

Item No.3

Supplemental Material

For

City of Sacramento

Utilities Rate Advisory Commission

Agenda Packet

Submitted:

For the Meeting of:

Additional Material

Revised Material

TITLE: Water and Wastewater Program Finance Plan

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Please include this supplemental material in your agenda packet. This material will also be published to the City's Internet. For additional information, contact the City Clerk Department at Historic City Hall, 915 I Street, First Floor, Sacramento, CA 95814-2604, (916) 808-7200.

Water and Wastewater Program Finance Plan



Utilities Rate Advisory Commission

November 8, 2011

Presentation Overview

WATER & WASTEWATER PROGRAM REVIEW

- Conceptual Approval by City Council on November 8, 2011
- 30/5/3

FINANCE PLAN

- 3-Step Rate Setting Process
- Rate Proposal
- FY10/11 Utilities Budget Preliminary Results
- FY11/12 Utilities Budget Overview
- Cost Drivers in Out Years

NEXT STEPS

QUESTIONS?

Water and Wastewater Program

30/5/3 Plan

- 30-Year Water & Wastewater Infrastructure Investment Program
 - Best Practices replacement cycle
 - Regulatory compliance
 - Sustainable financing

- 5-year Capital Improvement Program
 - Identify specific projects based on criticality and condition

- 3-year Rate Proposal
 - Accountability
 - Maintain flexibility
 - Secure credit

Water 5-Year CIP Summary

TOTAL \$350 million

Well Rehab (Best Practice) **\$14 million**

6 Miles of Transmission Main Rehab (Best Practice)
\$16.5 million

22 Miles of Distribution Main Rehab (Best Practice)
\$22.5 million

Water Treatment Plant Rehabilitation Projects **\$170 million**

Mandated Water Meter Retrofit Program **\$126 million**

Wastewater 5-Year CIP Summary

TOTAL \$64 million

Sump/Treatment Facility Rehab (Best Practice) **\$4 million**

2.5 Miles of Combined System Rehab (Best Practice) **\$6 million**

Separated System Permit/Litigation Compliance **\$10.5 million**

Combined System Permit Compliance **\$43 million**

Operations Program

- ❖ Continuity of production, maintenance and regulatory activities
- ❖ Minimizing operating and maintenance cost increases
 - Holding the line on labor costs
 - Escalators for significant cost drivers (e.g., chemicals, electricity)
 - Non-discretionary costs (e.g., insurance, bad debt expense, general fund tax)
- ❖ Address new regulatory requirements (production and maintenance)
 - Water Conservation
 - Sanitary Sewer Management Plan
 - Air Quality (Generators)
 - Plant Preventative Maintenance

Water and Wastewater Program

Finance Plan



Independent and objective analysis in Utility Rates, Finance and Management for the public sector.

- Established in 1988
- 30+ Employees
- Offices in San Francisco, Seattle, and Portland
- Over 425 Clients Served

Utility Expertise



Water



**Storm
Drainage**

Over 1,200 utility rate studies performed which have included water, sewer, storm drainage, and solid waste. 2,000 total studies.



Sewer



**Solid
Waste**

3 Step Rate Setting Process



STEP 1



- Data collection
- Review with staff

STEP 2



- Ongoing O&M
- Unmet needs and regulatory driven O&M
- Capital needs
- Bond requirements

STEP 3



- Capital funding strategy
- Scenario runs
- Rate “smoothing”

Step 1: Data Collection

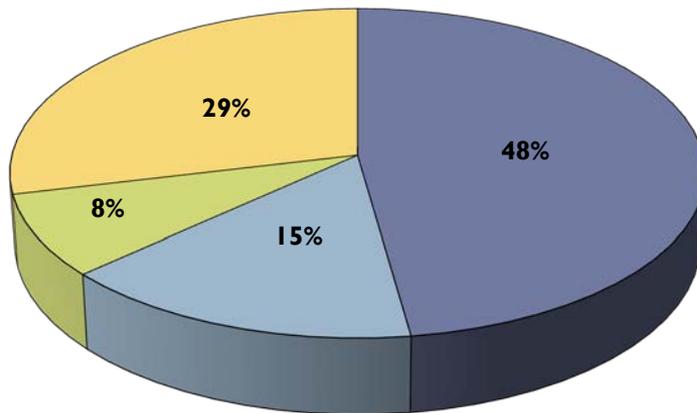


- ▶ Data collection included:
 - ▶ Cost Escalation Assumptions
 - ▶ Operating Budget
 - ▶ Capital Budget
- ▶ Reviewed cost inputs and escalation factors for reasonableness and consistency with industry practices
- ▶ Established debt assumptions and bond requirements in conjunction with the Treasurer's Office and their financial advisor

