussed. Given the methodology and approach, HDR will begin to update the GFCs to cost-based levels for each utility. Key to this analysis is the GFCs being based on the City’s planning and growth criteria and planned capital improvements related to capacity expansion to serve the demands of growth of each utility. A baseline update of the GFCs will be developed for discussion with City staff and provide the starting point for reviewing alternative capital plans, implementation approaches, and affordability discussions.

#### **City Responsibilities**

- Provide the basis and assumptions of the current GFC methodology
- Provide data refinements or additional data needs as determined during the process of developing the initial GFC calculation
- Attend a three-hour in-person project meeting to review the draft GFC for each utility
- Attend a one-hour virtual project meeting to review the draft final GFC for each utility

#### **Deliverables**

- Draft and baseline GFC calculation for each utility provided electronically

### **Task 6. Additional Rate Study Services (November – December)**

The City has requested assistance in the review of several key issues that may impact the development of the rate studies for each of the utilities. At this time, the City has identified the following key issues:

- Investigate use of storm and surface water and/or wastewater rates as a source of revenue for capital projects necessary to protect downtown Olympia from sea-level rise
- Review the approach to address the affordability of the City’s utility rates and GFC’s
- Review approaches and methodologies for Customer Assistance Program

For each of the above-identified areas, HDR will develop a white paper (technical memorandum) to review alternative approaches, approaches used by similar-sized utilities, and general industry standard approaches. A draft white paper will be provided to the City electronically for review and comment, and a final version will be provided to the City electronically.

#### **City Responsibilities**

- Review the draft white papers and provide comments to be incorporated in the final white papers

#### **Deliverables**

- Draft and final white papers for each issue identified above in electronic format

## **Task 7. Project Management and QA/QC (October – December)**

General project management activities are required with the objective of delivering the project on time and within budget. This includes allocating the appropriate labor resources to the project and working with the City's project manager to schedule project meetings and provide regular progress reports. As a part of the study, HDR will provide a monthly progress report with each invoice detailing the status of the study, status of the project time schedule, and budget.

### **City Responsibilities**

- Coordinate with the HDR project manager
- Review and process invoices

### **Deliverables**

- HDR project manager will provide monthly updates to the City's project manager on the status of the Study through progress reports
- Monthly invoices

## 2026 Activities

### Task 8. Development of the Updated Revenue Requirement (May – September)

The baseline revenue requirement was established in Task 4 for each utility. The development of the revenue requirement will allow for sensitivity analyses to be completed to allow the City to better understand the financial/rate impacts of changes in funding sources, growth, capital project timing, GFCs, etc. This task will develop up to two alternative revenue requirement analyses for each utility and the resulting rate transition plans. HDR will collaborate with the City to outline the two alternative analyses for each utility. Based on the alternative approaches, HDR will develop the alternatives and hold a three-hour in person meeting to review the development of the alternatives. At the conclusion of the meeting, the City will determine the preferred alternative and HDR will develop the final revenue requirement for each utility.

#### City Responsibilities

- Provide as needed data refinements that may be necessary for the alternatives
- Provide goals, objectives, parameters, and assumptions for the alternatives
- Attend a three-hour in-person project meeting to review the updated revenue requirement analysis for each utility

#### Deliverables

- Two revenue requirement alternatives for each utility provided electronically
- Final revenue requirement alternative for each utility provided electronically

### Task 9. Initial Cost-of-Service Analysis (July – October)

A cost-of-service analysis proportionally distributes the revenue requirement between the customer classes of service for each utility. Traditionally, cost-of-service principles and methodologies have been the basis for establishing rates that are cost-based, proportional, and defensible. Using generally accepted cost-of-service methodologies for each utility, our team will proportionally distribute the revenue requirements to the specific customer classes of service and develop cost-based average unit costs for the eventual purpose of designing proposed rates. The cost-of-service analysis for each utility should provide both fixed and variable average unit costs useful for rate design.

This task will develop the initial cost-of-service for each utility. At the start of the analysis a one-hour virtual meeting will be held to review and discuss the approach, customer classes, and data availability for each utility. HDR will work with the City to develop the initial cost-of-service analysis based on the preliminary discussions. At the completion of the initial cost-of-service analyses, a three-hour meeting will be held at the City's offices to review the cost-of-service analysis for each utility. Given the review and discussion, HDR will develop the draft cost of service analysis for each utility which will provide a summary of the average unit costs for purposes of evaluating proposed rate structures and alternatives.

