

# Water and Wastewater Rate Study

Santa Rosa Water – BPU Budget Subcommittee

October 29, 2020



# Agenda

1. Study Overview & Scope
2. Recap of Financial Plan Results (revised)
3. Proposed Rates and Bill Impacts
4. Reserve Policy Discussion
5. Next Meeting – To be determined

# Study Overview

## Revenue Requirements

Compare the revenues of the water, wastewater, and subregional utilities to their expenses in multi-year **financial plans** to determine the overall level of annual rate adjustments

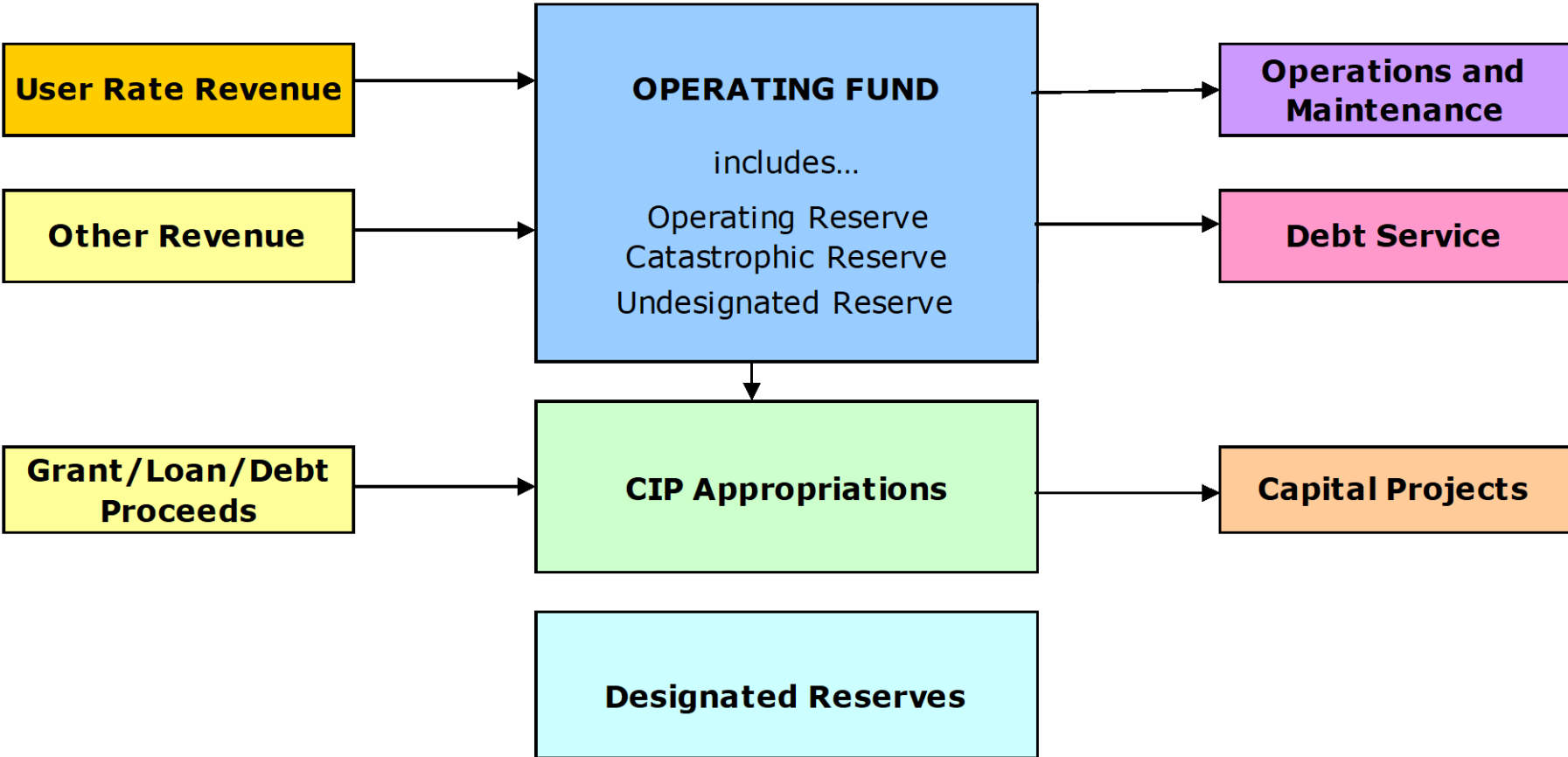
## Cost-of-Service

Proportionately allocate the FY 21-22 revenue requirement between the various customer classes based on service and demand requirements

