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DEPARTMENT OF
PUBLIC WORKS

CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE DIRECTOR

June 16, 1987

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Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: SEWER AND STORM DRAINAGE COST AND RATE INFORMATION

SUMMARY

This report provides additional financial information relative to the rate increases for the Sewer and Storm Drainage Funds as stated in the 1987-88 Proposed Budget.

BACKGROUND

During the May 26, 1987 Budget and Finance Committee meeting, the Committee requested staff to detail the Sewer and Storm Drainage Funds with respect to what each dollar of the proposed rates represents and the incremental costs attributable to the five percent rate increases.

FINANCIAL

This report addresses the informational request by examining the cost aspects of the Storm Drainage and Sewer Funds in terms of: the total budget by major cost categories, specific changes in funding from the prior approved budget, and program cost expressed in terms of the percentage rate increase.

Starting with the general cost categories, the first exhibit (I) details the costs of the two funds by the major cost classifications. This exhibit highlights the fact that both funds are sensitive to changes in labor cost which represent about one third of total costs. In addition, the exhibit shows that both funds expend sizable amounts for capital improvements. For the Sewer Fund, the amount highlights the relatively high capital costs needed to repair an aging sewer system. With respect to the Storm Drainage Fund, capital costs reflect the emphasis on providing increased flood control and drainage protection following the severe February 1986 storms. Exhibit I is expressed in terms of what each dollar of appropriation represents.

Exhibit I
 Summary of Major Cost Classifications

	<u>Sewer</u>	<u>Storm Drainage</u>
Employee Services	\$0.32	\$0.34
Services & Supplies	0.30	0.34
Equipment	0.02	0.04
Transfers Out	0.06	0.00
Debt Service	0.09	0.00
Capital Improvements	0.21	0.28
	-----	-----
	\$1.00	\$1.00
	=====	=====

Exhibit II details how the 1987-88 Proposed Budget differs from the 1986-87 Approved Budget in terms of specific cost and revenue items. Although rates are the dominant funding source in enterprise funds, it is important to understand that there are several other sources of funding which offset the various cost increases. These sources include increased revenue attributable to customer growth, non-operating income, cost reductions, and use of reserve funds. Conceptually, particular sources are ascribed to certain cost categories such as development fees to defray the cost of capital projects, customer growth to offset increased service demands, general rate increases to offset base cost increases and the cost of new programs, and reserves to help buffer irregular cost increases.

Exhibit II
 Changes in Funding from 1986-87 Approved Budget
 to the 1987-88 Proposed Budget

Sewer Fund

Sources:		Uses:	
Revenue		Increased Labor Costs	\$50,000
Rate Increase	\$196,000	Workers Compensation	110,000
Other Revenue (net)	(4,000)	Additional Account Clerk	34,000
Prior Uncommitted Funds	328,000	Inc. in Net Transfers	134,000
Other	101,000	Inc. Capital spending	216,000
		Service & Supply Inc.	98,000
		Equipment Decrease	(21,000)
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Total	\$621,000		\$621,000
	=====		=====

Sewer and Storm Drainage Cost and Rate Information

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Storm Drainage Fund

Sources:

Revenue	
Rate Increase	\$424,000
Growth	166,000
Other Revenue (net)	(74,000)
Prior Uncommitted Funds	1,266,000

Uses:

Increased Labor Costs	82,000
Workers Compensation	100,000
Construction Crew Labor	70,000
Add'l Ditch Maint Labor	34,000
Increase Svcs & Supplies	94,000
Inc. in Net Transfers	96,000
Van for Construct. Crew	124,000
Computer Aided Drafting	30,000
Other Equipment	92,000
Inc. Capital Spending	1,060,000

Total \$1,782,000

\$1,782,000

Exhibit II reflects the effect of last year's Storm Drainage rate increase which will again provide funding for additional capital improvement projects. The exhibit also illustrates the impact of growth in number of customers contributing resources to offset the various uses. The Sewer exhibit reflects the effects of increased capital improvement spending as a major contributor to the rate increase. Exhibit II also reflects major base cost increases to both the Sewer and Storm Drainage Funds.

The following exhibit (III), illustrates the effect the above individual cost components have when stated in terms of the equivalent rate increases. Exhibit III also reflects the contribution from other revenue sources which help offset the rate increases. With respect to rates, the Storm Drainage rate increase of five percent generates \$424,000 or about \$85,000 for each 1% increase. The five percent Sewer increase supplies \$196,000 or nearly \$40,000 for each 1% increase.

Exhibit III
 Cost Changes Expressed in Terms
 of Equivalent Rate Increases

Sewer Fund

	<u>Cost</u>	<u>Rate Increase Equivalent</u>	<u>Cumulative</u>
Base Labor Increase	\$ 50,000	1.3%	1.3%
Account Clerk	34,000	0.9	2.2
Workers Compensation	110,000	2.8	5.0
Increased Capital Projects	216,000	5.5	10.5
Increased Transfers Out	105,000	2.6	13.1
Service & Supplies Increase	98,000	2.4	15.5
Prior Year Uncommitted Funds	(328,000)	(8.2)	7.3
Other Non-Rate Resources	(97,000)	(2.3)	5.0

Storm Drainage Fund

Base Labor Increase	82,000	0.9%	0.9%
Workers Compensation	100,000	1.2	2.1
Ditch Maintenance	34,000	0.4	2.5
Increase in Svcs & Supplies	94,000	1.1	3.6
Increase in Net Transfers	96,000	1.1	4.7
CAD computer	30,000	0.3	5.0
Constuction Team	70,000	0.8	5.8
TV Van for Construction Crew	124,000	1.5	7.3
Other Equipment	92,000	1.1	8.4
Increase in Capital Projects	1,060,000	12.5	20.9
Prior Year Uncommitted Funds	(1,266,000)	(14.9)	6.0
Other Non-Rate Resources	(92,000)	(1.0)	5.0

RECOMMENDATION

This report is for information only. No action by the Committee is necessary.

Respectfully submitted,

Melvin H. Johnson
 MELVIN H. JOHNSON
 Director of Public Works

Approved for Committee Information:

Jack R. Crist
 JACK R. CRIST
 Deputy City Manager

June 16, 1987
 ALL DISTRICTS