**City Responsibilities**

- Attend a one-hour virtual project meeting to provide input on the development of the cost-of-service analysis for each utility
- Provide insight into the City's utilities systems and facilities
- Assist in determining the customer classes of service for each utility
- Attend a three-hour in person meeting to review the draft cost-of-service analysis for each utility

**Deliverables**

- Initial and draft cost-of-service analysis for each utility provided electronically
- A proportional distribution of each utility's revenue requirement to the identified customer classes of service
- Calculation of average unit costs for each utility to inform the rate design

### **Task 10. Development of the Draft Rate Design (August – December)**

The previous tasks address the issue of overall revenue sufficiency (Tasks 4 and 8) and proportionality of the current rates (Task 9). The rate design is intended to review the City's rates, both level and structure, and develop proposed rate alternatives for consideration. The rate level refers to the amount of revenue to be collected from the rate design, which is addressed as a part of the revenue requirement and cost-of-service analyses for each utility. The rate structure refers to the way in which the desired level of revenue is collected from each customer class which can include fixed and variable charges. The starting point of the rate design analysis will be a one-hour virtual project meeting to discuss the City's rate setting goals and objectives and alternatives available for each utility. Given this basis of understanding, up to two rate structure alternatives for each utility will be developed. A two-hour-in-person project meeting will be held to review and discuss the alternative rate structures. At the conclusion of the meeting, the City will determine the preferred rate structure for each utility for draft development. A one-hour virtual project meeting will be held to review and discuss the development of the draft rate structure for each utility. HDR will provide bill comparisons for the draft rate structure and provide a rate comparison for up to ten similar utilities.

**City Responsibilities**

- Attend a one-hour virtual project meeting to provide input on the City's rate design goals and objectives and potential rate structure alternatives for each utility
- Review rate designs for appropriateness, provide direction for the preferred alternatives
- Confirm that rate design alternatives are compatible with the City's current billing system
- Attend a two-hour in person meeting to review the alternative rate designs for each utility
- Attend a one-hour virtual project meeting to review the draft final rate design for each utility

**Deliverables**

- Up to two alternative rate structures for each utility provided electronically
- Draft rate design for each utility for further discussion and implementation
- Bill comparisons and graphs for the developed rate design alternatives

- Local utility bill comparison with other local agencies

### **Task 11. Development of the Proposed GFCs**

#### **(June – October)**

Given the baseline GFCs determined in Task 5, this task will update the GFCs based on the further refined capital plan for each utility as the GFC is based on the City’s planning criteria and capital improvement plan related to capacity expansion to serve the demands of growth to finance growth-related infrastructure. In this way, the City is establishing cost-based GFCs so that “growth pays for growth” to minimize the impacts of system expansion to existing customers. This approach results in GFCs that are cost-based and maintain equity between existing and future customers. This task will utilize the capital plans for each utility as developed in Task 8 to reflect the City’s approach to funding capital improvements. Given the update of the GFCs this will further review the implementation approach for each utility. A summary of the affordability impacts will also be provided based on the discussion of the technical memorandum developed as part of Task 6.

#### **City Responsibilities**

- Provide data refinements or additional data needs as the analysis progresses
- Provide input and update of the CIP for establishment of the GFC for each utility
- Attend a two-hour in-person project meeting to review the alternative GFCs for each utility
- Attend a one-hour virtual project meeting to review the final GFC calculation for each utility

#### **Deliverables**

- Up to two alternatives and the final GFC calculation for each utility provided electronically

### **Task 12. Workshops, Presentations, and Meetings**

#### **(March – October)**

Given the development of the draft rates, HDR and the City will collaborate to present the recommendations. For this task HDR has anticipated up to four public presentations to the UAC, Council Finance Committee, and City Council. This includes a “rates 101” presentation to the UAC or Council, presentation of the study recommendations to the UAC, followed by a Finance Committee presentation, and finally a presentation to the City Council. Provided below is a summary of the anticipated four public presentations. The following meetings will only be provided if requested and authorized by the City.

- UAC or Council Rates 101 (spring 2026)
- UAC, Finance Committee, and City Council presentation of the study results and recommendations (summer/fall 2026)
- City Council rate study results (Winter 2026)

#### **City Responsibilities**

- Collaborate with HDR in the development of the presentation materials
- Coordinate and schedule the time and date for the presentations

**Deliverables**

- Up to four in-person presentation on the draft study results and recommendations if authorized by the City

### **Task 13. Study Documentation (October – December)**

At the completion of the technical analyses, HDR will develop draft written reports and provide them to the City electronically for review and comment. City comments or edits will be incorporated into the draft final written reports. Within the written report, HDR will include a copy of the technical analyses (model worksheets) undertaken as appendices. HDR will develop the draft final reports based on the review and feedback from the City. HDR will provide electronic copies of each report.

**City Responsibilities**

- Review and comment on the draft written report

**Deliverables**

- A draft and draft final written reports in electronic format (e.g., Word, PDF) which includes the results and recommendations from the technical analyses

### **Task 14. Project Management and QA / QC (March – December)**

General project management activities are required with the objective of delivering the project on time and within budget. This includes allocating the appropriate labor resources to the project and working with the City's project manager to schedule project meetings and provide regular progress reports. As a part of the study, HDR will provide a monthly progress report with each invoice detailing the status of the study, status of the project time schedule, and budget.

**City Responsibilities**

- Coordinate with the HDR project manager
- Review and process invoices

**Deliverables**

- HDR project manager will provide monthly updates to the City's project manager on the status of the Study through progress reports
- Monthly invoices

## 2027 Activities

### Task 15. Development of the Final Revenue Requirement

(May – September)

Prior tasks and analyses will have established the proposed revenue requirement for each utility. This task will update the revenue requirement for each utility with the current budget or projected revenues and expenses. While this task will update the CFP for each utility, it assumes no further capital funding alternatives. The results of the updated revenue requirement will be reviewed with the City in a two-hour meeting at the City's offices. At the completion of the meeting HDR and the City will develop the final revenue requirement for rate setting purposes and potential presentation to the UAC and City Council.