## Rate Design

Design water and wastewater rates to recover the revenue requirement from each customer class and meet other rate setting objectives

# Fund/Reserve Structure and Cash Flows



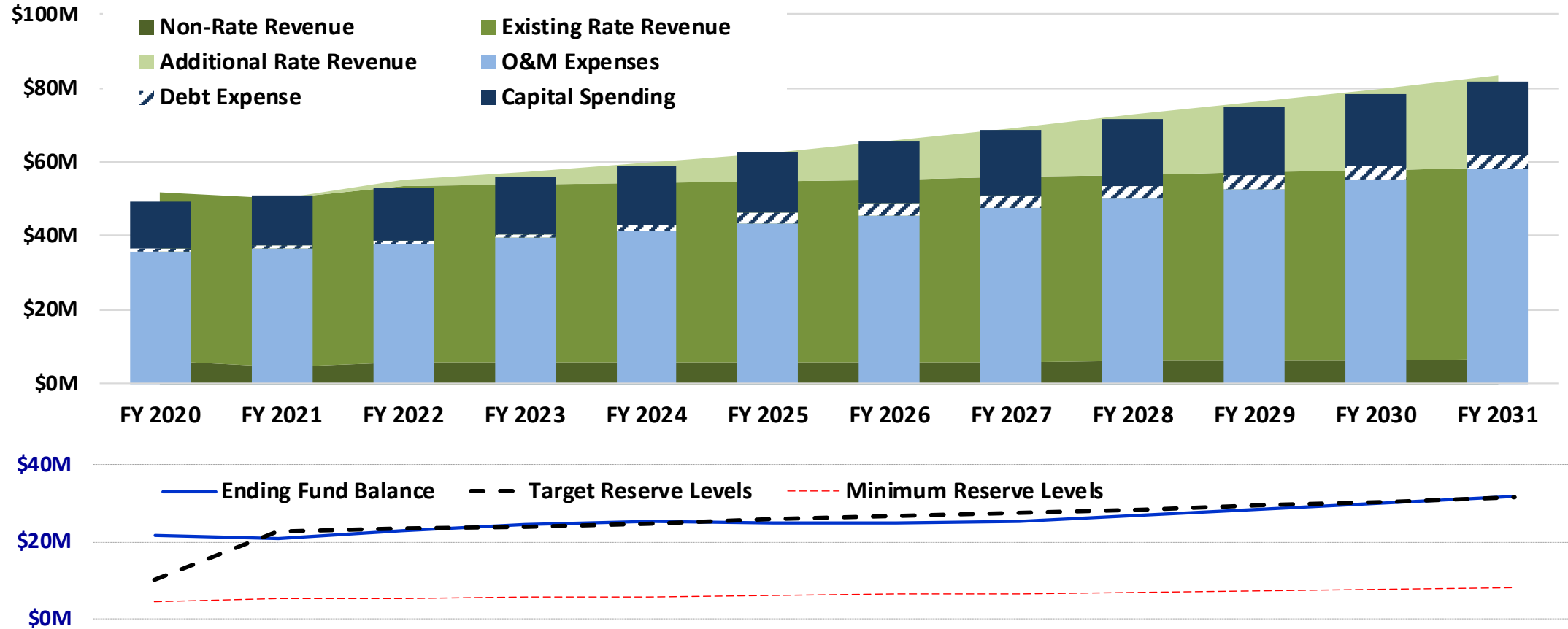
# Planned PayGo Capital Spending (CIP Budgeting)\*

	Water	Wastewater	Subregional
FY 20-21	\$13,792,000	\$12,731,000	\$7,000,000
FY 21-22	\$14,630,000	\$13,505,000	\$8,000,000
FY 22-23	\$15,517,000	\$14,326,000	\$9,000,000
FY 23-24	\$15,982,000	\$14,755,000	\$10,000,000
FY 24-25	\$16,462,000	\$15,198,000	\$11,000,000
Future Years	Increase at 3%	See below**	\$12,000,000

\* Costs inflated to future dollars. Excludes funds previously appropriated.

