

City of Los Altos

Sewer Rate Study Financial Commission Meeting

February 15, 2018

Presented by

Carmen Narayanan, Consultant, NBS



Overview of Presentation

- Objectives of the Rate Study
- Proposition 218 Overview
- Sewer Rate Study Results
- Bill Comparisons
- Regional Rate Comparisons
- Next Steps

Key Objectives of the Rate Study

Two Main Tasks:

1. Sewer Rate Study and Administration of the Proposition 218 Process.
2. Annual Administration of the Sewer Service Charge.

Task 1 Objectives:

- Evaluate Revenue Sufficiency for the Utility.
- Develop a Five Year Financial Plan, including Reserve Targets.
- Design Rates that Ensure Long-Term Stability.
- Develop Potential Sub-Metering Policy.

Overview of Proposition 218

1. ***“Right to Vote on New Taxes.”***
(Constitutional Amendment passed in 1996)
2. **Sewer Rates Must be “Fair & Equitable” and based on actual 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

- 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 beginning with FY 2018/19 through FY 2022/23.

Recommended Annual Rate Revenue Increases:

Projected Annual Rate 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%



Financial Plan – Assumptions

- **No New Debt will be Issued for the Sewer Utility (through Los Altos).**
- **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.**



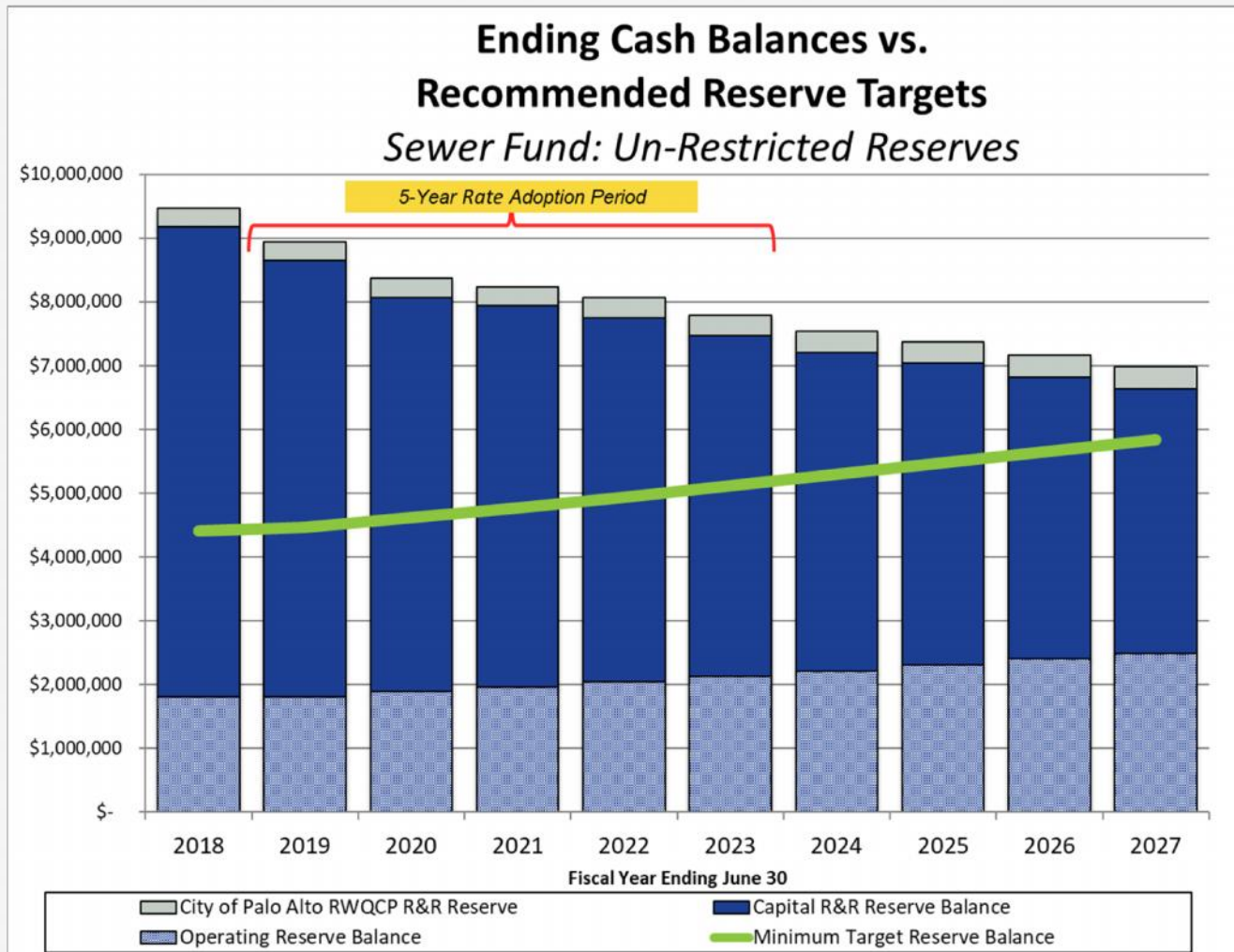
Financial Plan – Assumptions, cont.

