

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: BOARD OF PUBLIC UTILITIES
FROM: KIMBERLY ZUNINO, DEPUTY DIRECTOR – ADMINISTRATION
SANTA ROSA WATER
SUBJECT: 2021 WATER AND WASTEWATER COST OF SERVICE STUDY
PROPOSED FY21/22 THROUGH FY24/25 RATE SCHEDULE,
AND PROPOSED UPDATE TO WATER SHORTAGE CHARGES

AGENDA ACTION: STUDY SESSION

RECOMMENDATION

It is recommended by Santa Rosa Water that the Board of Public Utilities hold a Study Session to receive information, ask questions, discuss and provide feedback to staff regarding the 2021 Water and Wastewater Cost of Service Study, proposed FY 21/22 though FY 24/25 Rate Schedule, and proposed Water Shortage Charges.

EXECUTIVE SUMMARY

In 2018, Santa Rosa Water (SRW) hired The Reed Group, Inc (TRGI) to develop a ten-year long-range financial plan, followed by a thorough cost of service analysis and recommendation of a new water and wastewater fee schedule. In July 2021, SRW amended the TRGI contract to have TRGI analyze and update the Water Shortage Charge Structure, which is part of the City's Water Shortage Contingency Plan. TRGI found SRW's financial health is such that at the end of the current fee schedule, set to conclude on June 30, 2021, only moderate annual water and wastewater rate increases would be required. Proposed increases between 2-4% each year for water fixed and usage charges and 2% each year for wastewater fixed and usage charges are proposed to help ensure that SRW continues to meet all service and financial obligations. To assist SRW with managing water supply and potential financial deficits during declared stages of drought or emergency, an update to the Water Shortage Charge structure is also being proposed.

BACKGROUND

In 2018, TRGI was hired to provide a comprehensive financial plan and assist with other fee development as well as emergency financial recovery planning based on the Tubbs Fire in 2017. Over the last two years TRGI has developed a comprehensive and detailed financial model that will be used by SRW over the next ten years to track expenditures, respond to unexpected financial increases and decreases, and perform

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future financial planning. The financial model uses actual historical financial data to assist with planning future budgeting needs. Data includes, but is not limited to, expenditures, revenues, debt service, capital improvement plans, catastrophic reserves, development fees, etc. At the end of each fiscal year audit, actual expenditures will replace projected budgeted financials to allow staff to monitor in detail the financial health of the Department.

Approximately 95% of expenditures are covered by rate revenue. The financial model is the primary tool for determining the financial needs of SRW and providing the basis for necessary water and wastewater rate schedules. The capability and reliability of such a robust financial tool allows SRW to develop rate schedules for several years providing stability for the Department and clarity for the rate payers.

There are two rate setting objectives that are primary and fundamental to guiding the rate-setting process, (1) water rates must generate sufficient revenue to meet the utility's service and financial obligations, and (2) water rates must be calculated consistent with the requirements of the California Constitution, Article XIID (Proposition 218) and relevant case law. Other objectives include rates being viewed as fair and equitable by the public: rates should be simple, understandable, and easy to administer; and rates should strike an appropriate balance between fixed and usage-based charges.

After the revenue needs are determined a cost of service analysis is required to develop the rate schedule. This portion of the study analyzes SRW customer water and wastewater use data to determine the appropriate distribution of fixed, capacity and commodity costs between customer classes and the usage versus fixed charges. While there are changes based on customer data to the distribution of costs between customer classes, and between fixed and usage charges, the overall fee structure is not changing.

The City's Water Shortage Contingency Plan (Shortage Plan) describes how SRW intends to respond in the case of a water shortage. The Shortage Plan provides the City Council, staff, and the public with clear steps for effectively responding to a water shortage. SRW is currently preparing an updated Shortage Plan which is due for submittal to the Department of Water Resources by July 1, 2021.

The Shortage Plan anticipates various levels of water supply shortage conditions and provides guidance for managing and mitigating water shortages with steps designed to respond to actual conditions and allow for efficient management of a water shortage. The updated Water Shortage Charges (WSC) proposed to be implemented during Stages 2 through 8 of the Shortage Plan encourages customers to reduce water use commensurate with the water shortage target and helps recover a portion of the revenue shortfall. If a customer reduces water use consistent with the water shortage target, their water bill will not significantly change (relative to standard rates with normal usage) even after the water usage rates are increased by the WSC.

ANALYSIS

Proposed Rate Schedule Factors

The ten-year financial model is the tool used to determine the appropriate rate schedule for covering Operation and Maintenance (O&M), Capital Improvement Projects (CIP), and Debt Service costs.

