

# Water and Wastewater Rate Study

Santa Rosa Water – BPU Budget Subcommittee

October 13, 2020



# Agenda

1. Study Overview & Scope
2. Financial Plan Development
3. Key Financial Issues and Revenue Requirements
4. Rate Structure Issues
5. Next Meeting – October 29, 2020

# 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

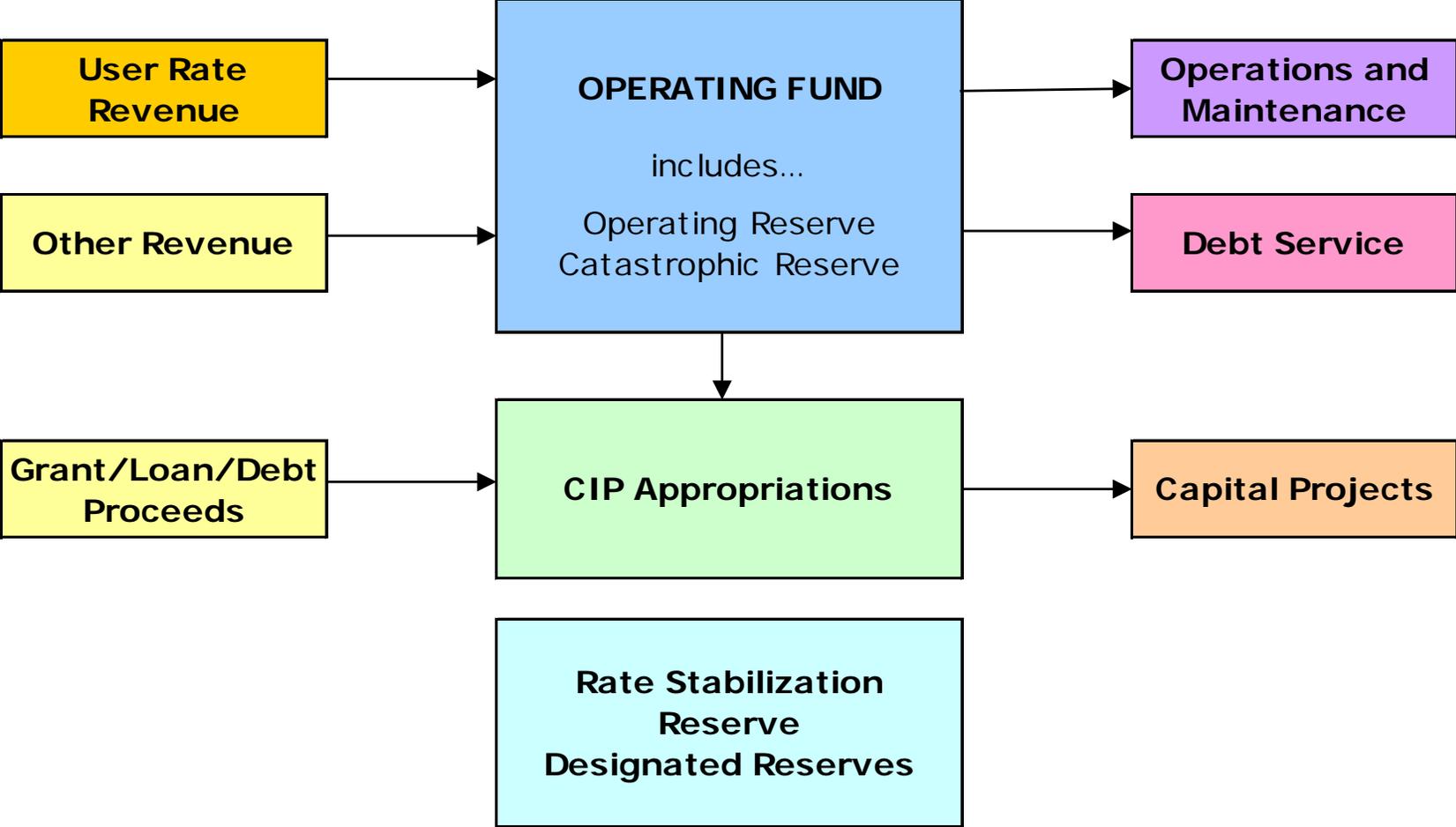
Design water and wastewater rates to recover the revenue requirement from each customer class and meet other rate setting objectives

# Financial Plan Models

## Ten-Year Cash Flow Models for Each Utility

- ✓ Primary function is to determine annual water and wastewater rate revenue requirements
- ✓ The models reflect current and estimated future:
  - Operation and maintenance costs
  - Debt service obligations
  - Capital spending needs
  - Reserves and reserve policies
  - Non-rate revenues
- ✓ Subregional model allocates costs to each member agency
  - The local share of subregional costs are incorporated into wastewater model