- 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%



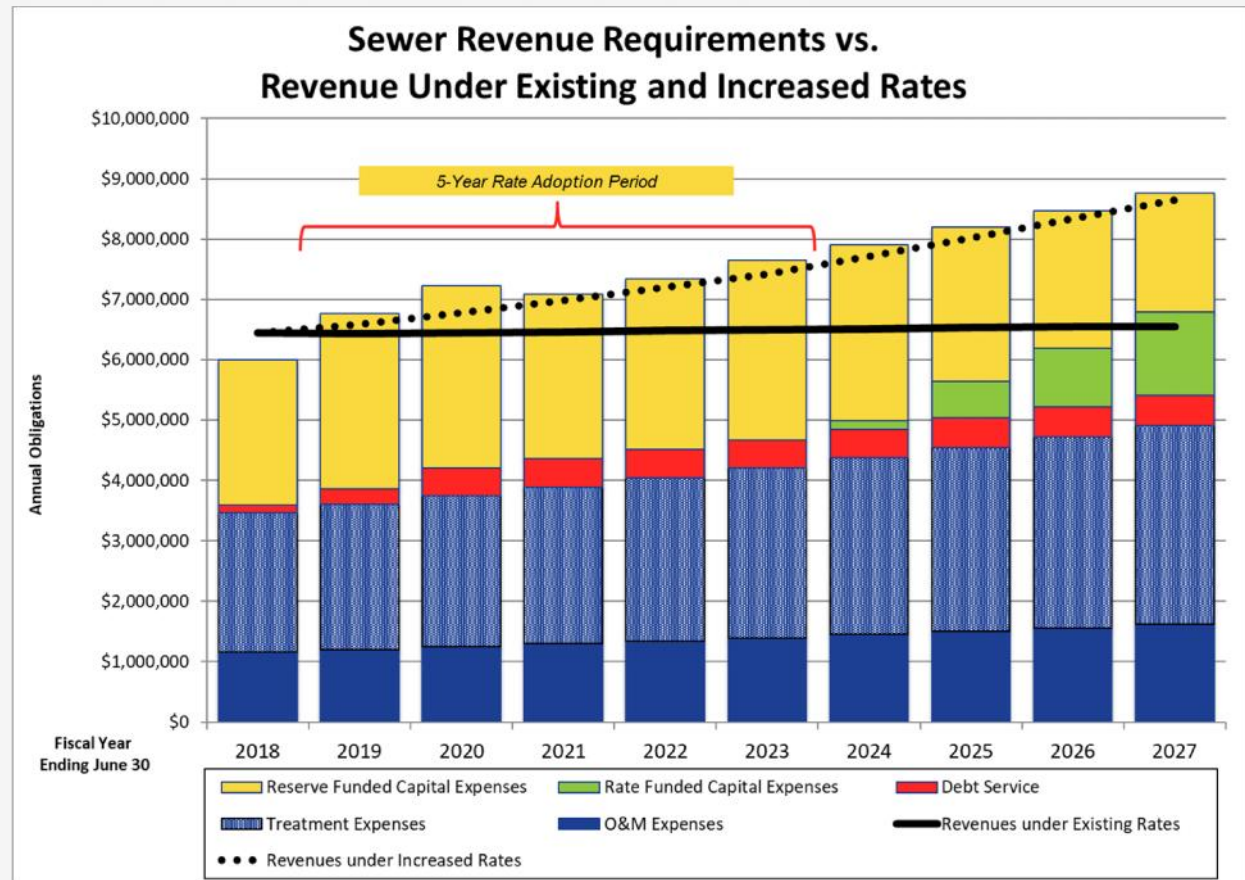
Reserve Fund Summary



\$ Financial Plan Summary

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.





5-Year Financial Plan Summary

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Projected				
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Sources of Funds (Sewer Revenues) (1)						
<i>Rate Revenue:</i>						
Sewer Service Charge on Tax Roll	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Revenue from Rate Increases (2)	-	150,000	334,500	524,535	720,271	921,879
Subtotal: Rate Revenue After Rate Increases	6,000,000	6,150,000	6,334,500	6,524,535	6,720,271	6,921,879
<i>Non-Rate Revenue:</i>						
Sewer Service Charge not on Tax Roll	400,000	400,000	400,000	400,000	400,000	400,000
Other Revenues	16,000	-	-	-	-	-
Interest Income (3)	36,100	31,835	43,216	60,539	79,377	96,888
Subtotal: Rate Revenue After Rate Increases	452,100	431,835	443,216	460,539	479,377	496,888
Total Sources of Funds	\$ 6,452,100	\$ 6,581,835	\$ 6,777,716	\$ 6,985,074	\$ 7,199,648	\$ 7,418,767
Uses of Funds						
<i>Operating Expenses (4):</i>						
Salaries and Benefits	\$ 783,446	\$ 824,767	\$ 869,114	\$ 911,457	\$ 958,061	\$ 1,004,269
Utilities	56,100	57,983	59,932	61,951	64,041	66,205
Repair and Services	241,693	250,381	259,387	268,722	278,400	288,433
