

# Capital Improvements and Rate Adjustments Budd Inlet Treatment Plant and Beyond

*The Budd Inlet Treatment Plant serves as the core of our regional wastewater system for the communities of Lacey, Olympia, and Tumwater in north Thurston County. The treatment plant cannot be sustained without large-scale projects to repair, replace, and update equipment and processes. Over the next eight years, over \$122 million in capital projects are needed to keep the plant and other existing facilities working properly and to meet the demand for future treatment capacity. Rate increases in both the monthly service rate and the connection fee are required to raise capital for these critical projects.*

**Rate History:** In 2007, the LOTT Board of Directors approved incremental rate increases in both the monthly service rate and the connection fee each year from 2008-2012. The increases were needed to meet inflationary pressures and prepare for an unprecedented period of construction at LOTT facilities. Each year, the Board reviewed the proposed rate increases and confirmed the need for adjustments. During the Board's retreat in February 2011, the need for these incremental increases in 2012 was reaffirmed, along with the understanding that similar small increases could be needed in the years to follow.



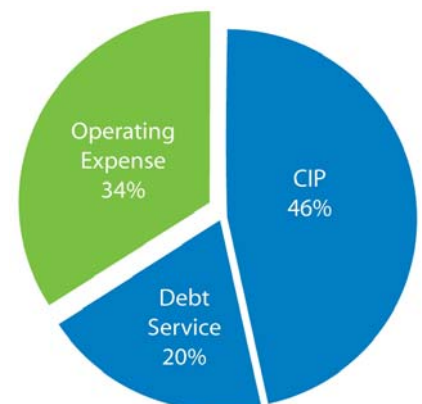
**Current Rate and Fee Structure:** LOTT's monthly rates are used to pay all operating expense, most of the cost for repairs and upgrades to the existing system, and loan payments for system-related capital costs. The current monthly rate of \$31.50 will be increase by \$1.50, to \$33.00, for 2012.

Year	Monthly Rate	Connection Fee
2007	\$25.50	\$3448.70
2008	\$27.00	\$3662.80
2009	\$28.50	\$3876.90
2010	\$30.00	\$4091.00
2011	\$31.50	\$4305.10
2012	\$33.00	\$4519.20

A connection fee, called the Capacity Development Charge (CDC), is used to build projects that add new treatment capacity, such as satellite reclaimed water plants, enlarged sewer lines, and other projects that increase LOTT's ability to serve new customers. LOTT's connection fee is currently \$4,305.10. In 2012, the fee will change to \$4,519.20 to include an increase of \$64.10 annually through 2019 (approved in 2002) and an increase of \$150.00 annually through 2012 (approved in 2007).

It is anticipated that incremental, annual rate increases for the monthly service rate and for the connection fees could be needed through 2018 to cover the costs of needed capital improvements projects for both existing and future treatment capacity. The LOTT Board of Directors will review financial projections and consider adjustments as part of the annual budget and rate setting process each year.

**Utility Management:** Wastewater treatment is an expensive business. LOTT owns and operates treatment plants, pumping stations, and pipelines valued at over \$500 million. This infrastructure must be maintained, repaired, and replaced in order to preserve existing treatment capacity. LOTT must also remain flexible to meet changing regulations, permit requirements, and demands for new treatment capacity. To meet these demands, LOTT's budget for 2012-2018 is dominated by capital project costs, which equal 66% of total expenses. Although cost-cutting actions such as energy conservation, travel reduction, and value engineering have helped to reduce expenses, an increase in rates and fees is still required to keep pace with capital improvements projects needed in the next eight years.



# Capital Improvements and Rate Adjustments

## Frequently Asked Questions

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### **How can you increase rates in these economic times?**

Large-scale capital projects are needed urgently to maintain our communities' existing treatment capacity. While the slower economy may delay the need to build additional treatment related to growth, the existing demand for wastewater treatment must be met. If the utility did not follow the current approach of small, predictable rate increases each year, then large, sporadic rate increases would be unavoidable in the future.