Step 2: 3-Year Cost Drivers

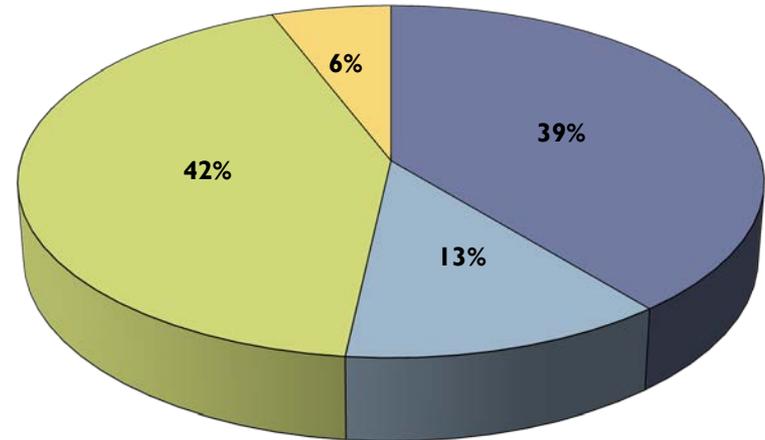


Water Expense Breakout (FY13-FY15)



- Production and Maintenance
- Non-Discretionary
- Regulatory/Other
- Capital (Debt & Cash)

Wastewater Expenditure Increase (FY13-FY15)



- Operations & Maintenance
- Non-Discretionary
- Regulatory/Other
- Capital (Debt & Cash)

Step 3: Financial Rate Plan



- ▶ Establish a near-term rate plan that considers long-term implications
- ▶ Consider available financing mechanisms – cash versus debt – for capital funding
- ▶ Developed numerous scenarios considering varying capital needs and financing approaches
 - ▶ **Objective:** Minimize rate impact while meeting immediate capital and regulatory needs
- ▶ Developed a “smoothed” rate plan with phased-in needs

Critical Study Elements



- ▶ Policy guidelines consistent with the City's unique needs and community input, and industry best practices
- ▶ Cost inputs and escalation factors
- ▶ Finance strategy (bonds)
- ▶ Rate plan that meets immediate capital and regulatory needs

Rate Proposal



- ▶ Meets critical, near-term regulatory and capital needs, including the meter transition program
- ▶ Utilizes existing resources to the fullest extent in order to mitigate rate increases
- ▶ Establishes a sustainable program that meets bond requirements

Enterprise Fund	Projected <u>daily</u> increase starting July 1, 2012	Projected <u>monthly</u> increase starting July 1, 2012
Water	11 cents	\$3.44
Wastewater	8 cents	\$2.36

Rate Proposal



Typical Single-Family Customer Monthly Bill¹

UTILITY SERVICES	RATE EFFECTIVE 7/1/11 (NO INCREASE IN FY12)		INCREASE EFFECTIVE 7/1/12		INCREASE EFFECTIVE 7/1/13		INCREASE EFFECTIVE 7/1/14	
	Water (unmetered)	\$0 (0%)	\$34.35	\$3.44 (10%)	\$37.79	\$3.78 (10%)	\$41.57	\$4.16 (10%)
Wastewater²	\$0 (0%)	\$14.74	\$2.36 (16%)	\$17.10	\$2.57 (15%)	\$19.67	\$2.75 (14%)	\$22.42
Storm Drainage	\$0 (0%)	\$11.31	0%	\$11.31	0%	\$11.31	0%	\$11.31
Solid Waste³	\$0 (0%)	\$38.31	0%	\$38.31	0%	\$38.31	0%	\$38.31
TOTAL		\$98.71		\$104.51		\$110.86		\$117.77
Overall average increase		0.0%		5.9%		6.1%		6.2%

¹ Utility charges will vary based on type of structure, room count, and other components that determine the rates for each parcel.

² Wastewater charges are City of Sacramento services only and do not include SRCSD charges

³ Solid waste services rate calculation uses the containerized green waste service rate

Potential Impacts of Rate Delay



- ▶ Non-compliance with State and Federal laws and regulations
- ▶ Insufficient funds to meet legal debt requirements
- ▶ Risk the failure of capital infrastructure
- ▶ Higher rate increases in later years
- ▶ Unfavorable bond credit rating

Water and Wastewater FY10/11 and FY11/12 Budgets



Preliminary FY2010/11 Results (in 000s)