Equipment	76,000	78,280	80,628	83,047	85,539	88,105
City of Palo Alto RWQCP O&M	2,449,644	2,408,203	2,502,184	2,593,257	2,697,970	2,806,996
Subtotal: Operating Expenses	\$ 3,606,883	\$ 3,619,614	\$ 3,771,246	\$ 3,918,434	\$ 4,084,011	\$ 4,254,008
<i>Other Expenditures:</i>						
Existing Debt Service - Palo Alto RWQCP	\$ 126,204	\$ 245,630	\$ 452,269	\$ 465,652	\$ 470,458	\$ 470,650
Existing Debt Service - City of Los Altos	-	-	-	-	-	-
Future Debt Service	-	-	-	-	-	-
Rate-Funded Capital Expenses	-	-	-	-	-	-
Subtotal: Other Expenditures	\$ 126,204	\$ 245,630	\$ 452,269	\$ 465,652	\$ 470,458	\$ 470,650
Total Uses of Sewer Funds	\$ 3,733,087	\$ 3,865,244	\$ 4,223,515	\$ 4,384,086	\$ 4,554,469	\$ 4,724,658
Annual Surplus/(Deficit)	\$ 2,719,013	\$ 2,716,590	\$ 2,554,202	\$ 2,600,988	\$ 2,645,179	\$ 2,694,109
Net Revenue Reqtd. <i>(Total Uses less Non-Rate Revenue)</i>	\$ 3,280,987	\$ 3,433,410	\$ 3,780,298	\$ 3,923,547	\$ 4,075,092	\$ 4,227,771
Total Rate Revenue After Rate Increases	\$ 6,000,000	\$ 6,150,000	\$ 6,334,500	\$ 6,524,535	\$ 6,720,271	\$ 6,921,879
Projected Annual Rate Revenue Increase	0.00%	2.50%	3.00%	3.00%	3.00%	3.00%
<i>Cumulative Increase from Annual Revenue Increases</i>	0.00%	2.50%	5.58%	8.74%	12.00%	15.36%
<i>Debt Coverage After Rate Increase</i>	22.54	12.06	6.65	6.59	6.62	6.72

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 allocate: 60% Fixed & 40% Volumetric.