### **Why can't you reduce rates?**

At best, reducing the rates now would temporarily postpone the need for the rate increase and result in a hefty one-time rate adjustment in the future. It is not unusual for utilities who take this approach to increase rates by 50% - 100% at one time. At worst, reducing rates now would require postponement of needed improvements at the risk of a catastrophic failure at the Budd Inlet Treatment Plant. Alternatively, if rates were reduced and the improvements were made, the utility's financial outlook could lead to a credit downgrade and interest rate hikes that would cost ratepayers millions more in the long term.

### **Why do you need to raise rates and complete these projects now?**

Critical parts of the treatment plant are so old and worn that, without repair, there is an unacceptable level of risk to public health, safety, and the environment. We have known about these projects and have been planning their construction for several years. The primary sedimentation basins project has already been delayed once. Continued delay creates risk of catastrophic failure. Needed projects cannot proceed without a rate increase.

### **How do you know all these projects are really needed?**

LOTT actively manages a Capital Improvements Plan (CIP) that lists all the identified capital projects for the foreseeable future. Asset management provides LOTT with up-to-date assessments of the condition of existing equipment and processes. Capacity planning identifies the timing and location for new treatment capacity. Business case evaluations indicate the most cost-effective, efficient way to move forward with a project. All this planning allows LOTT to monitor the system's capacities, forecast future demands, adapt with changing regulatory requirements, identify and prioritize capital projects to meet those demands, and project needed financial resources. The CIP is updated every year in response to changing conditions and newly acquired information to ensure that projects are implemented only when needed and in the most cost-efficient way possible.

### **Will there be some other big need coming down the road after this? When will the rate increases stop?**

LOTT's Capital Improvements Plan lists projects needed through the year 2053. The plan includes numerous large-scale projects to prepare the utility to meet the wastewater treatment demands of Lacey, Olympia, and Tumwater at their full build-out. In order to meet existing and future treatment needs, LOTT will be in a constant state of capital improvements. Through the year 2018, the need for small, incremental rate increases may be needed, and the Board will continue to evaluate the situation annually.

### **What is the value for the ratepayer?**

LOTT provides an essential public service to our communities. Wastewater treatment is vital to preserving and protecting public health and the environment. Our communities depend on the Budd Inlet Treatment Plant to serve as the core of their regional wastewater system. The plant may be located in Olympia, but wastewater from throughout the service area of Lacey, Olympia, and Tumwater is treated at the Budd Inlet plant. Continued investment in the plant ensures that discharges to Budd Inlet meet high standards for water quality and preserve the high quality of life we enjoy in Thurston County. Investments such as odor control also help ensure the plant remains a good neighbor.

### **What are we getting for the money? What projects are in this package?**

The 2012-2018 Capital Improvements Plan identifies a number of projects at the Budd Inlet Treatment Plant, including the primary sedimentation basins, process control improvements, biosolids management plan, odor control, and electrical substation improvements. A complete list of projects and their descriptions is available by clicking [here](#).

### **Why do you have to raise both monthly rates and connection charges?**

LOTT's monthly rates pay for operating expense, most of the cost for repairs and upgrades to the existing system, and loan payments for system-related capital costs. The connection fee is used primarily to cover the construction costs for new treatment capacity, but also funds a portion of repairs and upgrades to the existing system. Capital improvement projects needed over the next eight years involve both the existing system and new treatment capacity.

### **Why increase the connection fee? Doesn't that make it harder for new business or people with failing septic systems to connect to the sewer system?**

LOTT is bound by an interlocal agreement to charge a connection fee and ensure that new growth pays for the associated costs of that growth. The connection fee is determined by assessing the cost of adding new treatment capacity to the system. If the fee is not increased to reflect the true cost of needed facilities, those who connect now would not be paying the true cost for their share of the system. Instead, a large, one-time rate adjustment would be needed at some point in the future, and those connecting after that point would be subsidizing those who connected prior to the adjustment.

### **Why is wastewater treatment so expensive?**

Since the monthly service charge is listed on a bill along with charges for water and stormwater services, many customers ask why the wastewater cost so much more than those services. In our communities, we are fortunate that our drinking water comes from high quality groundwater. This water requires little treatment before it reaches your tap. The water that goes down your drains, however, requires significant treatment to remove pollutants and be disinfected before it is release back into the environment.