Water Fund(6005)						
	FY10/11 Budget	EOY Projections	Actuals	Total Savings		FY11/12 Budget
Approved Rate Increase	15%	15%	15%			0%
Beginning Fund Balance	3,994	3,994	3,994			9,942
Revenues	82,832	81,765	80,868	(1,964)		79,418
Total Expenditures	83,814	78,749	74,258	9,556		77,951
Net Activity	(983)	3,016	6,610	7,593		1,468
Fleet Carryover Adj		(278)	(663)	(663)		
Fund Balance (Reserves)	3,011	6,732	9,942	6,930		11,410
Reserves	4%	11%	17%			17%
45-Day Prudent Reserve (12%)	8,421	7,812	7,243			8,117
120-Day Prudent Reserve (33%)	22,456	20,833	19,314			21,646

Water Fund Savings

MAJOR COST CATEGORIES	FY11 SAVINGS	FY12 "ADJUSTMENTS"	Two-Year Savings
O&M	\$9,556,000	\$2,465,000	\$12,021,000
CIP	\$0	\$3,398,000	\$3,398,000
TOTAL	\$9,556,000	\$5,863,000	\$15,419,000

Water Fund Savings

MAJOR COST CATEGORIES	FY11 SAVINGS	FY12 "ADJUSTMENTS"
Labor	\$1,342,000	(\$94,000)
Operational (plumbing, etc.)	\$2,535,000	\$1,209,000
Professional Services	\$1,024,000	(\$281,000)
Chemicals/Electricity (water production)	\$1,200,000	\$373,000
Vehicles – Replacement/New	\$663,000	\$395,000
Transfers	\$656,000	\$273,000
Bad Debt	\$723,000	\$676,000
I-Bank Debt Payments	(\$34,000)	(\$639,000)
Contingency Reserve	\$500,000	0
Rebate Claims	\$347,000	\$442,000
TOTAL	\$8,956,000	\$2,354,000

Preliminary FY2010/11 Results (in 000s)

Wastewater Fund (6006)

	FY10/11 Budget	EOY Projections	Actuals	Total Savings		FY11/12 Budget
Approved Rate Increase	5%	5%	5%			0%
Beginning Fund Balance	4,127	4,127	4,127			5,474
Revenues	22,492	22,279	22,548	57		21,191
Total Expenditures	25,484	24,141	22,813	2,671		20,702
Net Activity	(2,992)	(1,862)	(265)	2,728		489
Adjustments		1,436	1,612	1,612		
Fund Balance (Reserves)	1,135	3,701	5,474	4,340		5,963
Reserves	5%	18%	29%			32%
45-Day Prudent Reserve (12%)	2,664	2,499	2,335			2,333
120-Day Prudent Reserve (33%)	7,104	6,663	6,226			6,223

Wastewater Fund Savings

MAJOR COST CATEGORIES	FY11 SAVINGS	FY12 "ADJUSTMENTS"	Two-Year Savings
O&M	\$2,671,000	\$2,680,000	\$5,351,000
CIP	\$0	\$2,102,000	\$2,102,000
TOTAL	\$2,671,000	\$4,782,000	\$7,453,000

Wastewater Fund Savings

MAJOR COST CATEGORIES	FY11 SAVINGS	FY12 "ADJUSTMENTS"
Development Fund 6002	(\$1,513,000)	\$0
Labor	\$1,440,000	\$22,000
Operational (plumbing, etc.)	\$936,000	\$274,000
Professional Services	\$145,000	\$76,000
Chemicals/electricity	\$68,000	\$8,000
Vehicles – replacement/new	(\$91,000)	\$770,000
Transfers	\$1,151,000	\$1,346,000
Bad Debt	\$340,000	\$100,000
Contingency Reserve	\$100,000	\$0
TOTAL	\$2,576,000	\$2,596,000

Cost Driver Projections – FY12/13 – FY14/15

Cost Driver	FY13	FY14	FY15	Note
Water Labor ¹	4.16%	0%	0%	No labor increases modeled for open contracts in the future (FY2012/13 is the last year of closed contracts)
Wastewater Labor ¹	2.42%	0%	0%	
Utilities	5%	5%	5%	Based on historical trends
Fuel	11%	11%	11%	Based on historical trends
Chemicals	6%	6%	6%	Based on historical trends
Growth (water)	0%	0%	0%	No new growth projected for FY13-15
Growth (wastewater)	0%	0%	0%	No new growth in City-maintained wastewater system anticipated
CPI	2%	2.5%	3%	Based on historical trends
ENR	3.5%	3.5%	3.5%	Based on historical trends
General Fund Tax	11%	11%	11%	

Note: ¹ FY13 Labor cost driver based on analysis of union concession costs

Next Steps

- Utility Rate Advisory Commission (URAC) Workshop – December
 - (Additional Program Scenarios and Financing Plans)
- Proposition 218 Notification – Early December
- Community Engagement Activities – Ongoing
 - (Rate workshops, presentations, video/website)
- URAC Rate Hearing – January, 2012
- Council Hearing – February, 2012
- Rates Effective – July 1, 2012

Questions?

