



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

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

**Discussion Calendar
11/14/11**

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

Title: Water and Wastewater Program Finance Plan

Location/Council District: (Citywide)

Recommendation: Review and File

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: Two recent audits found that the City's current financial resources are inadequate to maintain its water and wastewater systems. At current rates of infrastructure investment, the City will replace its entire water system every 400 years and its wastewater system every 650 years. According to utility industry best practices, water and wastewater systems should be replaced every 70-100 years in order to sustain them in a condition that can reliably deliver service.

Rational for Recommendation: The City Council conceptually approved the Water and Wastewater Infrastructure Investment Program on November 8, 2011. Staff is



CITY OF SACRAMENTO
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recommending that the Utility Rate Advisory Commission (Commission) evaluate and comment on the proposed finance plan to implement the Water and Wastewater Program. In addition to presenting the proposed rate adjustments, DOU will work closely with the Commission to provide any information necessary to assist the Commission in its development of a rate recommendation for Council.

Financial Considerations: None

Respectfully Submitted by: _____ /s/. Jamille Moens

Jamille Moens
Business Services Manager

Attachments
Background
Rate Comparisons
To Be Delivered

Background

Two recent audits found that the City's current financial resources are inadequate to maintain its water and wastewater systems. At current rates of infrastructure investment, the City will replace its entire water system every 400 years and its wastewater system every 650 years. According to utility industry best practices, water and wastewater systems should be replaced every 70-100 years in order to sustain them in a condition that can reliably deliver service.

In response to the audit findings and to invest in the City's infrastructure at levels consistent with utility industry best practices, the Department of Utilities (DOU) developed a long-term Water and Wastewater Infrastructure Investment Program (Program). The Program includes the following:

- A 30-year Water and Wastewater Infrastructure Investment Program based on:
 - Industry best practices for system replacement
 - Regulatory requirements
 - sustainable financing
- A 5-year Capital Improvement Program for FY2012/13 through FY2016/17 that identifies specific projects based on criticality and condition
- A 3-year Rate Proposal focused on:
 - Accountability
 - Flexibility
 - Securing our credit
- Continuity of existing production, maintenance and regulatory activities

To develop the financing plan for the Program, DOU contracted with the FCS Group (FCS), a consulting firm specializing in the utility rate setting process. FCS was formed in 1988 and as performed over 1,200 utility rate studies and has served over 425 clients in all the western states and Canada from their offices in San Francisco and Palm Springs, California; Redmond, Washington; and Portland, Oregon. Working closely with DOU and the City's Treasurer's Office, FCS has developed a long-term comprehensive financial plan to achieve the proactive 30-year infrastructure investment program that invests in the City's 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's finance plan was developed in three steps:

- **Step 1 – Data Collection:** FCS worked with DOU to collect the current operational

and capital program data to populate the rate model used to develop the Program's finance plan.

- **Step 2 – Cost Driver Development:** FCS collected data on cost drivers and the projected costs out into the future for the Program's capital, regulatory, operation and maintenance programs as well as the bond requirements to determine the revenue necessary to finance the Program. FCS reviewed the data for accuracy, reasonableness and best practices.
- **Step 3 – Financial Rate Plan Development:** FCS worked closely with the Treasurer's Office and the bankers to develop a water and wastewater capital financing approach and methodology. FCS used this information to model multiple financial scenarios to ultimately come up with a rate scenario that:
 - Focuses on meeting immediate capital and regulatory needs,
 - Utilizes existing resources in order to mitigate rate increases
 - Establishes a sustainable program that meets bond requirements
 - Avoids large rate spikes to keep rates affordable for ratepayers

DOU also worked with FCS to develop a comprehensive long-term financial plan for its other two funds, solid waste and storm drainage, as well as addressing impact fees. An overview of efforts in these areas is below:

- **Solid Waste:** 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.
- **Storm Drainage:** Under Proposition 218, rate adjustments for this service require voter approval. Storm drainage rates have not been changed since 1996. DOU is in the process of a storm drainage rate design and structure review and is also developing a storm drainage program and financing strategy similar to that of water and wastewater. DOU intends to develop a rate adjustment proposal to take the voters at a future date, after the rate design and structure study is complete and the financing program is developed.
- **Impact Fees:** At a future date, DOU intends to present an impact fee adjustment proposal to City Council that reflects current development costs and better positions the City for growth.

Financial Considerations: The water and wastewater program finance plan and rate proposal complies with the Proposition 218 mandate that only allows utilities to charge rates sufficient to recover the cost of providing utility services. DOU is proposing a rate adjustment plan at this time for water and wastewater services only.

The Proposition 218 notification of proposed rate increases for water and wastewater is targeted to go out in early December with the goal of bringing the rate proposals to the City Council for consideration and approval in early 2012, after the Commission holds the public hearing and provides its rate recommendation. Rate adjustments for the first year of the 3 year program are proposed to take effect July 1, 2012.