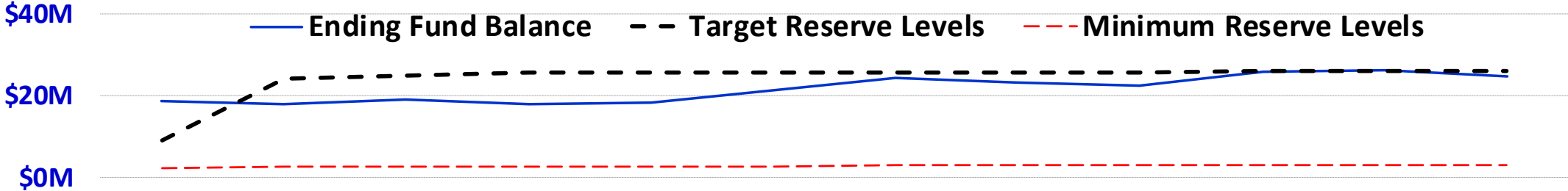
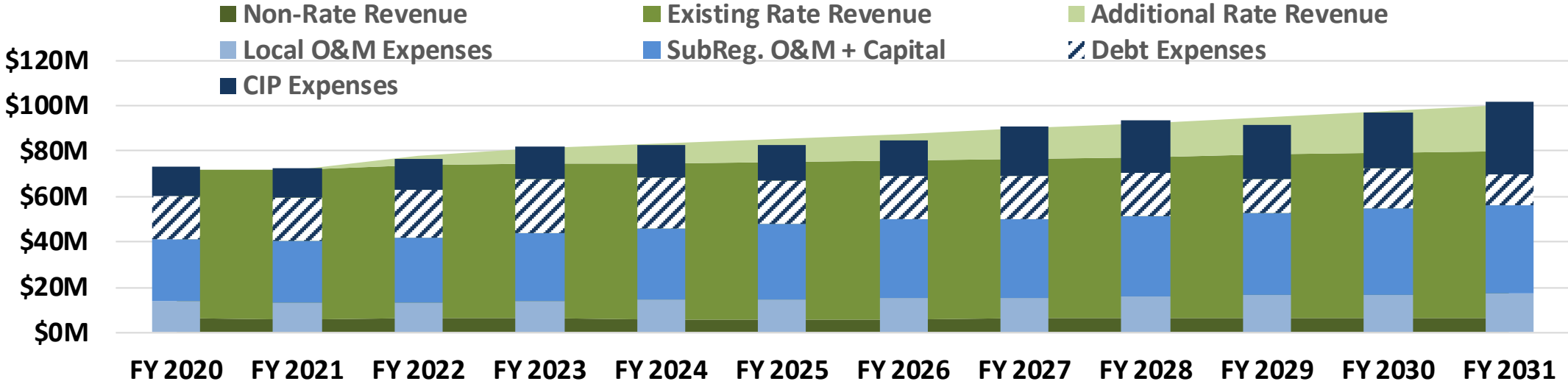
\*\* Annual capital spending for Local Wastewater is projected to increase by as much as \$10 million between FY 25-26 and FY 30-31 due to a decrease in debt service.

# Water Utility Financial Plan Summary



	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Proposed Water Rate Revenue Increases:	3.0%	<u>Recommended</u> 4.0%	4.0%	4.0%	5.0%	5.0%	<u>Projected</u> 5.0%	4.0%	4.0%	4.0%
Debt Coverage Ratio:	21.04	21.91	12.12	6.22	6.05	6.45	6.88	6.41	6.49	6.76

# Wastewater Utility Financial Plan Summary



	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
	<u>Recommended</u>				<u>Projected</u>					
Wastewater Rate Increases:	4.00%	4.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Combined Debt Coverage Ratio:	4.67	4.72	4.44	4.05	4.57	5.60	5.84	6.20	6.50	7.83

# Estimated Water/Wastewater Rate Adjustments \*

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

\* Preliminary. Pending issues include 2020 bond pricing, determination of subregional catastrophic reserve target, reserve policy decisions, and further internal review.



