



City of Los Altos

Sewer Rate Study City Council Meeting

March 13, 2018

Presented by

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Overview of Presentation

- **Objectives of the Rate Study:**
 - **Develop a Five Year Financial Plan with Reserve Targets.**
 - **Evaluate Revenue Sufficiency and Design Rates that Ensure Long-Term Stability for the Utility.**
- **Proposition 218 Overview**
- **Sewer Rate Study Results**
- **Residential & Regional Bill Comparisons**
- **Next Steps:**
 - **Approve the Rate Study.**
 - **Give Staff Direction to Proceed with Prop 218 Noticing.**

Overview of Proposition 218

- 1. “*Right to Vote on New Taxes.*”**
(Constitutional Amendment passed in 1996)
- 2. Sewer Rates should be based on Cost-of-Service.**
- 3. Rates are Approved by a Protest Ballot Process.**
- 4. City can Adopt Rate Increases for the next 5 Years.**

Overview of Los Altos Sewer Rates

Recommended Annual Rate Revenue Increases:

Projected Annual Rate Revenue Increase	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
	2.5%	3.0%	3.0%	3.0%	3.0%

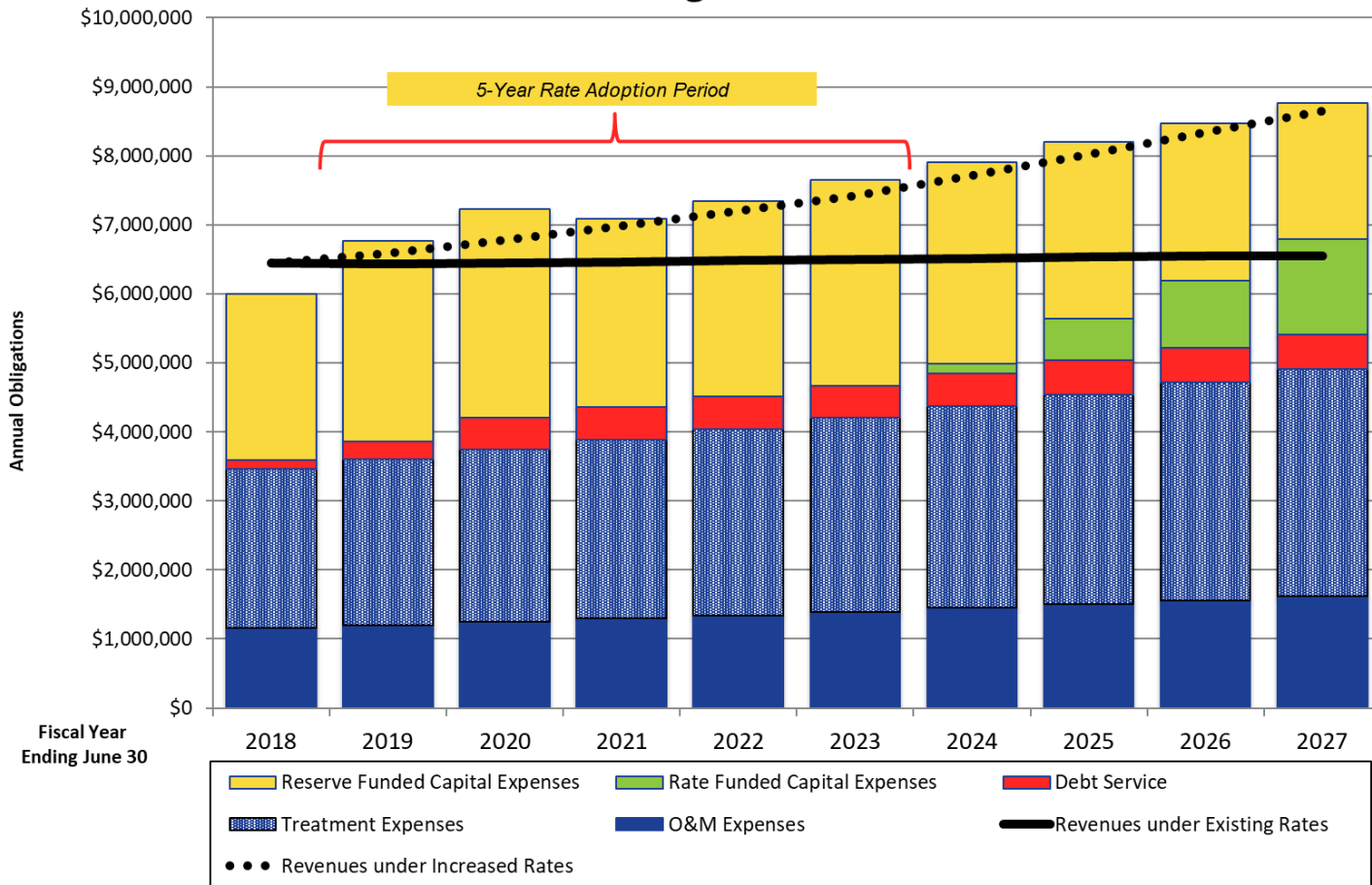
- Last Rate Adoption for Sewer was FY 2013/14.
- Rate Increases from FY 2014/15 – FY 2017/18 ranged from 5.0% - 7.0% per year.
- Proposed Rates would continue to be effective every July 1st.