The main drivers for the proposed rate schedule include:

- The most significant cost assumptions that affect rates include: O&M Expenditure increases at 3%; increase in general and construction inflation; 2% salary and benefit increases, 4% increases in utility costs, including incorporating the additional costs from converting to the Evergreen rate for electricity; and a 5% increase each year for the purchase of water.
- Interest earnings are expected to remain low at 1.5%.
- Growth rates, which produce connection fee revenue, increases at 0.86%.
- Water demand is expected to remain stable. Water use has been consistent over the last 10 years and is being projected, for the purpose of rates, to remain within a stable range.
- Investment in the CIP Program will increase yearly by 3%, based on the general construction cost index, for both Water and Wastewater. The Regional System, in agreement with the Regional Partners, has been increasing the CIP Program cash investment by \$1 million a year to reduce debt financing for projects.
- Existing debt service has been included in the model based on the repayment schedules.

SRW is proposing increases to the target catastrophic reserves for the water enterprise and local wastewater enterprise based on an engineering analysis. The regional catastrophic reserve is still under review. Staff is recommending increasing these target catastrophic reserves slowly to avoid significant impacts to the rate payer and bringing an update to the reserve policy in future years. Building up the target catastrophic reserve slowly over time is possible because, in the event of an emergency, in addition to the current catastrophic reserves, there is cash funding for CIP projects available that can be redirected by the Council.

Based on the cost of service study, drivers, and proposed changes to the catastrophic reserve, the proposed Water and Wastewater schedule is as follows, with increases applying equally to fixed and usage rates:

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	Water Rate Adjustments	WW Rate Adjustments
July 2021	2.0%	2.0%
July 2022	3.0%	2.0%
July 2023	3.0%	2.0%
July 2024	4.0%	2.0%

Customer Impacts

The cost of service analysis determines how the costs are distributed between each component of the water and wastewater fixed and usage rates. The distribution to each component is based on actual customer usage data and adjusted with each update to rates. Due to the redistribution of the costs, the first year of increase affects customer classes at varied percentages. The increase percentage by customer class ranges from -0.5% to 3% as shown below. Following the first-year, increases will be consistent to all customer classes and components of the rate at the amounts shown in the rate increase table shown above.

	Meter Size	Wtr. Use (TGAL)	WW Use	Bills With Current Water/WW Rates			Bills With Proposed Water/WW Rates			Change in Total Bill	
				Water	Wastewater	Total	Water	Wastewater	Total	\$	%
Single Family Residential											
Low Water Use	5/8"	4	4	\$37.12	\$85.29	\$122.41	\$38.13	\$86.56	\$124.69	\$2.28	1.9%
Median Water Use	5/8"	7	5	\$56.54	\$100.15	\$156.69	\$57.62	\$101.62	\$159.24	\$2.55	1.6%
High Water Use	5/8"	12	6	\$89.54	\$115.01	\$204.55	\$90.63	\$116.68	\$207.31	\$2.76	1.3%
Very High Water Use	5/8"	20	7	\$142.91	\$129.87	\$272.78	\$143.92	\$131.74	\$275.66	\$2.88	1.1%
Duplex	5/8"	8	6	\$62.38	\$115.01	\$177.39	\$63.59	\$116.68	\$180.27	\$2.88	1.6%
Small Apartment (4 DUs)	1"	15	12	\$123.86	\$240.58	\$364.44	\$126.64	\$241.54	\$368.18	\$3.74	1.0%
Large Apartment (24 DUs)	2"	80	80	\$589.57	\$1,384.52	\$1,974.09	\$601.72	\$1,392.12	\$1,993.84	\$19.75	1.0%
Very Lrg. Apart. (100 DUs)	4"	320	320	\$2,271.36	\$5,363.44	\$7,634.80	\$2,316.45	\$5,397.52	\$7,713.97	\$79.17	1.0%
Small Retail	5/8"	6	6	\$50.96	\$99.95	\$150.91	\$52.05	\$100.66	\$152.71	\$1.80	1.2%
Large Retail	2"	80	80	\$589.57	\$1,183.72	\$1,773.29	\$601.72	\$1,178.52	\$1,780.24	\$6.95	0.4%
Office Building	1 1/2"	40	40	\$307.36	\$616.91	\$924.27	\$313.95	\$613.92	\$927.87	\$3.60	0.4%
Car Wash	2"	60	60	\$465.57	\$936.72	\$1,402.29	\$475.72	\$930.72	\$1,406.44	\$4.15	0.3%
Mixed Comm. w/Food	1"	35	35	\$247.86	\$774.86	\$1,022.72	\$252.64	\$791.97	\$1,044.61	\$21.89	2.1%
Hotel w/ Restaurant	3"	200	200	\$1,413.36	\$4,437.58	\$5,850.94	\$1,441.20	\$4,526.32	\$5,967.52	\$116.58	2.0%
Restaurant	1 1/2"	50	50	\$369.36	\$1,140.91	\$1,510.27	\$376.95	\$1,162.82	\$1,539.77	\$29.50	2.0%
Supermarket	2"	160	160	\$1,085.57	\$2,832.52	\$3,918.09	\$1,105.72	\$2,870.52	\$3,976.24	\$58.15	1.5%
Mortuary	1"	20	20	\$154.86	\$469.46	\$624.32	\$158.14	\$478.62	\$636.76	\$12.44	2.0%
Small Winery	1"	10	10	\$92.86	\$265.86	\$358.72	\$95.14	\$269.72	\$364.86	\$6.14	1.7%
Sm. Irrig. (Wtr Budg.=18 tg)	1"	20		\$151.74	(na)	\$151.74	\$156.24	(na)	\$156.24	\$4.50	3.0%
Lrg. Irrig. (Wtr. Budg.=250 tg)	4"	300		\$2,129.36	(na)	\$2,129.36	\$2,118.45	(na)	\$2,118.45	-\$10.91	-0.5%