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



Current & Proposed Rates

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 (1)	Percent of Total Rev. Req't. to be Collected from Volumetric Charges (2)	Amount to be Collected from Volumetric Charges	Annual Billable Volume (hcf) (3)	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

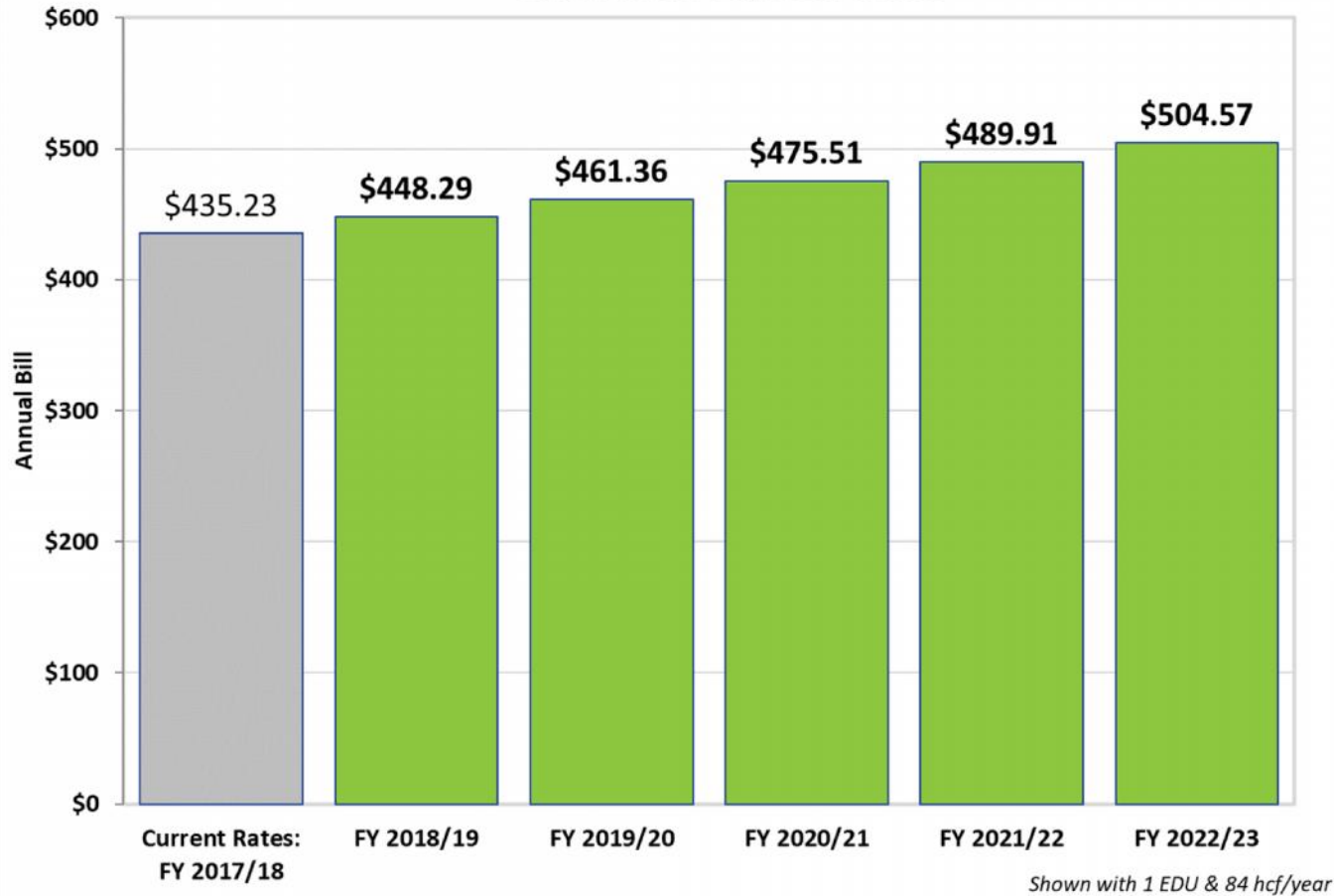
Sewer Rate Schedule	Current Rates	Proposed Yearly Sewer Rates				
		Year 1	Year 2	Year 3	Year 4	Year 5
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Annual Fixed Service Charge per EDU	\$261.35	\$267.69	\$275.72	\$283.99	\$292.51	\$301.29
Volumetric Rate (\$/hcf) (1, 2)	\$2.07	\$2.15	\$2.21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