# Fund/Reserve Structure and Cash Flows



# Primary Model Inputs

- ✓ Fund and reserve balances as of June 30, 2020
- ✓ FY 20-21 budgeted revenues and expenses
- ✓ FY 19-20 to FY 30-31 projected capital spending
- ✓ Existing debt service schedules
  - Plus estimates for 2020 bond issue (includes refi and new money)
- ✓ FY 19-20 utility billing data

# Primary Model Assumptions

- ✓ Inflation factors:
  - General and construction inflation at 3.0% per year
  - Salary inflation at 2.0% per year
  - Utilities inflation at 4.0% per year
  - Sonoma Water rate increases at 6.0% per year
- ✓ Interest earnings on reserve balances at 1.50% per year
- ✓ Growth in new connections at 0.86% per year
- ✓ Stable water demand

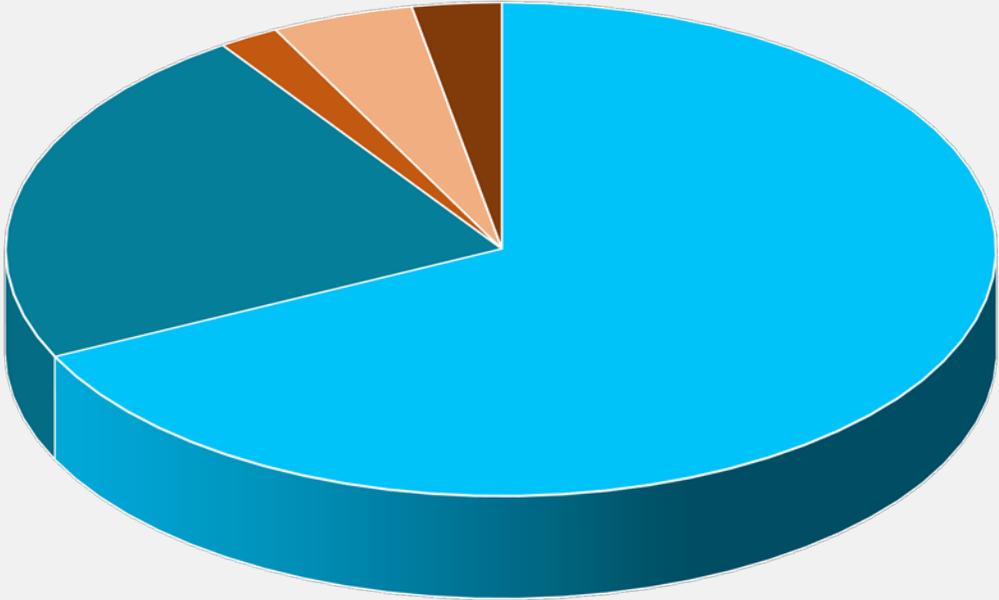
# Fund/Reserve Balances as of June 30, 2020\*

	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.

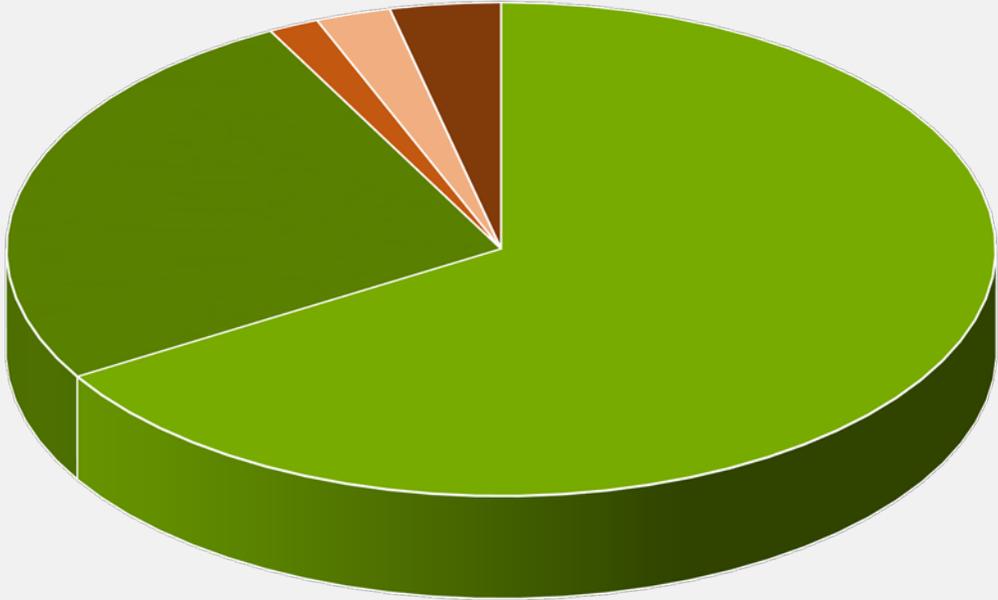
# Current Revenues – FY 20-21

## Water Utility - \$50.7 million



- Water Usage Charges
- Fixed Service Charges
- Interest Earnings
- Demand Fees
- Other Operating Revenues