Financial Plan

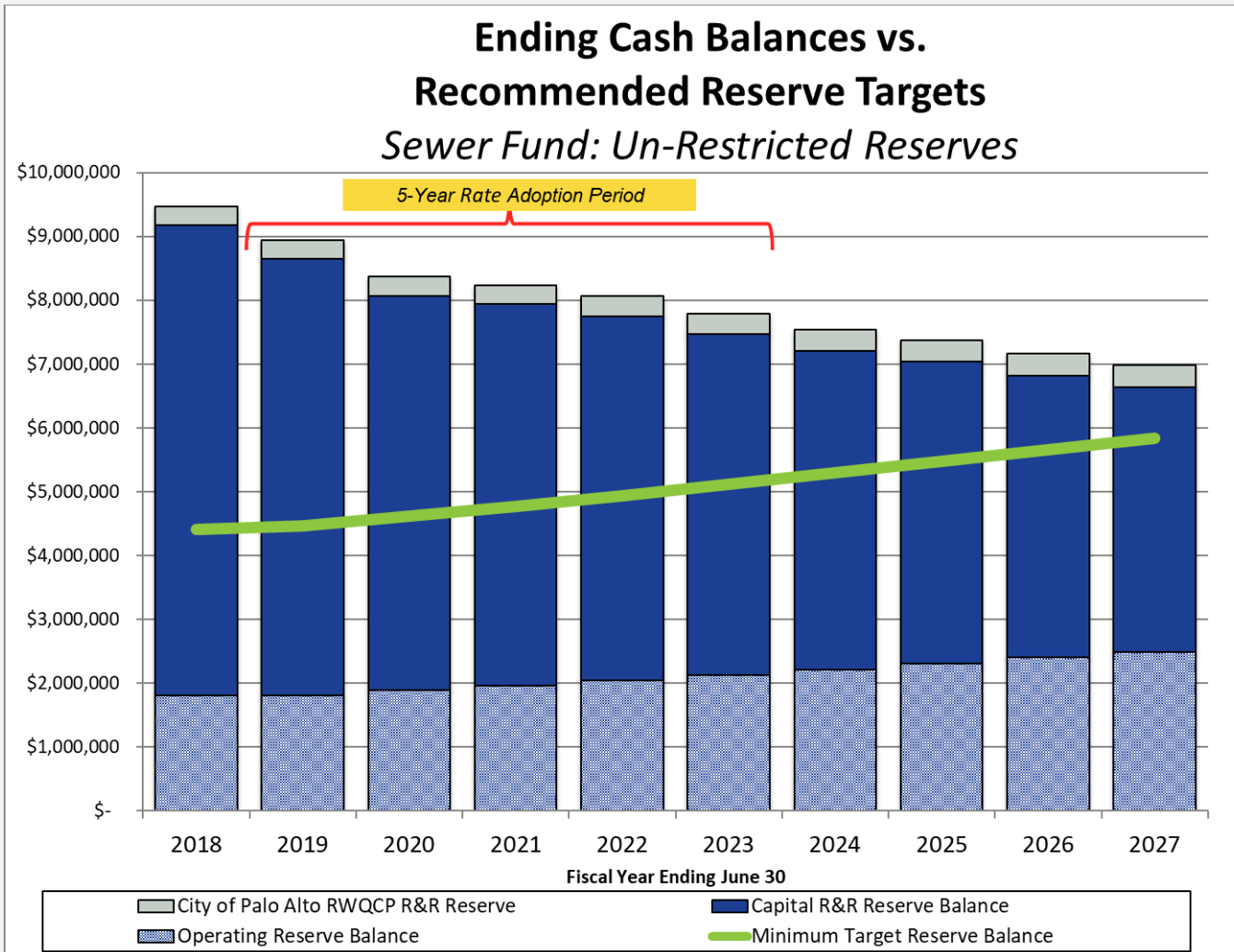
- **No New Debt will be Issued for the Sewer Utility (with City).**
- **Includes new Debt Service Obligations from 2018 Revenue Bonds issued by Palo Alto for the Regional Water Quality Control Plant (RWQCP).**
 - **Los Altos is allocated 9.47% of the Partner Agency Bond Cost Share according to most recent forecast.**
- **Moderate Annual Rate Increase are Recommended to Meet Projected Revenue Requirements Due to:**
 - **Increasing Treatment and Capital Costs.**
 - **Increasing Long-Term Debt Service.**
 - **Projected Cost of Inflation.**