Bill Comparisons

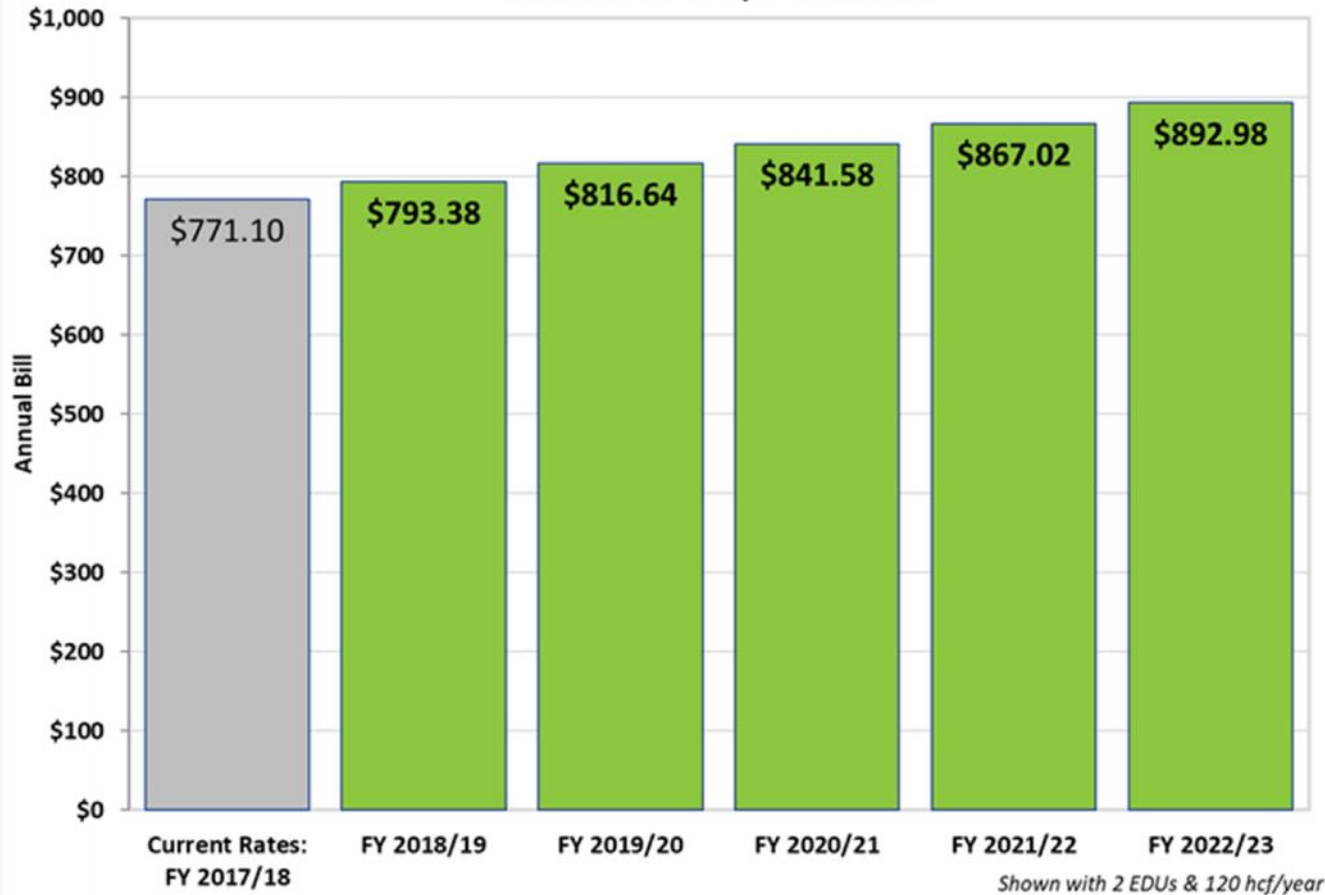
5 Year Annual Single Family Residential Sewer Bill Comparison Current vs. Proposed Rates





