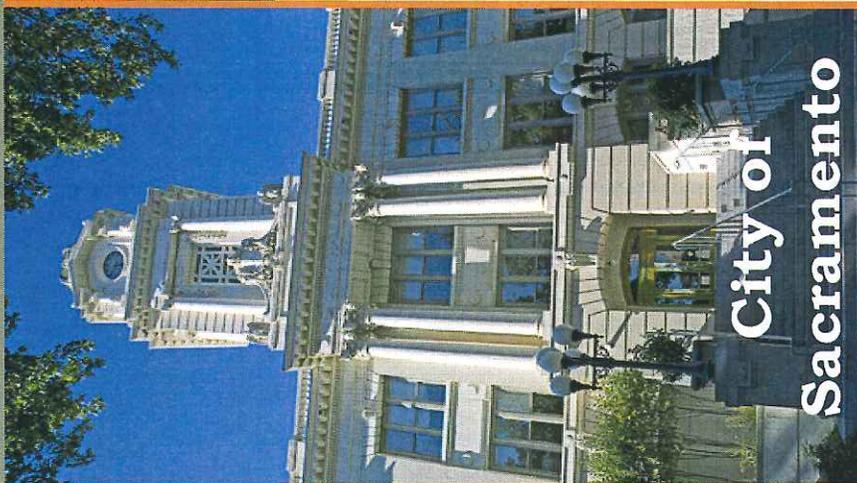


Audit Committee

April 4, 2011

Item 2 - Status of Draft Cost of Service Report



**City of
Sacramento**

COST OF SERVICE RATE STUDY FINDINGS

Audit Committee Meeting

April 4, 2011

**Robert Grantham
Nicholas Almeida**

FCS GROUP
Solutions-Oriented Consulting

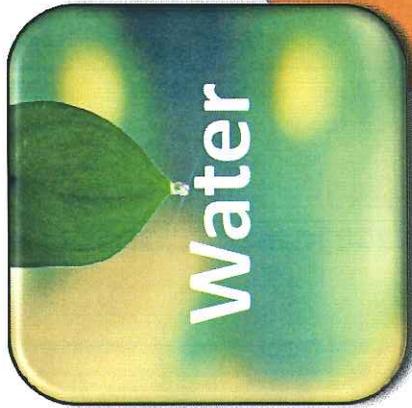
www.fcsgroup.com

Presentation Overview

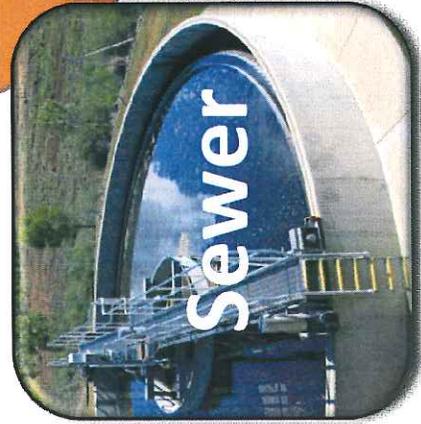


- ▶ Introduction of Firm
- ▶ Project Approach & Findings
- ▶ Questions





- Over 1,200 utility rate studies performed.
- 1,800 total studies.
- Actively involved in national, industry committees.



Southwest Projects



Northern California
 Brisbane
 Campbell
 Fresno
 King City
 Lodi
 Los Gatos
 Madera County
 Mammoth CSD
 Millbrae
Modesito
 Novato Sanitation District
 Palo Alto
 Sacramento
 Sacramento Area Sewer District
 Sacramento County DWR
Sacramento County Water Agency
Sacramento Regional County Sanitation District
San Francisco Public Utilities Commission
 San Jose
 Sonoma
 Stockton
 Sunnyvale
 Tulare
 Vallejo

Southern California
 Barstow
 Carlsbad
 Chula Vista Stormwater Authority
 Del Mar
 Garden Grove
 Indian Wells
 Jurupa CSD
 Lake Arrowhead CSD
 Long Beach
 Los Alamos CSD
 Los Osos CSD
 Manhattan Beach
 Oceanside
 Orange County Sanitation District
 Paso Robles
 Perris
 Poway
 Riverside
 Santa Ana Water Project Authority
 Santa Margarita Water District
 Santa Paula
 Sweetwater Authority
 Western Municipal Water District
 Western Riverside County Regional Wastewater Authority



Additional Experience throughout the West in:
 Alaska
 British Columbia
 Colorado
 Idaho
 Montana
 Oregon
 Utah
 Washington

Arizona
 Dewey Humboldt
 Gilbert
 Goodyear
 Mesa
 Phoenix
 Queen Creek
 Scottsdale
 Yuma