\$ Financial Plan Summary

Sewer Revenue Requirements vs. Revenue Under Existing and Increased Rates



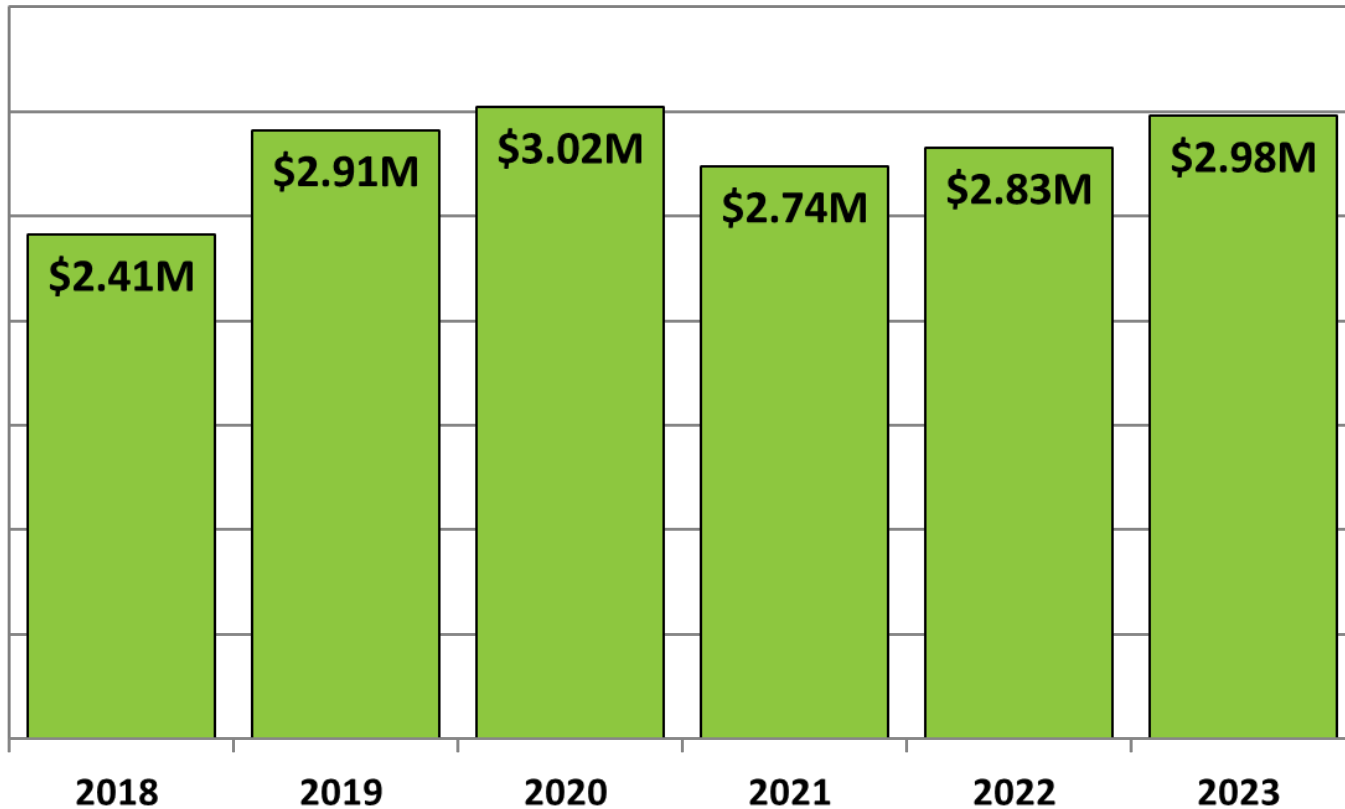
\$ Reserve Fund Summary





Capital Expenditure Summary

Capital Improvement Program



Capital Expenditure Summary, cont.

CIP Expenditures <i>(shown in future year dollars)</i>	TOTAL FY2017/18 - FY 2022/23
Project Descriptions	
Sewer System Repair Program	\$ 3,294,802
Structural Reach Replacement	4,247,309
Root Foaming	1,534,604
CIPP Corrosion Replacement	1,811,334
Fats, Oils, Grease Program (FOG)	340,412
GIS Updates	340,412
Sewer System Management Plan Update	57,376
Sanitary Sewer Video Inspection	815,760
City of Palo Alto RWQCP Minor CIP Fund (3)	1,785,062
Placeholder for Future Year Capital Projects (4)	2,666,330
TOTAL	\$ 16,893,401



Capital Expenditure Summary, cont.