# Cost of Service and Rate Structure

1. Water and wastewater cost of service analyses (CO SA) have been updated to justify proposed rates based on current financial analyses and revenue needs
  - ✓ Proposition 218 requires costs to be allocated on a proportionate basis
2. Current water and wastewater rate structures have been retained
3. Recommend elimination of automatic pass-through water rate adjustment based on annual Sonoma Water rate changes
  - ✓ Sonoma Water's rate adjustments are more consistent than previously
  - ✓ Estimated Sonoma Water rate adjustments built into water rate calculations

# Rate Setting Objectives

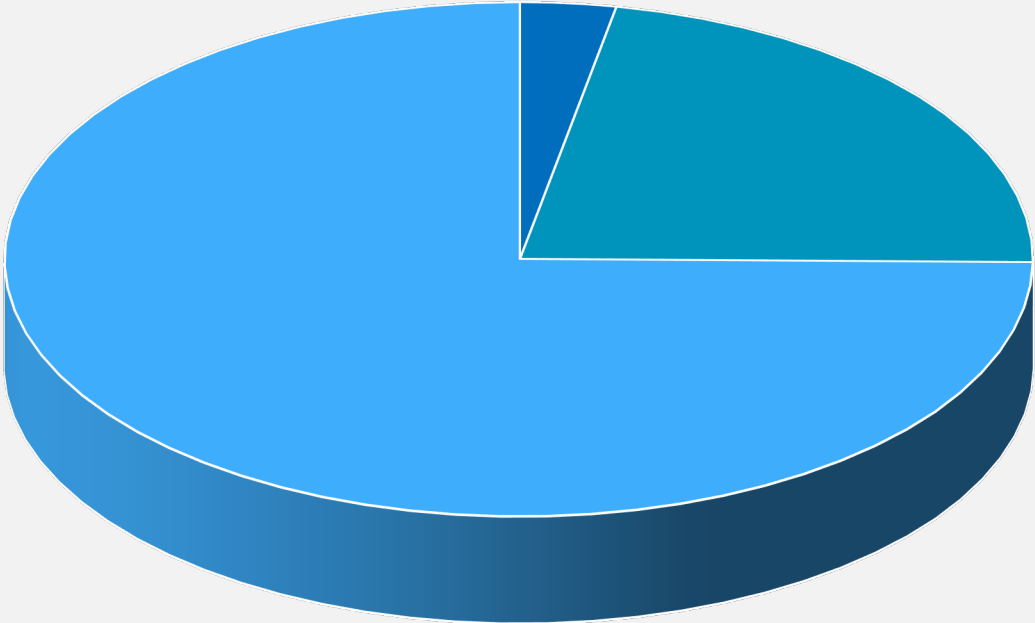
- ❖ Financial sufficiency and sustainability
- ❖ Legal compliance
- ❖ Water conservation
- ❖ Revenue stability and predictability
- ❖ Minimize rate increases
- ❖ Affordability
- ❖ Public acceptance

# Cost Allocation Principles

- ❖ Customer costs
  - ✓ Assigned to each customer on an equal basis
- ❖ Capacity costs
  - ✓ Assigned to each customer based on meter size
- ❖ Commodity costs
  - ✓ Assigned to each customer based on usage
- ❖ Water supply and water conservation costs
  - ✓ Assigned to tiered water usage rates
- ❖ Wastewater treatment costs
  - ✓ Assigned to sewer usage rates based on flow and strength

