



**REPORT TO
Utilities Rate Advisory Commission
City of Sacramento**

**1395 35th Ave. Sacramento, CA 95822
www.cityofsacramento.org/utilities**

**Discussion Calendar
12/15/2011**

**Honorable Chair and Members of
Utilities Rate Advisory Commission**

Title: Department Utilities Water and Wastewater Program Update

Location/Council District: (Citywide)

Recommendation: URAC Information and Background

**Contact: Jamille Moens, Business Services Manager, (916) 808-5988 Department of
Utilities**

Presenters: Jamille Moens

Department: Department of Utilities

Division: Business Services

Organization No: 14001611

Description/Analysis

**Issue: : On November 8, 2011, the City Council conceptually approved
Department of Utilities' (DOU) Water and Wastewater Infrastructure Investment
Program (Program) and asked DOU to develop alternate water and wastewater
program scenarios. This report discusses the alternate program scenarios.
Details of each program scenario is included in the Background section of this
report.**

Rational for Recommendation: Staff is recommending that the Utility Rate

Background

Department of Utilities Financial Plan Overview

On November 8, 2011, the Department of Utilities (DOU) presented its Financial Plan (Plan) to City Council. The Plan includes a 30-year Water and Wastewater Infrastructure Investment Program (Program) and addresses the needs of the solid waste and storm drainage funds as well as future development.

The Solid Waste Division is in the process of developing a business plan to guide its future operations. Once the business plan is complete, recommendations for solid waste services and operations will be brought forward for City Council consideration. Regarding storm drainage, under Proposition 218, rate adjustments for this service require voter approval. DOU has retained consultant services to conduct a storm drainage rate study and make recommendations for a future storm drain rate design and structure. DOU will present the consultant's findings and recommendations to the City Council for its consideration at a future date.

The final component of the financial plan addresses impact fees and the ability of the City to fund improvements necessary to serve new growth. In order to meet this need, impact fees must reflect the current cost of constructing facilities needed to serve new development. At a future date, DOU will present an impact fee adjustment proposal to City Council that reflects current development costs and better positions the City for growth.

30-Year Water and Wastewater Infrastructure Investment Program Overview

On November 8, 2011, the City Council conceptually approved DOU's Water and Wastewater Infrastructure Investment Program (Program). The Program invests in the City's water and wastewater capital and regulatory programs at levels that sustain the health of the systems and guarantee continued reliable and high quality service the citizens of Sacramento have come to expect. The Program includes the following components:

- A 30-year Water and Wastewater Infrastructure Investment Program based on industry best practices for system replacement
- A 5-year Capital Improvement Program for FY2012/13 through FY2016/17
- Compliance with new regulatory requirements
- Continuity of existing production, maintenance and regulatory activities

Rate Proposal

To implement the Program, DOU has proposed 3-year rate increase of 10% per year for water and 16%, 15% and 14% per year, respectively for sewer. Overall, this will increase customer bills by 6% per month (equivalent to 19 cents per day) during the first year. Over the course of the next three years, the average single-family residential customer who receives both City water and wastewater service will see their bill rise \$19.06 per month or \$0.64 per day (approximately 19.1%). This rate proposal was

included in the Proposition 218 Rate Increase Notification Mailing sent to City utilities customers on December 8, 2011.

Future Obligations

The proposed 3-year rate increase finances a self-contained program that uses a mix of bond and cash financing that allows the City to invest in its infrastructure and meet regulatory requirements while smoothing rate increases and avoiding rate spikes for utility customers. This financing methodology commits the Council to raise water rates approximately 2% and wastewater rates approximately 1% in the fourth year (FY2015/16) in order to meet program bond requirements and debt service obligations. After FY2015/16, the Council would not be committed to any additional rate increases to finance existing programs; however, the consequence of not raising rates beyond FY2015/16 will likely result in noncompliance with regulatory requirements in future years which could result in costly fines, third party lawsuits, and loss of local control among other negative outcomes.

Return on Investment and Economic Benefits

The proposed rate increase will generate enough revenue to finance the following projects:

- Financing for the Sacramento River Water Treatment Plant rehabilitation project to ensure plant reliability
- Moving toward future investment in the City's water and wastewater infrastructure on a 100-year replacement schedule instead of on 400 and 650-year schedules respectively to ensure system reliability and safety
- Compliance with existing and anticipated new federal, state, and local regulatory mandates to avoid costly fines, third party lawsuits, and loss of local control
- Increased investment in the residential water meter program to comply with state law and encourage water conservation

DOU has contracted with the California State University, Sacramento College of Business Administration to determine the regional economic impact of the proposed DOU Water and Wastewater Infrastructure Investment Program. Preliminary results of that study indicate that investing in the City's infrastructure at the levels proposed will create approximately 6,446 new jobs in the first five years and 26,620 new jobs over the 30 year life of the program. DOU anticipates the final economic impact report to be complete by the end of this year and will present the findings during the rate adjustment process in early 2012.