CIP Expenditures <i>(shown in future year dollars)</i>	Budget	Projected					TOTAL
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY2017/18 - FY 2022/23
Project Descriptions							
Sewer System Repair Program	\$ 600,000	\$ 628,300	\$ 657,758	\$ 688,418	\$ 720,326	\$ -	\$ 3,294,802
Structural Reach Replacement	800,000	824,000	848,720	874,182	900,407	-	4,247,309
Root Foaming	274,000	289,430	305,539	322,354	343,280	-	1,534,604
CIPP Corrosion Replacement	320,000	342,990	360,706	382,454	405,183	-	1,811,334
Fats, Oils, Grease Program (FOG)	60,000	63,860	67,898	72,120	76,535	-	340,412
GIS Updates	60,000	63,860	67,898	72,120	76,535	-	340,412
Sewer System Management Plan Update	-	26,780	-	30,596	-	-	57,376
Sanitary Sewer Video Inspection	-	391,400	424,360	-	-	-	815,760
City of Palo Alto RWQCP Minor CIP Fund (3)	297,827	281,531	289,273	297,228	305,402	313,801	1,785,062
Placeholder for Future Year Capital Projects (4)	-	-	-	-	-	2,666,330	2,666,330
TOTAL	\$ 2,411,827	\$ 2,912,151	\$ 3,022,151	\$ 2,739,473	\$ 2,827,667	\$ 2,980,131	\$ 16,893,401

\$ 5-Year Financial Plan Summary

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget		Projected			
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Sources of Wastewater Funds						
Rate Revenue Under Prevailing Rates	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000
Additional Revenue from Rate Increases (1)	-	150,000	334,500	524,535	720,271	921,879
Sewer Service Charge not on Tax Roll	400,000	400,000	400,000	400,000	400,000	400,000
Non-Rate Revenues	52,100	31,835	44,012	61,733	80,968	98,877
Reserves Used for Capital Expenses	2,411,827	2,912,151	3,022,151	2,739,473	2,827,667	2,980,131
Total Sources of Funds	\$ 8,863,927	\$ 9,493,986	\$ 9,800,664	\$ 9,725,741	\$10,028,906	\$10,400,888
Uses of Wastewater Funds						
Operating Expenses	\$ 3,606,883	\$ 3,619,614	\$ 3,771,246	\$ 3,918,434	\$ 4,084,011	\$ 4,254,008
Debt Service	126,204	245,630	452,269	465,652	470,458	470,650
Reserve-Funded Capital Expenses	2,411,827	2,912,151	3,022,151	2,739,473	2,827,667	2,980,131
Rate-Funded Capital Expenses	-	-	-	-	-	-
Total Use of Funds	\$ 6,144,914	\$ 6,777,395	\$ 7,245,666	\$ 7,123,559	\$ 7,382,136	\$ 7,704,790
Projected Annual Rate Increase	0.00%	2.50%	3.00%	3.00%	3.00%	3.00%
Cumulative Rate Increases	0.00%	2.50%	5.58%	8.74%	12.00%	15.36%
Rate Revenue with Annual Rate Increase(s)	\$ 6,000,000	\$ 6,150,000	\$ 6,334,500	\$ 6,524,535	\$ 6,720,271	\$ 6,921,879
Surplus (Deficiency) before Rate Increase	2,719,013	2,716,590	2,554,997	2,602,182	2,646,770	2,696,098
Surplus (Deficiency) after Rate Increase	2,719,013	2,866,590	2,889,497	3,126,717	3,367,042	3,617,977
Net Revenue Requirement (2)	\$ 3,280,987	\$ 3,433,410	\$ 3,779,503	\$ 3,922,353	\$ 4,073,501	\$ 4,225,781

1. Assumes new rates are implemented July 1, 2018.

2. Total Use of Funds less non-rate revenues. This is the annual amount needed from wastewater rates.

Rate Design Objectives



Moderate Increases To Rate Revenue throughout the next 5 years. The Sewer Utility is in a fiscally strong position.



Maintain Fixed/Volumetric Split – New rates maintain current allocation: 60% Fixed & 40% Volumetric.



Rate Adjustments – annual bill impacts are 3% or less per year.



Proposed Rate Calculation (FY 2018/19)

Fixed Charges:

Fixed Charges (per EDU)	Total Revenue Requirements	Percent of Total Rev. Req't. to be Collected from Fixed Charges	Amount to be Collected from Fixed Charges	Number of Equivalent Dwelling Units	Rate per EDU
	<i>A</i>	<i>B</i>	$C = A * B$	<i>D</i>	$E = C / D$
All Customers	\$6,150,000	60%	\$3,690,000	13,785	\$267.69

Volumetric Charges:

Volumetric Charges (per HCF)	Total Revenue Requirements	Percent of Total Rev. Req't. to be Collected from Volumetric Charges	Amount to be Collected from Volumetric Charges	Annual Billable Volume (hcf)	Rate per HCF
	<i>F</i>	$G = 1 - B$	$H = F * G$	<i>I</i>	$J = H / I$
All Customers	\$6,150,000	40%	\$2,460,000	1,142,132	\$2.15