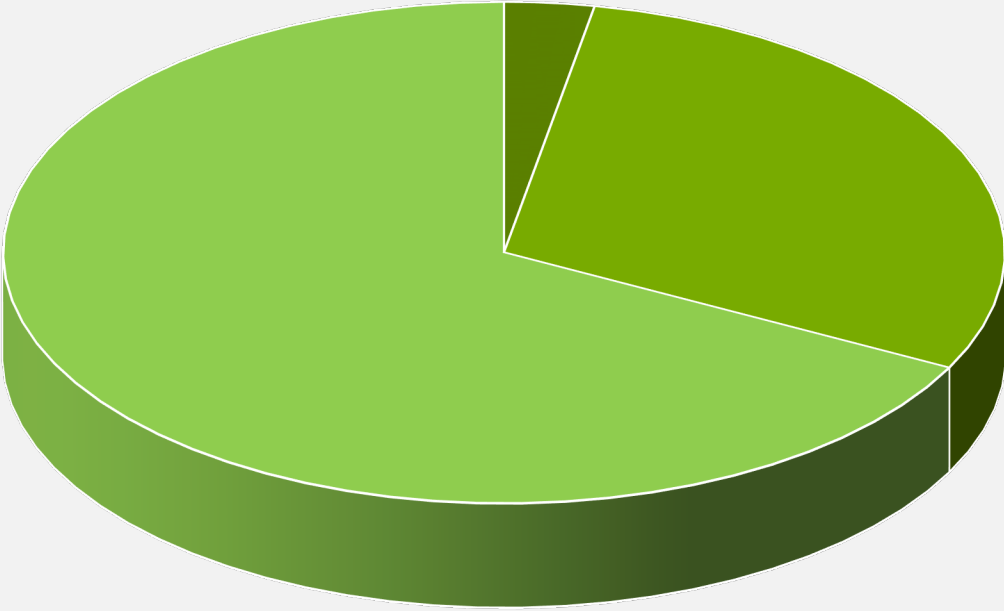
# Cost Allocation Summary

## Water Utility



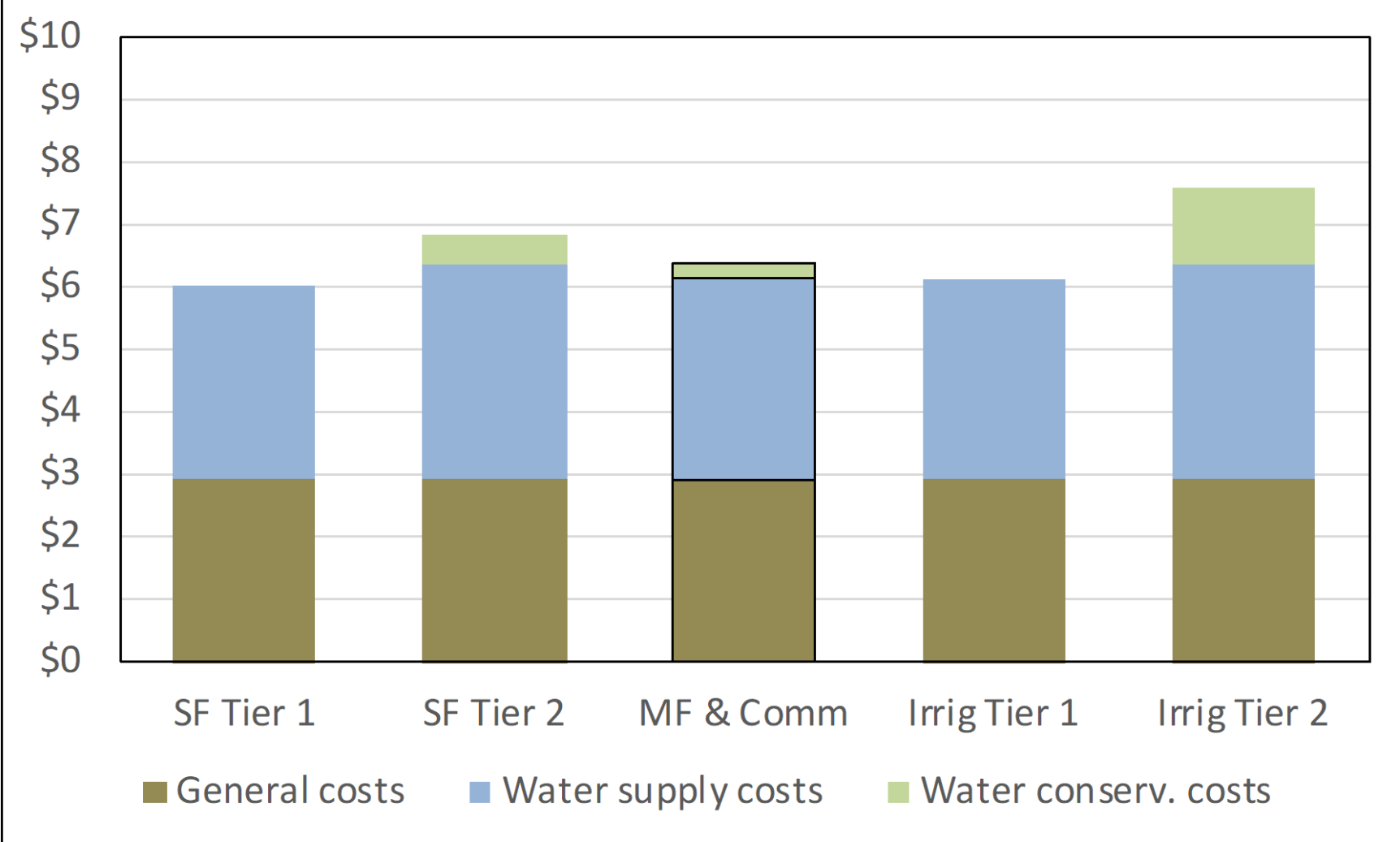
■ Customer Costs    ■ Capacity Costs  
■ Commodity Costs