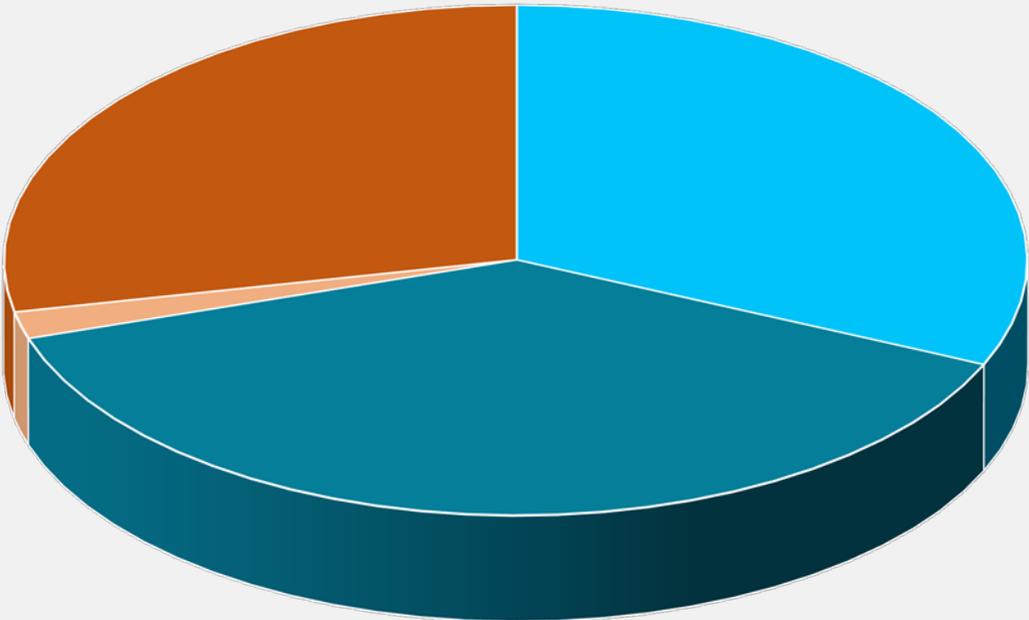
## Wastewater Utility - \$71.7 million



- Usage Charges
- Fixed Service Charges
- Interest Earnings
- Demand Fees
- Other Operating Revenues

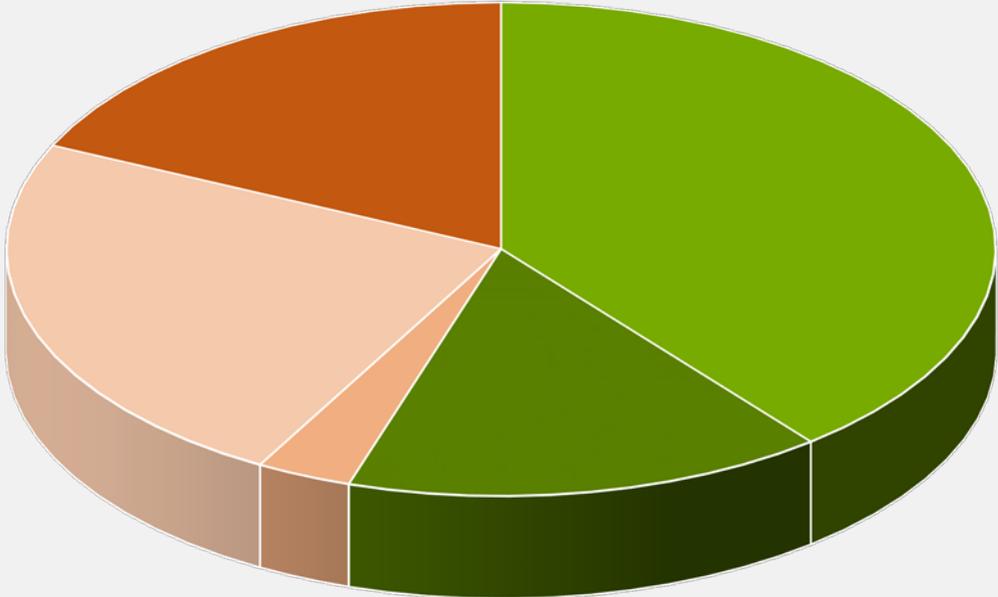
# Current Expenses – FY 20-21

## Water Utility – \$48.8 million



- SCWA Water Purchases
- Other O&M Expenses
- Debt Service
- Capital Spending

## Wastewater Utility - \$70.3 million



- Subreg. O&M and Cap.
- Local WW O&M
- Local WW Debt Service
- Subreg. Debt Serv. (local)
- PayGo Capital Spending

# 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 \$3 million between FY 25-26 and FY 30-31 due to a decrease in debt service.