Current & Proposed Rates

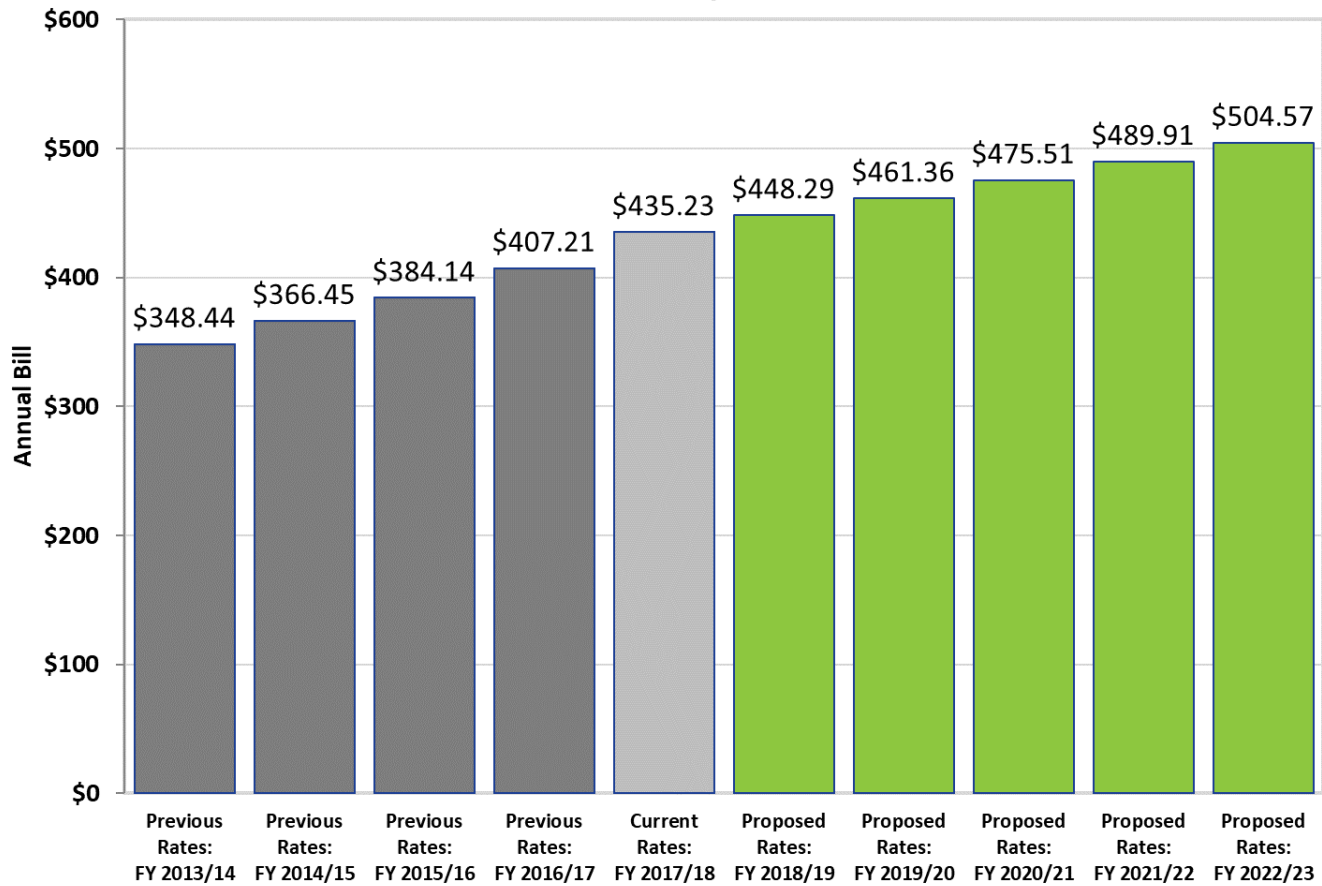
Sewer Rate Schedule	Current Rates	Proposed Yearly Sewer Rates				
		Year 1	Year 2	Year 3	Year 4	Year 5
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Annual Fixed Service Charge per EDU	\$261.35	\$267.69	\$275.72	\$283.99	\$292.51	\$301.29
Volumetric Rate (\$/hcf) (1, 2)	\$2.07	\$2.15	\$2.21	\$2.28	\$2.35	\$2.42

1. One Unit is equal to one HCF (Hundred Cubic Feet) or 748 gallons.
2. Rates are charged based on average winter water consumption (three lowest months from previous year).