## Wastewater Utility



■ Customer Costs    ■ Capacity Costs  
■ Commodity Costs

# Water Usage Rate Calculations



# Preliminary FY 21-22 Water Rate Schedule

		<u>Current</u>	<u>July 2021</u>	<u>Change</u>	
				<u>%</u>	<u>\$</u>
<b>Water Usage Rates (\$/1,000 gallons)</b>					
Single Family Residential & Duplex					
Tier 1	Use up to Sewer Cap (1)	\$5.84	\$6.04	3.4%	\$0.20
Tier 2	Above Sewer Cap	\$6.79	\$6.83	0.6%	\$0.04
Single Family with No Irrigation Needs (Z=Y)					
	All water use	\$5.84	\$6.04	3.4%	\$0.20
Multi-Family, Commercial, Industrial, Institutional					
	All water use	\$6.20	\$6.37	2.7%	\$0.17
Irrigation (potable water)					
Tier 1	Use up to 125% of water budget (2)	\$5.90	\$6.13	3.9%	\$0.23
Tier 2	Over 125% of water budget	\$7.34	\$7.58	3.3%	\$0.24
Irrigation (recycled water)					
Tier 1	Use up to 125% of water budget (2)	\$5.60	\$5.82	3.9%	\$0.22
Tier 2	Over 125% of water budget	\$7.34	\$7.58	3.3%	\$0.24
<b>Monthly Service Charges (Potable Water)</b>					
	5/8" meter	\$13.76	\$14.32	4.1%	\$0.56
	1" meter	\$30.86	\$32.27	4.6%	\$1.41
	1 1/2" meter	\$59.36	\$62.18	4.8%	\$2.82
	2" meter	\$93.57	\$98.08	4.8%	\$4.51
	3" meter	\$173.36	\$181.84	4.9%	\$8.48
	4" meter	\$287.36	\$301.50	4.9%	\$14.14
	6" meter	\$572.36	\$600.64	4.9%	\$28.28
<b>Monthly Service Charges (Recycled Water)</b>					
	5/8" meter	\$12.39	\$12.89	4.0%	\$0.50
	1" meter	\$27.77	\$29.04	4.6%	\$1.27
	1 1/2" meter	\$53.42	\$55.96	4.8%	\$2.54
	2" meter	\$84.21	\$88.27	4.8%	\$4.06
	3" meter	\$156.03	\$163.66	4.9%	\$7.63
	4" meter	\$258.63	\$271.35	4.9%	\$12.72
	6" meter	\$515.12	\$540.58	4.9%	\$25.46

**Notes:**

- (1) The Sewer Cap is calculated for each customer based on the average monthly water use during November through March.
- (2) Water Budget varies each month and is based on the size of the site, type of landscape, and the evapotranspiration rate.

# Preliminary FY 21-22 Wastewater Rate Schedule

## **Wastewater Usage Rates (\$/1,000 gallons)**

Single Family and Multi-Family

Commercial, Industrial, and Institutional

Low Strength

Standard Strength

Medium Strength

High Strength

## **Monthly Service Charges**

Single Family

Multi-Family, Commercial, Industrial, Institutional

5/8" & 3/4" meters

1" meter

1 1/2" meter

2" meter

3" meter

4" meter

6" meter

	<b>Current</b>	<b>July 2021</b>	<b>Change</b>	
			<b>%</b>	<b>\$</b>
Single Family and Multi-Family	\$14.86	\$15.71	5.7%	\$0.85
Commercial, Industrial, and Institutional				
Low Strength	\$12.35	\$13.05	5.7%	\$0.70
Standard Strength	\$14.86	\$15.71	5.7%	\$0.85
Medium Strength	\$16.48	\$17.41	5.6%	\$0.93
High Strength	\$20.36	\$21.52	5.7%	\$1.16
<b>Monthly Service Charges</b>				
Single Family	\$25.85	\$25.30	-2.1%	-\$0.55
Multi-Family, Commercial, Industrial, Institutional				
5/8" & 3/4" meters	\$25.85	\$25.30	-2.1%	-\$0.55
1" meter	\$62.26	\$58.15	-6.6%	-\$4.11
1 1/2" meter	\$122.91	\$112.90	-8.1%	-\$10.01
2" meter	\$195.72	\$178.60	-8.7%	-\$17.12
3" meter	\$365.58	\$331.90	-9.2%	-\$33.68
4" meter	\$608.24	\$550.90	-9.4%	-\$57.34
6" meter	\$1,214.89	\$1,098.40	-9.6%	-\$116.49