#### City Responsibilities

- Provide as needed data refinements that may be necessary
- Attend a two-hour in-person project meeting to review the updated revenue requirement analysis for each utility

#### Deliverables

- Development of the final revenue requirement for each utility provided electronically

### Task 16. Development of the Final Cost-of-Service Analysis

(May – September)

This task will update the cost-of-service analyses developed as part of Task 9 to reflect the updated revenue requirement and customer characteristics as developed in Task 15. HDR will update the cost of service and a two-hour in person meeting will be held at the City's offices to review and discuss the draft results. Given the review and discussion, HDR will develop the final cost of service analysis for each utility and hold a one-hour virtual project meeting to finalize the analyses.

#### City Responsibilities

- Provide as needed system and customer data in the update of the cost-of-service analysis for each utility
- Attend a two-hour in-person meeting to review the draft cost of service analysis for each utility
- Attend a one-hour virtual project meeting to review the final cost of service analysis for each utility

#### Deliverables

- Draft and final cost-of-service analysis for each utility provided electronically
- A proportional distribution of each utility's revenue requirement to the identified customer classes of service
- Calculation of average unit costs for each utility to inform the rate design analyses

### **Task 17. Development of the Proposed Rate Designs** **(May – September)**

The draft rates developed in Task 10 will be updated to reflect the updated revenue requirement and cost-of-service analyses for each utility as outlined in Tasks 16 and 17. The proposed rates will be based on the City's preferred alternative for each utility as determined in Task 10 and updated to reflect cost-based levels for the final rate proposal. HDR will provide a bill comparison for customers at different usage levels, where applicable, and changes in the bill for various customer types. HDR will also update the comparison of rates the ten agencies identified in Task 10. A one-hour virtual project meeting will be held to review the final proposed rates for each utility.

#### **City Responsibilities**

- Attend a one-hour virtual project meeting to review the final proposed rates for each utility

#### **Deliverables**

- Final proposed rates for each utility provided electronically for up to a five-year period
- Bill comparisons and graphs for the proposed rates
- Update of the local utility bill comparison with other local agencies

### **Task 18. Workshops, Presentations, and Meetings** **(May – September)**

The final study recommendations, and proposed rates, will be presented to the UAC, Council Finance Committee, and City Council. HDR will participate in up to four public presentations to present the results and recommendations of the study. It is anticipated that this will include the following meetings if requested and authorized by the City:

- Presentations to the UAC, Finance Committee, and City Council (late spring and early summer 2027)
- Final presentation to City Council (fall/winter 2027)

#### **City Responsibilities**

- Collaborate with HDR in the development of the presentation materials
- Coordinate and schedule the time and date for the presentations

#### **Deliverables**

- Up to four in person presentations if authorized by the City

### **Task 19. Study Documentation** **(July – September)**

The draft final reports previously developed will be updated with the final study results and proposed rates. HDR will provide an electronic copy of the final reports to the City at the completion of the study.

**City Responsibilities**

- Review the final written report

**Deliverables**

- An electronic copy of the final written reports

### **Task 20. Project Management and QA / QC (May – December)**

General project management activities are required with the objective of delivering the project on time and within budget. This includes allocating the appropriate labor resources to the project and working with the City's project manager to schedule project meetings and provide regular progress reports. As a part of the study, HDR will provide a monthly progress report with each invoice detailing the status of the study, status of the project time schedule, and budget.

**City Responsibilities**

- Coordinate with the HDR project manager
- Review and process invoices

**Deliverables**

- HDR project manager will provide monthly updates to the City's project manager on the status of the Study through progress reports
- Monthly invoices
- Internal documentation of the QA/QC process

### **Task 21. Rate and Fee Models and Training (October – December)**

At the conclusion of the technical analyses, HDR will provide the City with the final rate and fee models. HDR will also provide a user manual for the rate and fee models and provide one 6-hour training session to City staff at the City's offices.

**City Responsibilities**

- Have key staff attend and participate in the model training

**Deliverables**

- One 6-hour training session on the model inputs, outputs, and mechanics
- A copy of the computer spreadsheet model for each utility

## 2028 Activities

### Task 22. Ongoing Model Support and Analysis

#### (As identified and needed)

This task is designed to provide the City with ongoing support in the review and evaluation of future rate impacts for each utility based on changes in operating or capital needs. Given that a study is a static point in time, a task for ongoing modeling support will have two impacts. First, it will provide the City with the ability to quickly evaluate and provide feedback to City management and City Council on changes to rate study key assumptions. Second, it will provide the City a mechanism to contact us to evaluate ongoing changes if needed. This task and effort will only be provided if requested and authorized by the City.

#### City Responsibilities

- Provide direction to HDR regarding the requested services and timing and authorize the effort for the task

#### Deliverables

- As needed assistance and services based on discussion with City staff if requested and authorized by the City