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SRW purchases wholesale water from Sonoma Water. With the previous rate schedule, 2016-2020, the cost of wholesale water was passed through to SRW water customers after the wholesale rate increase was approved by the Sonoma Water Board of Directors each year. Sonoma Water’s wholesale rate increase varies each year and is unknown until approved. Historically, the wholesale rate increase was unpredictable with large variations creating uncertainty in required revenue to cover the expenditure to SRW. In recent years, SRW and the other water contractors that purchase wholesale water have worked with Sonoma Water to achieve more consistent and predictable rate increases allowing SRW to recommend removal of the pass-through rate. The pass-through created uncertainty for SRW customers, who would not know the affect to their monthly billing until right before the increase was implemented. The removal of the pass-through allows stability and predictability for SRW customers and creates a more simplified and clearer rate structure.

Water Shortage Charge

Under normal water supply conditions and in shortage Stage 1 - Voluntary, the then-current water rate structure remains in place. Beginning in Stage 2, a WSC of 5 percent will be added to the then-current water usage rates on every unit of water sold for all customer accounts. The WSC will increase to 7.5. percent in Stage 3, 10 percent in Stage 4, 15 percent in Stage 5, 25 percent in Stage 6, 35 percent in Stage 7, and finally 45 percent in Stage 8. In addition, beginning in Stage 5 and continuing through Stage 8, the tiered water usage rate structure for Single-Family, Duplex, and Dedicated Irrigation accounts is replaced by the then current uniform water usage rate applicable to Multi-Family and CII accounts.

Shortage Stage	Water Shortage condition	Water Shortage Charge
1	Voluntary – up to 10% reduction in use	N/A
2	Mandatory - 15% reduction in use	5% of then existing rates
3	Mandatory - 20% reduction in use	7.5% of then existing rates
4	Mandatory - 25% reduction in use	10% of then existing rates
5	Mandatory - 30% reduction in use	15% of then existing rates
6	Mandatory - 40% reduction in use	25% of then existing rates
7	Mandatory - 50% reduction in use	35% of then existing rates
8	Mandatory - more than 50% reduction in use	45% of then existing rates

While the WSC and Water Shortage Plan are both important fiscal and water supply management tools for SRW, it’s important to note that their implementation is discretionary, and can only be triggered by action of the City Council in a publicly noticed meeting.

FISCAL IMPACT

The proposed rate increases will ensure that Santa Rosa Water’s Water, Wastewater,

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and Regional enterprise funds continue to meet all service and financial obligations. The proposed Water Shortage Charges will recover a portion of the revenue shortfall experienced during a water shortage emergency.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On October 13, 2020, October 29, 2020 and December 15, 2020 the Budget Subcommittee of the Board of Public Utilities met to review recommended rates and the cost of service study. At the December 15, 2020, the Subcommittee also reviewed the proposed Water Shortage Charge structure.

On January 19, 2021, the Budget Subcommittee reviewed the FY21/22 through FY24/25 Proposed Water and Wastewater rate recommendation, 2021 Santa Rosa Water and Wastewater Rate Study, and proposed Water Shortage Charge Structure and unanimously recommended approval to the Board.

ATTACHMENTS

Attachment 1 – Santa Rosa Water and Wastewater Rate Study

CONTACT

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