### **Why doesn't LOTT use volume-based rates?**

A shift to volume-based rates would be extremely complicated and in the end, may not provide the relief that smaller families would expect, while creating hardship for larger households. All rate structures require a base fee for service. Due to the expense of providing wastewater treatment and the need to create a stable, predictable revenue source for the utility, the base fee might not be much less than the current flat rate. Logistically, wastewater flow from your home would have to be estimated, since it is not metered, so it would not reflect true usage. This structure would also increase the metering and billing burden for our city water utilities, adding to overhead costs.

### **Why doesn't the state or federal government cover the cost of these projects?**

LOTT looks to state and federal loan and grant programs to help with low interest financing of capital projects. Over \$13 million in low-interest state loans have been secured to help with upcoming capital projects. An additional, larger loan request for the primary sedimentation basins project was originally denied, but partial loan funding may yet become available. The slow economy has increased competition for this type of funding assistance while significantly reducing available state and federal dollars.

### **Why did you build a new office building and education center if you needed other capital projects?**

Completion of the new Regional Services Center was needed to improve efficiency and eliminate the expense of leased office space by consolidating all staff onto the Budd Inlet Treatment Plant site. This project also included the expansion of the Water Quality Laboratory to bring the lab up to current code and accommodate increased monitoring requirements. The addition of the WET Science Center allowed for the expansion of LOTT's education program, which is essential to building support for reclaimed water production and use in our communities – the key to meeting wastewater management demands of our communities, and to encouraging water conservation, which has so far saved the utility over \$18 million by eliminating the need for 850,000 gallons of new treatment capacity.

### **Who will be doing all the work associated with these new facilities? Are you adding staff?**

The primary sedimentation basins and other capital projects at the Budd Inlet Treatment Plant are not anticipated to require additional staff resources. In fact, these projects are expected to improve efficiencies at the plant rather than add to staffing requirements.

### **Why not just fix the combined storm and sewer system in downtown Olympia?**

Conservative cost estimates to separate the combined storm and sewer system in downtown Olympia reach \$144 million. In addition to the cost, construction work to separate the two systems would result in untold disruption to traffic, residents, and business owners in this densely developed area. This approach would also require land and costly treatment equipment to treat the stormwater prior to discharge to Budd Inlet, and undeveloped land in the downtown area is extremely limited. Separating the two systems would reduce the peak flow issue at the Budd Inlet Plant, but it would not eliminate the need to repair and update existing facilities and add new capacity in the future.

### **Why invest more in the treatment plant when sea level rise will become a threat in the future?**

Sea level rise is an issue that may impact a large portion of downtown Olympia. The area represents a huge investment in public and private assets. Relocating the Budd Inlet Treatment Plant alone would cost at minimum \$1 billion, not to mention the other valuable businesses and industries in the area. A regional solution to sea level rise impacts will be needed that preserves existing infrastructure and public and private investments. LOTT is working closely with the City of Olympia and others to study the issue and develop a plan for future action.

### **How can the public be involved? How are the ratepayers heard?**

Rates are considered and set by LOTT's Board of Directors as part of the budget process each year. The budget and rates are discussed at Board meetings in June and July, and action regarding the rates is taken in August. Board meetings are open to the public and include a public comment period. Board meetings are held every second Wednesday of the month at the LOTT Regional Services Center, 500 Adams Street NE in Olympia. The meeting agendas are posted to the LOTT website the Friday prior to the meeting, at [www.lottcleanwater.org](http://www.lottcleanwater.org). Ratepayers can also contact the Public Communications Manager with comments at (360) 528-5719 or [lisadennis-perez@lottcleanwater.org](mailto:lisadennis-perez@lottcleanwater.org).



**For more information**, contact Lisa Dennis-Perez by phone at 360-528-5719 or by email at [lisadennis-perez@lottcleanwater.org](mailto:lisadennis-perez@lottcleanwater.org).