Residential Bill Comparisons

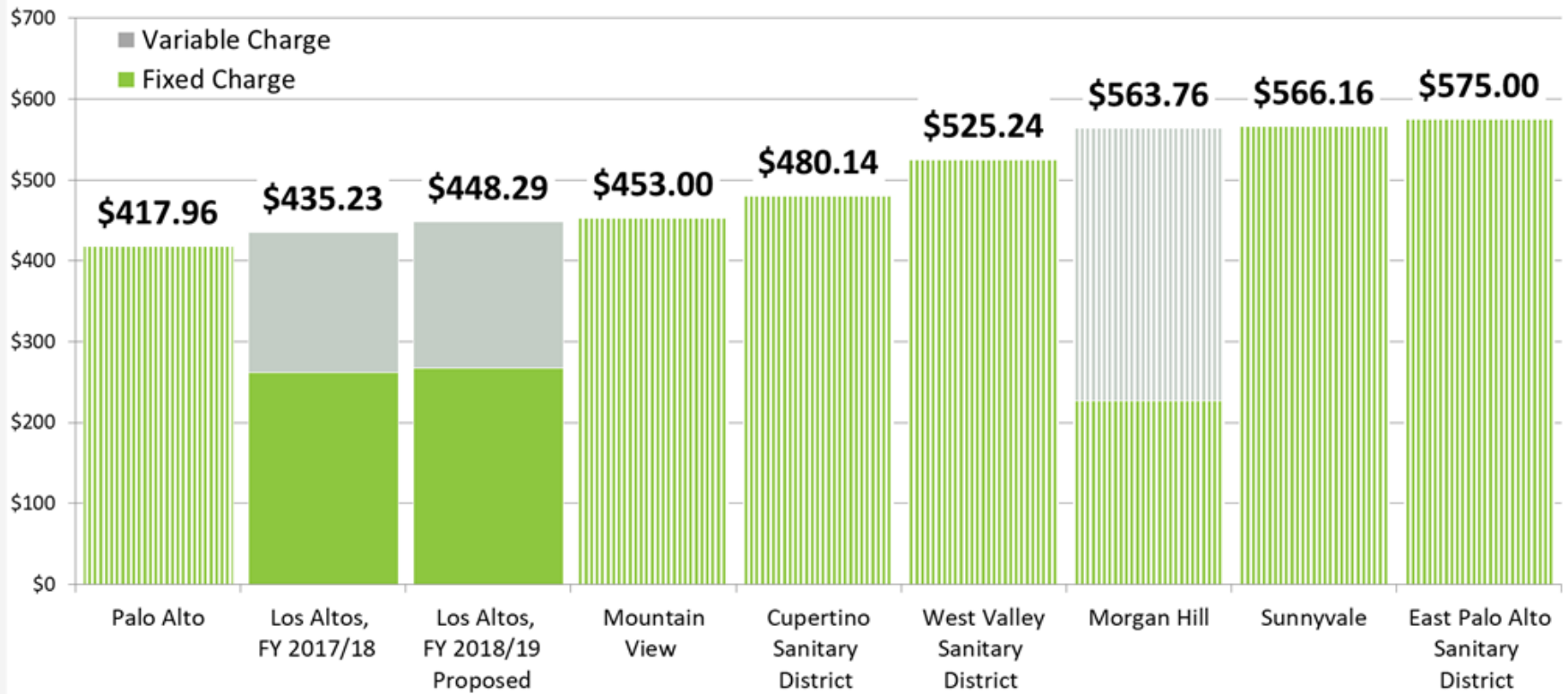
Annual Single Family Residential Sewer Bill Comparison Current vs. Proposed Rates



Shown with 1 EDU & 84 hcf/year



Regional Bill Comparison – FY 2018/19



Sewer rate calculation assumes a winter-based average consumption of 84 HCF Annually

Comparison rate data sourced from Agency websites.

Next Steps

- 1. Approve and Accept the Sewer Rate Study.**
- 2. Direct Staff to Proceed with Proposition 218 Noticing.**
- 3. Hold a Public Hearing after 45-Day Waiting Period.**