Project Timeline



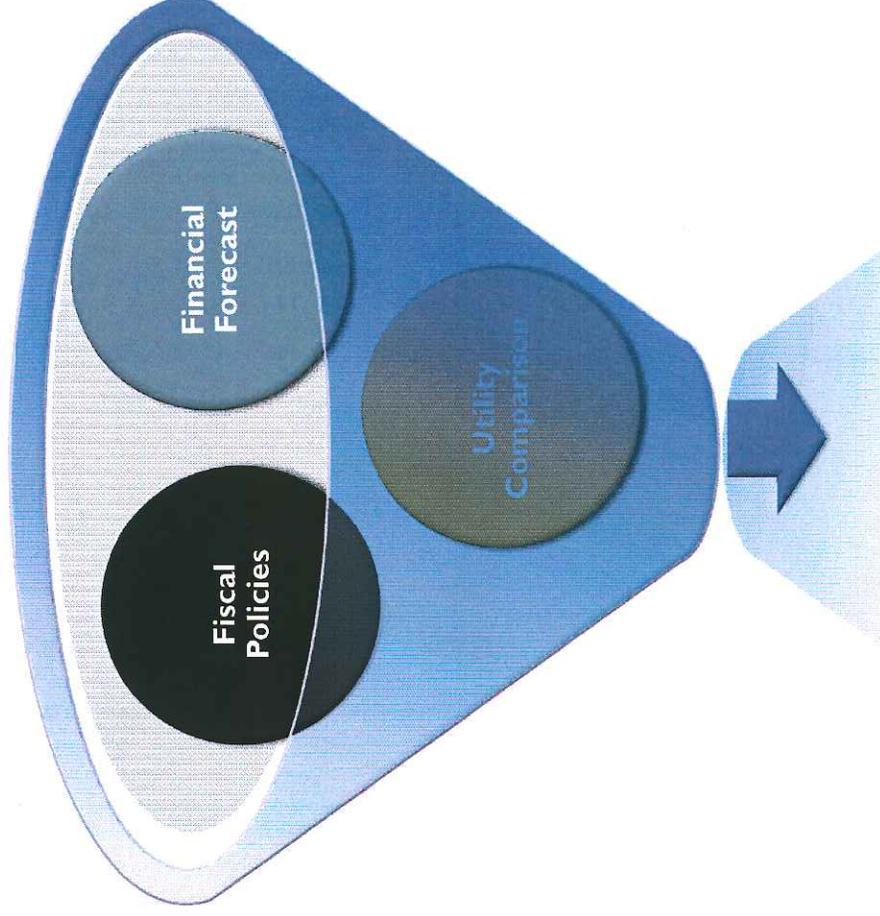
**Project
Initiation
(Aug 2010)**

**Project
Update
(March 2011)**



**Submittal of
Draft Analysis
(October
2010)**

Three Study Components



City of Sacramento Utility Rate Study

...Basis for achieving equity, transparency, and sufficiency



Basis of Review

- ▶ **City Specific Policies and Needs**
- ▶ **Financial Sustainability and Equity**
- ▶ **Legal**
 - ▶ Proposition 218, AB 3030, etc.
- ▶ **Best Practices**
 - ▶ Industry standards and practices (AWWWA, WEF, APWA, GFOA)
 - ▶ Comparable Agencies



Fiscal Policies



- ▶ **Operating**
 - ▶ Unrestricted cash needs for fluctuations in revenues and expenditures, as well as to satisfy bond market requirements.
 - ▶ 120 days of operating expenditures on hand
- ▶ **Rate Stabilization**
 - ▶ Protects against unexpected multi-year revenues and expenditures fluctuations
 - ▶ Future phase-in based on rate affordability and bond obligations
- ▶ **Capital Funding Strategy**
 - ▶ Balanced approach of cash and debt financing
 - ▶ Use of debt to mitigate rate spikes and expansion related costs
 - ▶ Cash fund replacement costs and level annual expenditures
- ▶ **Policy Debt Coverage**
 - ▶ 1.50x

All City policy recommendations are based on City specific benchmarks and needs

Major Rate Drivers



- ▶ All funds are cash deficient absent rate adjustments
- ▶ **Water**
 - ▶ \$570 million of critical capital needs over 10-yr planning period, including the treatment replacement scheduled to begin FY 2015/16
- ▶ **Sewer**
 - ▶ \$300 million of critical capital needs over 10-yr planning period
- ▶ **Solid Waste**
 - ▶ Inflationary-type increases to meet operating needs, vehicle replacements, and ongoing landfill closure requirements
- ▶ **Storm Drainage**
 - ▶ Insufficient funds to meet critical capital replacement needs
 - ▶ Limited ability to raise rates under Proposition 218