## **Notes:**

(1) Wastewater usage charge applies to the wastewater generated. For single family and multi-family residential accounts the wastewater generated is based on the lower of current water use or the Sewer Cap. The Sewer Cap is calculated for each residential account based on the average water use from complete billing periods within the months of November through March. For non-residential customers with separate irrigation meters the wastewater generated is based on actual monthly water usage.

# Preliminary FY 21-22 Bill Impact Analysis

	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	<b>\$122.41</b>	\$38.48	\$88.14	<b>\$126.62</b>	<b>\$4.21</b>	<b>3.4%</b>
Median Water Use	5/8"	7	5	\$56.54	\$100.15	<b>\$156.69</b>	\$58.18	\$103.85	<b>\$162.03</b>	<b>\$5.34</b>	<b>3.4%</b>
High Water Use	5/8"	12	6	\$89.54	\$115.01	<b>\$204.55</b>	\$91.54	\$119.56	<b>\$211.10</b>	<b>\$6.55</b>	<b>3.2%</b>
Very High Water Use	5/8"	20	7	\$142.91	\$129.87	<b>\$272.78</b>	\$145.39	\$135.27	<b>\$280.66</b>	<b>\$7.88</b>	<b>2.9%</b>
Duplex	5/8"	8	6	\$62.38	\$115.01	<b>\$177.39</b>	\$64.22	\$119.56	<b>\$183.78</b>	<b>\$6.39</b>	<b>3.6%</b>
Small Apartment (4 DUs)	1"	15	12	\$123.86	\$240.58	<b>\$364.44</b>	\$127.82	\$246.67	<b>\$374.49</b>	<b>\$10.05</b>	<b>2.8%</b>
Large Apartment (24 DUs)	2"	80	80	\$589.57	\$1,384.52	<b>\$1,974.09</b>	\$607.68	\$1,435.40	<b>\$2,043.08</b>	<b>\$68.99</b>	<b>3.5%</b>
Very Lrg. Apart. (100 DUs)	4"	320	320	\$2,271.36	\$5,363.44	<b>\$7,634.80</b>	\$2,339.90	\$5,578.10	<b>\$7,918.00</b>	<b>\$283.20</b>	<b>3.7%</b>
Small Retail	5/8"	6	6	\$50.96	\$99.95	<b>\$150.91</b>	\$52.54	\$103.60	<b>\$156.14</b>	<b>\$5.23</b>	<b>3.5%</b>
Large Retail	2"	80	80	\$589.57	\$1,183.72	<b>\$1,773.29</b>	\$607.68	\$1,222.60	<b>\$1,830.28</b>	<b>\$56.99</b>	<b>3.2%</b>
Office Building	1 1/2"	40	40	\$307.36	\$616.91	<b>\$924.27</b>	\$316.98	\$634.90	<b>\$951.88</b>	<b>\$27.61</b>	<b>3.0%</b>
Car Wash	2"	60	60	\$465.57	\$936.72	<b>\$1,402.29</b>	\$480.28	\$961.60	<b>\$1,441.88</b>	<b>\$39.59</b>	<b>2.8%</b>
Mixed Comm. w/ Food	1"	35	35	\$247.86	\$774.86	<b>\$1,022.72</b>	\$255.22	\$811.35	<b>\$1,066.57</b>	<b>\$43.85</b>	<b>4.3%</b>
Hotel w/ Restaurant	3"	200	200	\$1,413.36	\$4,437.58	<b>\$5,850.94</b>	\$1,455.84	\$4,635.90	<b>\$6,091.74</b>	<b>\$240.80</b>	<b>4.1%</b>
Restaurant	1 1/2"	50	50	\$369.36	\$1,140.91	<b>\$1,510.27</b>	\$380.68	\$1,188.90	<b>\$1,569.58</b>	<b>\$59.31</b>	<b>3.9%</b>
Supermarket	2"	160	160	\$1,085.57	\$2,832.52	<b>\$3,918.09</b>	\$1,117.28	\$2,964.20	<b>\$4,081.48</b>	<b>\$163.39</b>	<b>4.2%</b>
Mortuary	1"	20	20	\$154.86	\$469.46	<b>\$624.32</b>	\$159.67	\$488.55	<b>\$648.22</b>	<b>\$23.90</b>	<b>3.8%</b>
Small Winery	1"	10	10	\$92.86	\$265.86	<b>\$358.72</b>	\$95.97	\$273.35	<b>\$369.32</b>	<b>\$10.60</b>	<b>3.0%</b>
Sm. Irrig. (Wtr Budg.=18 tg)	1"	20		\$151.74	(na)	<b>\$151.74</b>	\$157.77	(na)	<b>\$157.77</b>	<b>\$6.03</b>	<b>4.0%</b>
Lrg. Irrig. (Wtr. Budg.=250 tg)	4"	300		\$2,129.36	(na)	<b>\$2,129.36</b>	\$2,140.50	(na)	<b>\$2,140.50</b>	<b>\$11.14</b>	<b>0.5%</b>