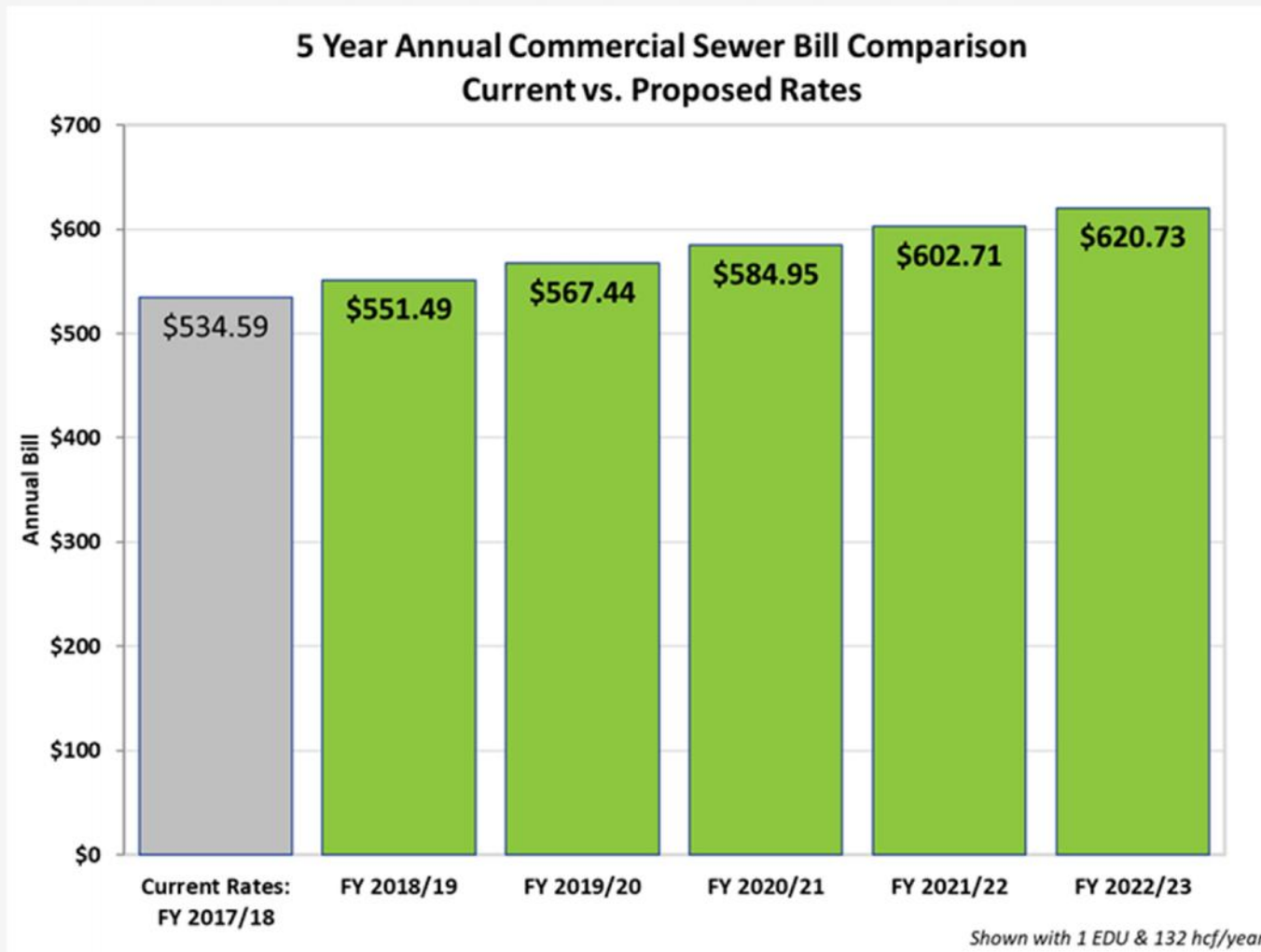
Bill Comparisons

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



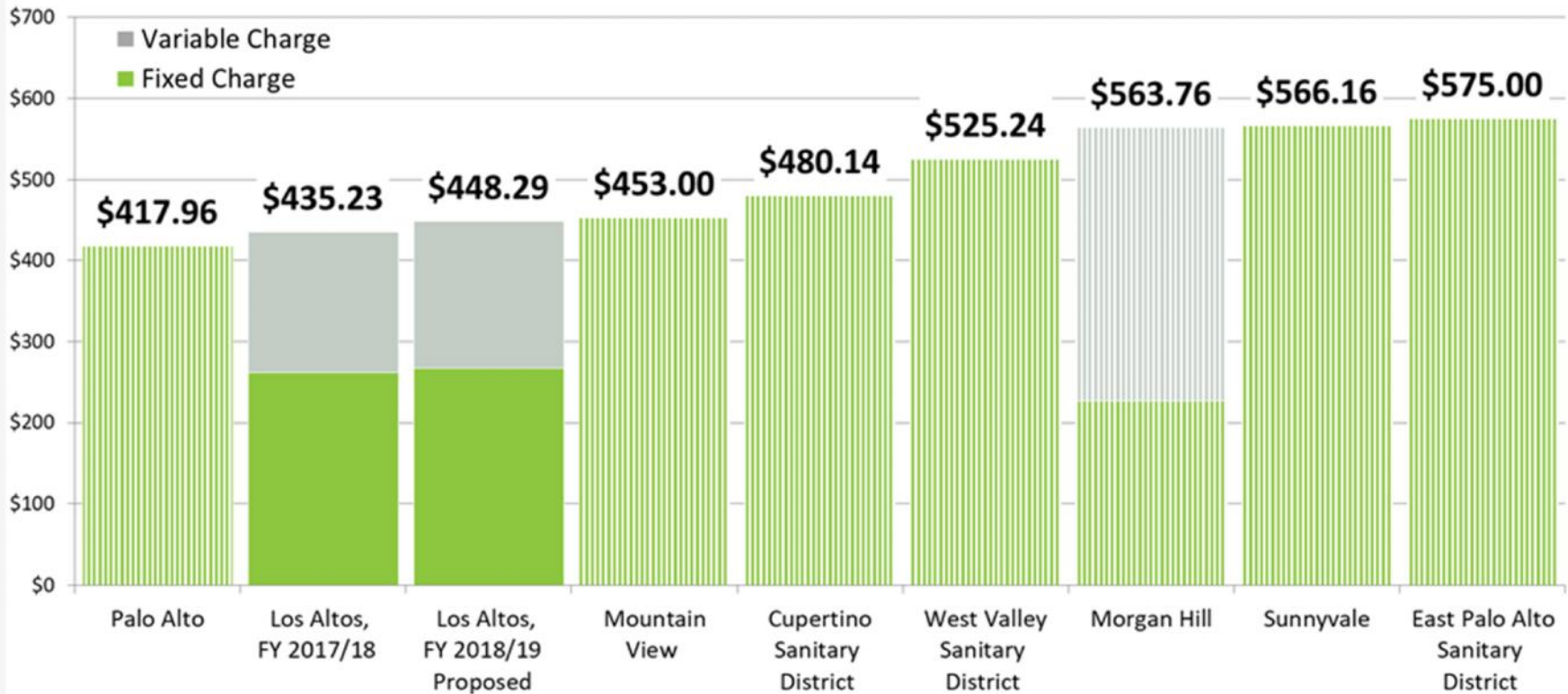


Bill Comparisons





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. Provide Input and Direction.**
- 2. Adjustments to Analysis will be made as needed.**
- 3. Present Information to City Council at March 13th meeting.**

QUESTIONS and COMMENTS