Proposed Rate Adjustments

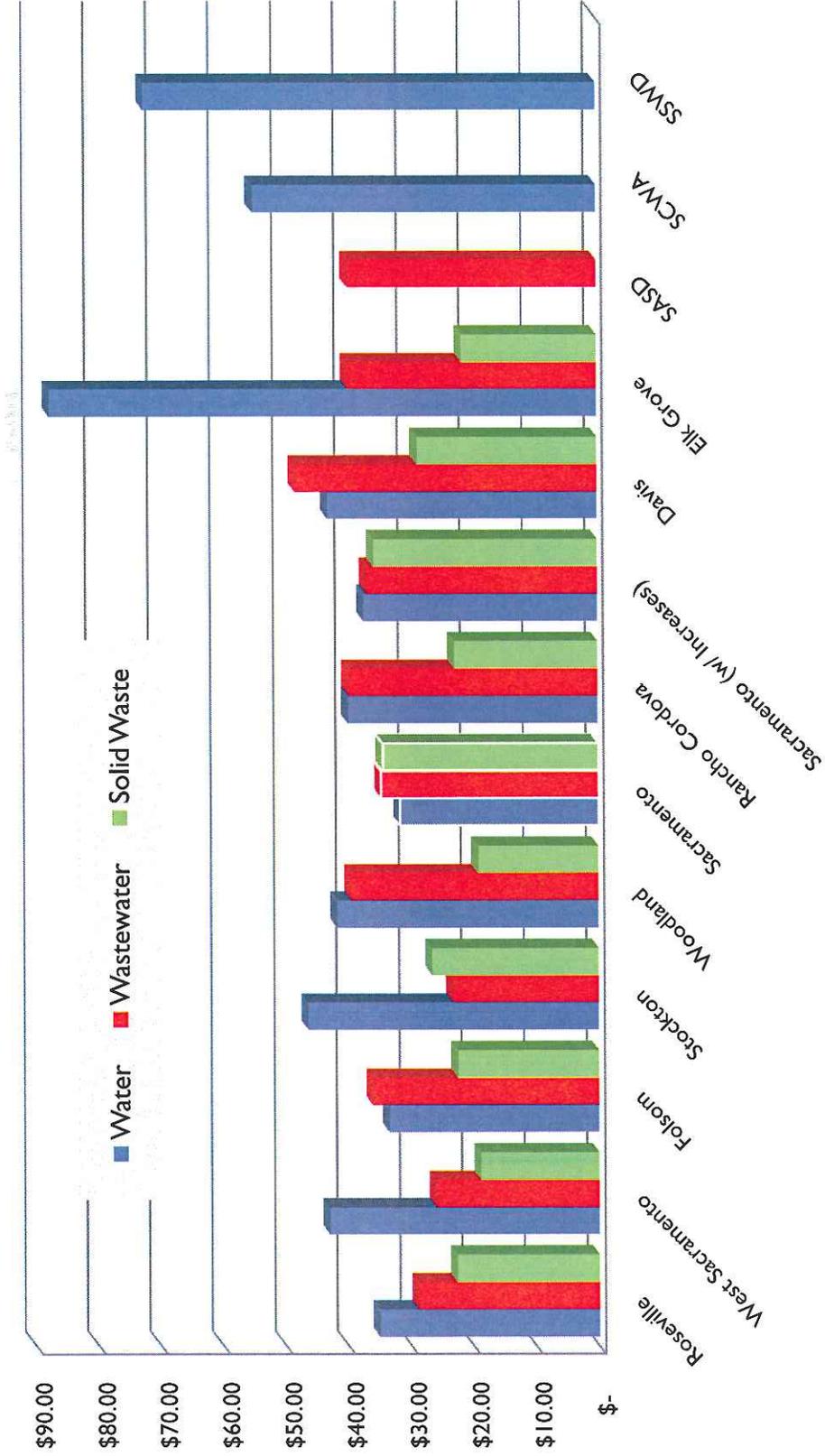


	Current Rate	Fiscal Year 2011/12	Fiscal Year 2012/13	Fiscal Year 2013/14	Fiscal Year 2014/15	Fiscal Year 2015/16
Water Utility						
Rate Adjustment	---	9%	9%	9%	9%	9%
New Rate*	\$ 34.35	\$ 37.45	\$ 40.83	\$ 44.51	\$ 48.52	\$ 52.89
Sewer Utility						
Rate Adjustment	---	15%	15%	15%	15%	15%
New Rate*	\$ 14.74	\$ 16.95	\$ 19.49	\$ 22.42	\$ 25.78	\$ 29.65
Solid Waste Utility						
Rate Adjustment	---	4%	4%	4%	4%	4%
New Rate*	\$ 38.31	\$ 39.86	\$ 41.45	\$ 43.12	\$ 44.84	\$ 46.64
Storm Drainage						
Rate Adjustment**	---	N/A	N/A	70%	9%	9%
New Rate*	\$ 11.31	\$ 11.31	\$ 11.31	\$ 19.23	\$ 20.96	\$ 22.84

*"New Rate" assume a single family rate (garbage service is assumed to be 96 gallons, garden refuse is assumed to be containerized).

** Storm Drainage rate is for illustrative purposes only.

Total Bill Rate Comparison Results



Notes: All rates are pre-rate adjustments.
A storm drainage rates could not be made due to the highly variable rates and assessments and the methods of their implementation.



Questions?