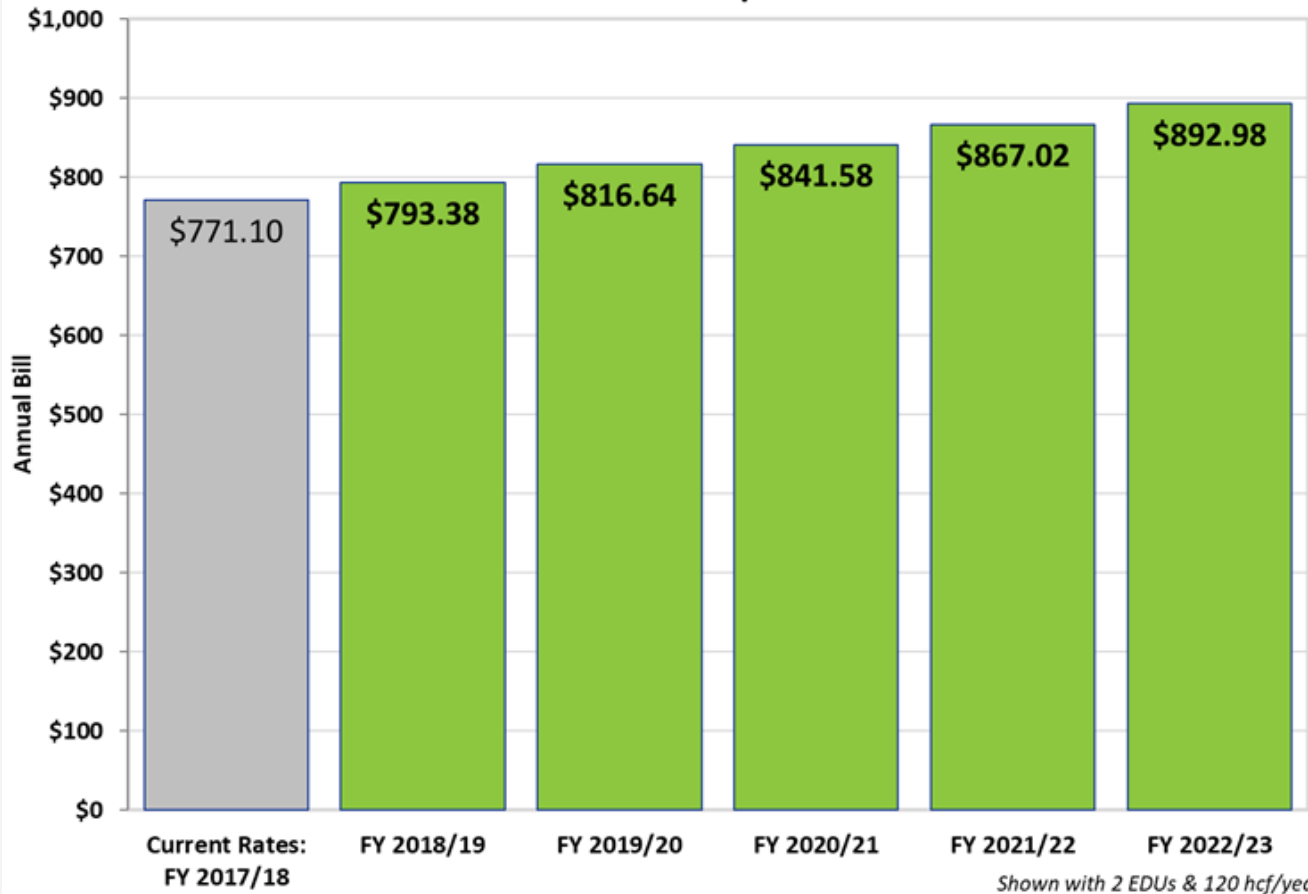
QUESTIONS and COMMENTS





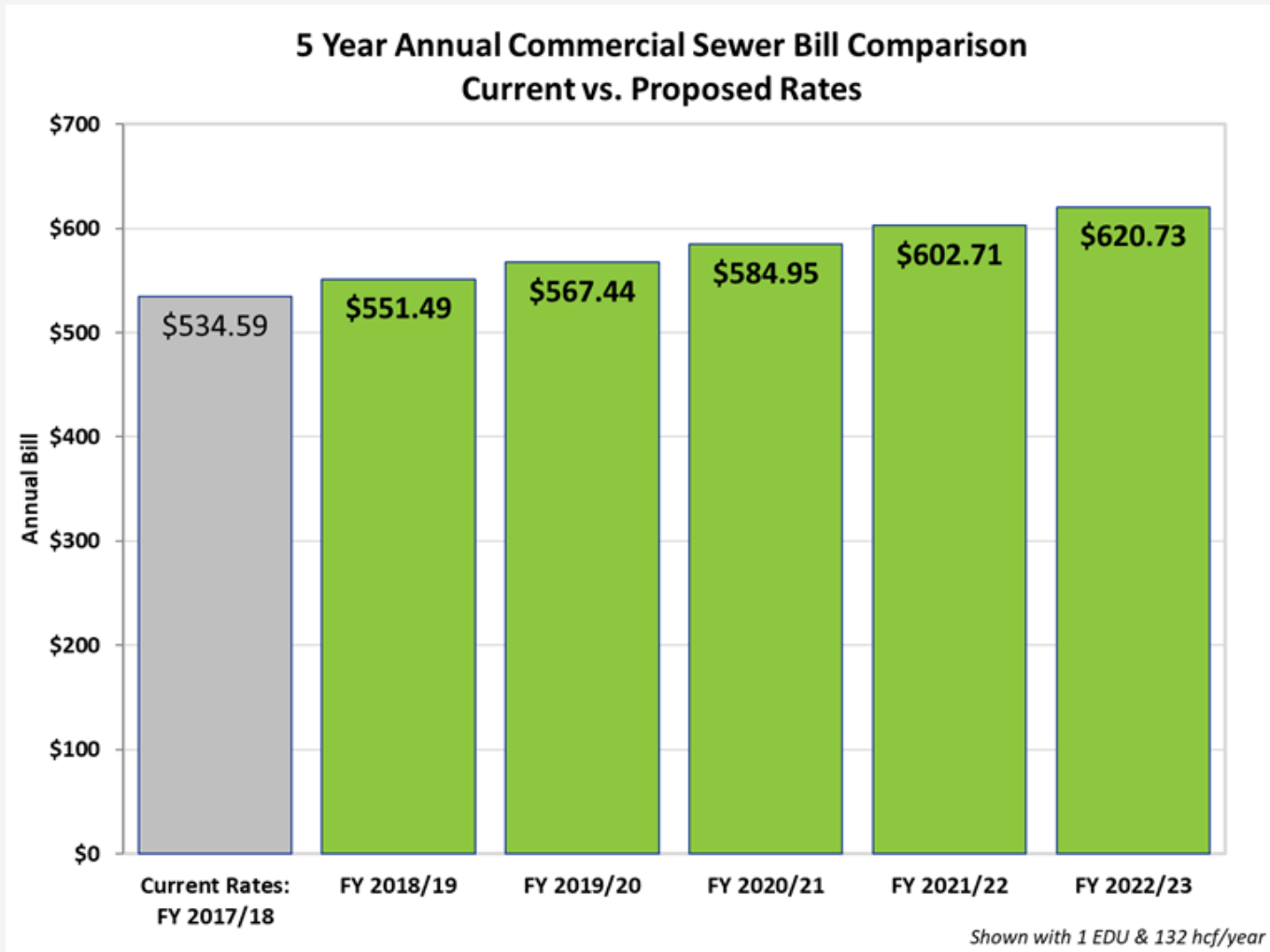
Bill Comparisons

5 Year Annual Multi Family Residential Sewer Bill Comparison Current vs. Proposed Rates





Bill Comparisons



5-Year Financial Plan Summary Table Footnotes

Footnotes for 5-Year Financial Plan Summary Table:

1. Revenue are Budgeted for FY 2017/18.
2. Revenue from rate increases assumes an implementation date of July 1, 2018 for new rates. For each year thereafter, the assumption is that new rates will be implemented on July 1st. Rate revenue collected on property tax bills.
3. Interest earnings beginning in FY 2018/19 are calculated based on historical LAIF returns.
4. Operating Expenses for FY 2017/18 are Budget Expenses.



5-Year Reserve Fund Summary

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected	Projected			
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Un-Restricted Reserves						
Operating Reserve						
Ending Balance	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000
<i>Recommended Minimum Target</i>	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000
Capital Rehabilitation & Replacement Reserve						