Regulatory Program Overview

Compliance with existing regulations and anticipated new requirements and mandates is the primary driver of the Program. The following information provides an overview of the major regulatory mandates funded in Program:

Water

The primary regulatory mandate affecting the water fund is the state mandate to have water meters installed on all the City's residential connections by January 1, 2025. On September 24, 2004, Governor Arnold Schwarzenegger signed Assembly Bill 2572 setting a deadline of 100% metering of all accounts by 2025. On May 24, 2005, the City Council adopted Resolution 2005-347, directing that water meters be installed throughout the City.

If the City cannot meet the requirements of this law, the City won't be eligible for state grants and low interest loans, retaining the City's senior water rights could be impacted and future diversions off the Sacramento and American Rivers may be restricted.

Wastewater

The City's Combined Sewer System (CSS) is governed by a State National Pollutant Discharge Elimination System (NPDES) Permit that prohibits dry weather discharges to the river and limits wet weather discharges to the river. The goals of the NPDES Permit are to eliminate pollution discharged to the river, reduce outflows and reduce flooding. The Permit requires treatment for discharges to the river; implementation of a Long Term Control Plan requiring an approximately \$10 million annual capital improvement program; extensive monitoring and data analysis; system-wide cleaning and inspection; a fats, oils and grease control program; and various other specific minimum control measures.

The City's separated sanitary sewer system is governed by Statewide General Waste Discharge Requirements (WDR) that prohibits sewer overflows and requires implementation of a management plan. The WDR requires system-wide cleaning, inspection and rehabilitation; a fats, oils and grease control program; a root control program; enforcement; and a short and long term capital improvement program.

Failure to comply with these permits could subject the City to Federal and State enforcement actions and third party lawsuits. Enforcement actions could include cease and desist orders, fines for violations (up to \$10,000 per day plus \$10 per gallon of discharge), consent decrees and/or building moratoriums.

Alternate Program Scenarios

Per Council's direction, DOU, in collaboration with the Utility Rate Advisory Commission (URAC) and the community, developed several alternate water and wastewater program scenarios. Each program has two primary components: regulatory requirements and capital improvement projects. Because the water and wastewater financial plan is primarily regulatory-driven, existing regulatory programs are funded in each fund's alternate programs. In two scenarios, the funding level and project schedule for the water and wastewater capital programs is the primary difference between each fund's alternate programs. One scenario is a five-year status quo scenario that freezes operational and capital funding (except for the residential water meter program in the water fund) at FY2011/12 levels and does not fund new regulatory requirements for five years. The alternate scenarios for water and wastewater are as follows:

Alternate Water Program Scenarios:

- Scenario A: Delay best practices infrastructure replacement funding five years
 - Fund regulatory program
 - Fund water treatment plant project on schedule
 - Delay best practices infrastructure replacement funding five years
- Scenario B: Delay water treatment plant and best practices infrastructure replacement funding five years
 - Fund regulatory program
 - Delay water treatment plant five years
 - Delay best practices infrastructure replacement funding five years
- Scenario C: Five-year status quo
 - Freeze operational and capital programs at FY2011/12 levels for five years
 - Fund residential water meter program at 3% of FY2011/12 total water budget for five years
 - Do not fund new regulatory requirements for five years

Alternate Wastewater Program Scenarios:

- Scenario A: Delay best practices infrastructure replacement funding five years
 - Fund regulatory program
 - Delay best practices infrastructure replacement funding five years
- Scenario B: Five-year status quo
 - Freeze operational and capital programs at FY2011/12 levels for five years
 - Do not fund new regulatory requirements for five years

Program Financing Approach and Methodology

All of the water and wastewater program scenarios use a mix of bond and cash financing that allows the City to invest in its infrastructure and meet regulatory requirements while smoothing rate increases and avoiding rate spikes for utility customers. The five-year status quo scenario uses pay-go financing for the first five years of the program the bond/cash blend thereafter.

By smoothing rates, rates are kept from increasing significantly from one year to the next. Cash flow and coverage requirements are accounted for in future years, and rates are set so they are roughly equal from year to year to meet these requirements in future years. The rate increases are designed so to only get smaller from one year to the next. This methodology provides predictable rates for the utility's customers and provides additional revenues in the near term which will reduce future bond issuance amounts, ultimately lowering rates in the long run.

30 months worth of capitalized interest is built into each scenario. This delays the first repayment on any projected bond issuances by two years. This pushes out rate

increases in the near term, but increases overall costs and rates to the utility's customers in the long term.

Next Steps

The next steps in the water and wastewater rate adjustment process are as follows:

- Community Engagement Activities – Ongoing (Rate workshops, presentations, video/website)
- URAC (Program Alternatives) – December 15, 2011
- Water and Wastewater Program Update to City Council – January 10, 2012
- URAC Public Rate Hearing – January 25, 2012
- Presentation of Utility Rate Recommendation to City Council – February 7, 2012
- If adopted, new Water and Wastewater Rates Effective – July 1, 2012

Item No. #2

“To Be Delivered” Material

For

City of Sacramento

Utilities Rate Advisory Commission

Agenda Packet

Submitted: 12/12/2011

For the Meeting of: December 15, 2011

The attached materials were not available at the time the Agenda Packet was prepared.

Title: Proposed Rate Adjustments and Alternative Rate Scenarios Presentation

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Please include this “To Be Delivered” 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.