The water and wastewater program and funding plan framework is built on the following guiding principles that were developed in collaboration with the community as part of our ongoing outreach efforts:

- Continued high-level customer service
- Environmental stewardship
- Regulatory compliance
- Investment in infrastructure
- Cost efficiencies
- Plan for competitive credit rating/borrowing costs
- Competitive user rates, at-cost customer charges

As the infrastructure needs are significant and immediate, funding the water and wastewater program on a cash basis would cause dramatic rate spikes. Therefore, consistent with the above guiding principles, the proposed funding plan uses a mix of bond and cash financing that will allow the City to invest in its infrastructure and meet regulatory requirements while smoothing rate increases and avoiding rate spikes for utility customers. While issuing bonds will increase the long-term cost of financing the City’s capital and regulatory programs, issuing bonds in the near term will mitigate the impact on water and wastewater rates and more equitably spread the benefits and costs of the infrastructure and regulatory investment to utility customers over a longer term. The long-term financing plan gradually builds up the cash funding portion and decreases the debt financing component to ultimately achieve a sustainable “pay-go” program.

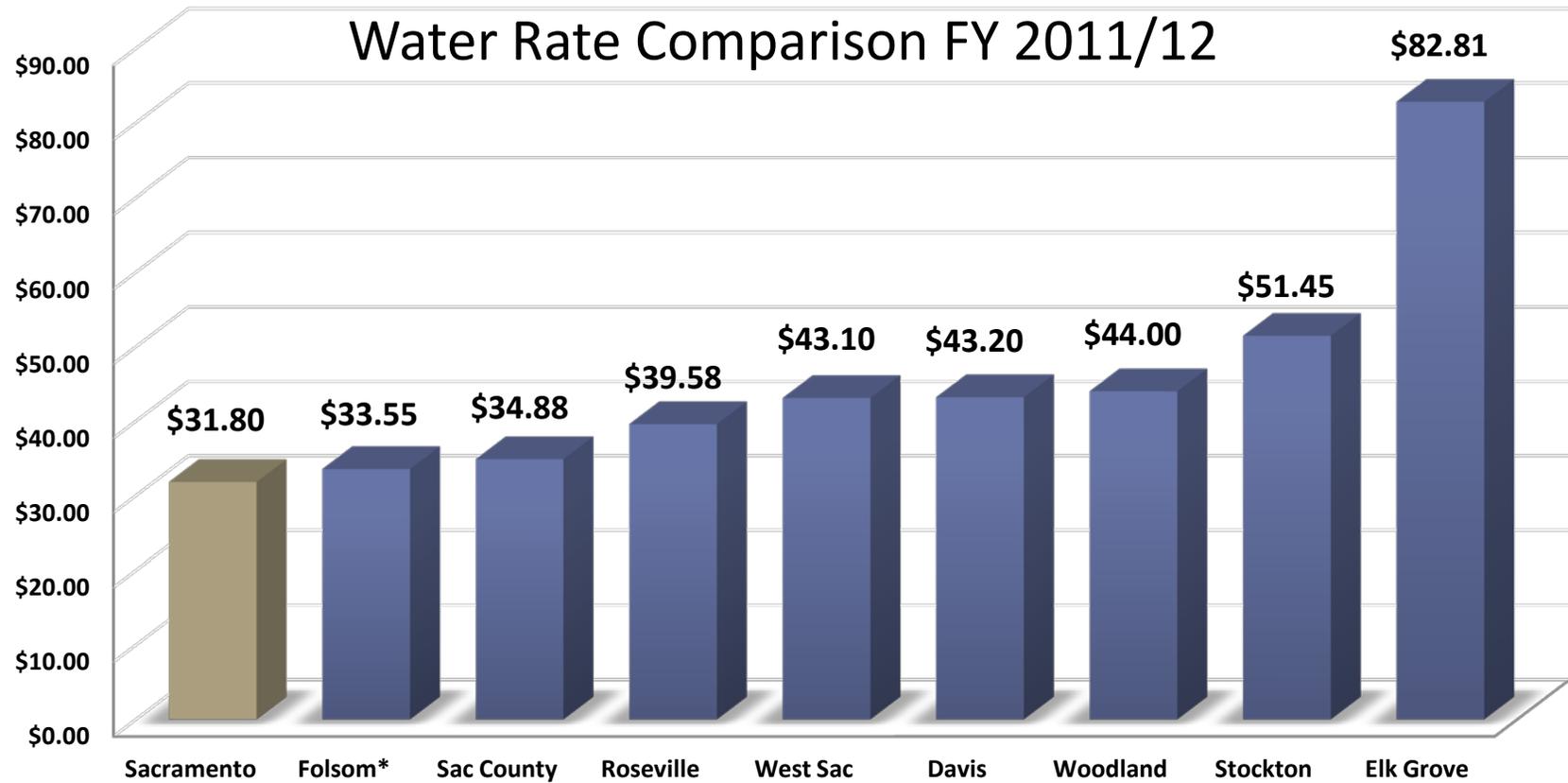
The 3-year proposal for water and wastewater rates is as follows:

	<u>Fiscal Year</u>		Rate Increase	
	<u>Water</u>	<u>Wastewater</u>		
○ Year 1 (July 1, 2012-June 30, 2013):	10%	16%		
○ Year 2 (July 1, 2013-June 30, 2014):	10%	15%		
○ Year 3 (July 1, 2014-June 30, 2015):	10%	14%		

The proposed rates, developed by the FCS Group, indicate that the typical single family customer’s bill would increase by a projected \$3.44 per month starting on July 1, 2012.