Ending Balance	\$ 7,370,829	\$ 6,833,467	\$ 6,186,286	\$ 5,978,465	\$ 5,709,024	\$ 5,335,105
<i>Recommended Minimum Target</i>	\$ 2,300,000	\$ 2,370,000	\$ 2,440,000	\$ 2,510,000	\$ 2,590,000	\$ 2,670,000
City of Palo Alto RWQCP R&R Reserve						
Ending Balance	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 310,000	\$ 320,000
<i>Recommended Minimum Target</i>	\$ 300,000	\$ 290,000	\$ 290,000	\$ 300,000	\$ 310,000	\$ 320,000
Restricted Reserves						
Debt Reserve						
Ending Balance	\$ 126,850	\$ 462,690	\$ 568,436	\$ 568,436	\$ 568,272	\$ 568,272
<i>Recommended Minimum Target</i>	\$ 126,411	\$ 462,690	\$ 568,436	\$ 568,436	\$ 568,272	\$ 568,272
Total Ending Balance	\$ 9,601,078	\$ 9,405,958	\$ 8,940,321	\$ 8,806,100	\$ 8,629,296	\$ 8,350,377
<i>Recommended Minimum Target</i>	<i>\$ 4,529,811</i>	<i>\$ 4,932,490</i>	<i>\$ 5,184,036</i>	<i>\$ 5,337,636</i>	<i>\$ 5,510,272</i>	<i>\$ 5,685,272</i>

Financial Plan – Assumptions, cont.

- Inflation Factors Used:**

Inflation Category	Annual Rate
Customer Growth	0.0%
General Costs	3.0%
Labor & Benefits	4.0%
PERS Obligation	22.35% - 7.06%, then 5.57%
Energy	5.0%
RWQCP	~ 4.0%
Fuel	3.0%
Capital Projects – Los Altos	3.0%
Capital Projects – Palo Alto	2.75%