# Reserve Policy Updates

# Fund/Reserve Balances as of June 30, 2020\*

	Water	Wastewater	Subregional
Operating Reserves (15%)	\$5,025,000	\$1,759,000	\$5,274,000
Catastrophic Reserves	\$5,750,000	\$6,800,000	\$1,700,000
Geysers Reserve			\$1,250,000
Rate Stabilization Reserve		\$1,000,000	
Undesignated Reserves	\$10,908,000	\$9,006,000	
<b>Totals</b>	<b>\$21,683,000</b>	<b>\$18,565,000</b>	<b>\$8,224,000</b>

\* Does not show prior appropriations to CIP projects, subregional refunds, and bond guarantees.

# Catastrophic Reserves

## **Water Utility**

- ✓ Recommended to increase from \$5.75 million to \$17.5 million
- ✓ Can be funded from available undesignated reserves

## **Wastewater Utility**

- ✓ Recommended to increase from \$6.8 million to \$21.5 million
- ✓ Increase gradually to fund over about 5-10 years

## **Subregional System**

- ✓ Recommended to increase from \$1.7 million to \$10.0 million (placeholder)
- ✓ Geysers reserve recommended to increase from \$1.25 million to \$3.3 million

## **Policy Updates**

- ✓ Allow for broader range of potential uses (e.g., fires, floods, pandemics, drought, etc.)
- ✓ Inflate catastrophic reserve target balances annually for inflation

# Reserve Policy Update Recommendations

## **Operating Reserves**

- ✓ Maintain at 15% of actual O&M expenses
- ✓ For working capital and cash flow needs; never used in financial planning

## **Catastrophic Reserves**

- ✓ Increase to recommended levels; adjust target amounts annually for inflation
- ✓ Use to offset increased expenses or reduced revenues stemming from significant events

## **Rate Stabilization Reserves**

- ✓ May not be needed; consult with financial advisors

## **Capital Reserves**

- ✓ Not used and not needed due to CIP appropriation practices
- ✓ Recommend deleting from policy

## **Undesignated Reserves**

- ✓ Provides an additional layer of financial flexibility
- ✓ Financial planning seeks to reduce/minimize undesignated reserves over time

# Value of Water Campaign

## Key Message:

- Investing in Our Public Water System is Critical

## Outreach Plan:

- Two phase multi-media campaign
  - Oct. 2020 – Feb. 2021: Value of Water Service
  - Mar. - May 2021: Proposed Water Rates & Prop 218 Noticing



# Value of Water Campaign

Using the power of video to boost engagement

Connecting with customers

City Connections eNewsletter

Social media

Digital advertising

[srcity.org/water](http://srcity.org/water)

Bill inserts

Radio



# Next Steps

- ❖ Bond pricing
- ❖ Catastrophic reserve policy revisions
  - Subregional target
- ❖ Administrative draft report for staff review
- ❖ Financial plan and COSA refinements
- ❖ Third meeting with budget subcommittee
- ❖ Draft report and presentation to BPU
- ❖ Final report and presentation to City Council
- ❖ Prop. 218 notifications and public hearing