The overall utility rate increase for the same customer who receives all utility services from the City would be approximately 6% each year over the next three years.

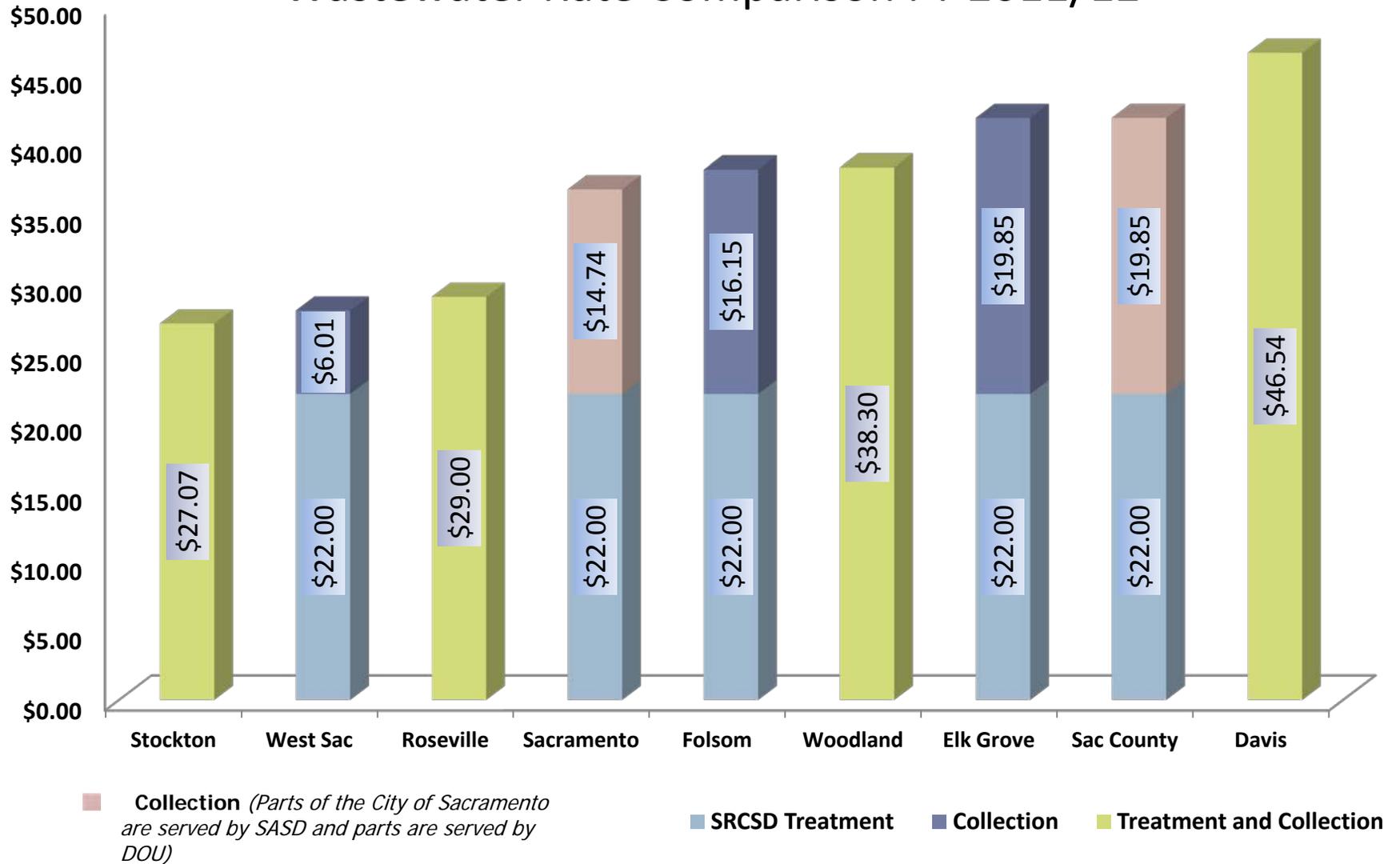
The rate comparison charts in Attachment 1 show that the City's current water and wastewater rates are the lowest and fourth lowest in the region, respectively. The total amount for both of the City's rates is the lowest in the region. The proposed rate adjustments will keep us in that range and maintain our position as one of the most competitive cities in the region for these utility service costs.



Note: Assumed usage is based off 18 ccfs of consumption per month and 1" meter size.

*The water rate for the City of Folsom represents a flat rate, since Folsom does not have metered service

Wastewater Rate Comparison FY 2011/12



Item No. #2

“To Be Delivered” Material

For

City of Sacramento

Utilities Rate Advisory Commission

Agenda Packet

Submitted: 11/10/2011

For the Meeting of: November 26, 2011

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

Title: Water and Wastewater Program Finance Plan Presentation

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

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.