# Debt Service Obligations

## Existing Debt Service

- ✓ Water utility = \$831,000 per year (increasing to \$3.8 million over 10 years)
- ✓ Wastewater utility = \$2,190,000 (increasing to \$5.7 million over 7 years)
- ✓ Subregional system = \$22,514,000 per year (decreasing to \$15.7 million 8 years)

## 2020 Wastewater Revenue Bond – Series A (new money)

- ✓ \$52.44 million par value; \$60.0 million net proceeds
- ✓ Initial estimated annual debt service = \$2,098,000 per year

## 2020 Wastewater Revenue Refunding Bond – Series B (refunding of 2012 bonds)

- ✓ \$56.325 million par value; \$55.793 million proceeds for refunding
- ✓ Annual debt service savings about \$526,000 per year

# 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 funded over about 5 years

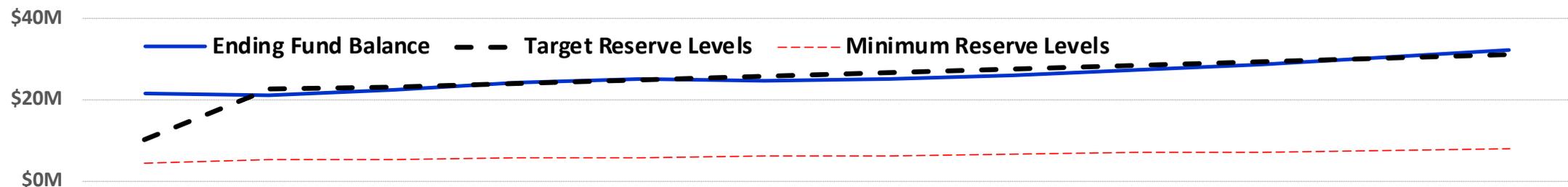
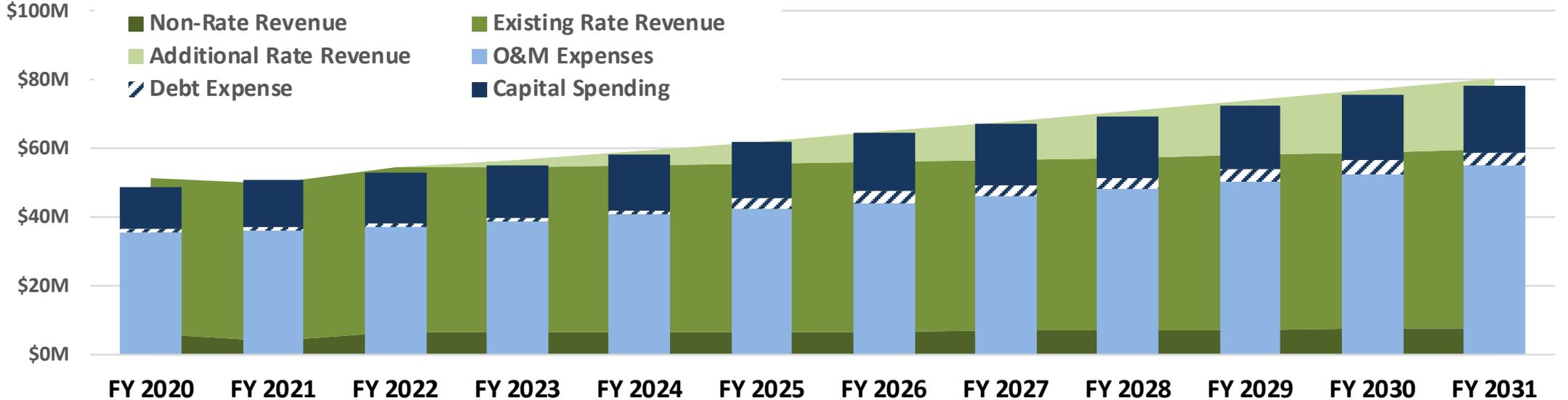
## Subregional System

- ✓ 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
- ✓ Increases gradually funded over about 5 years

## Policy Updates

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

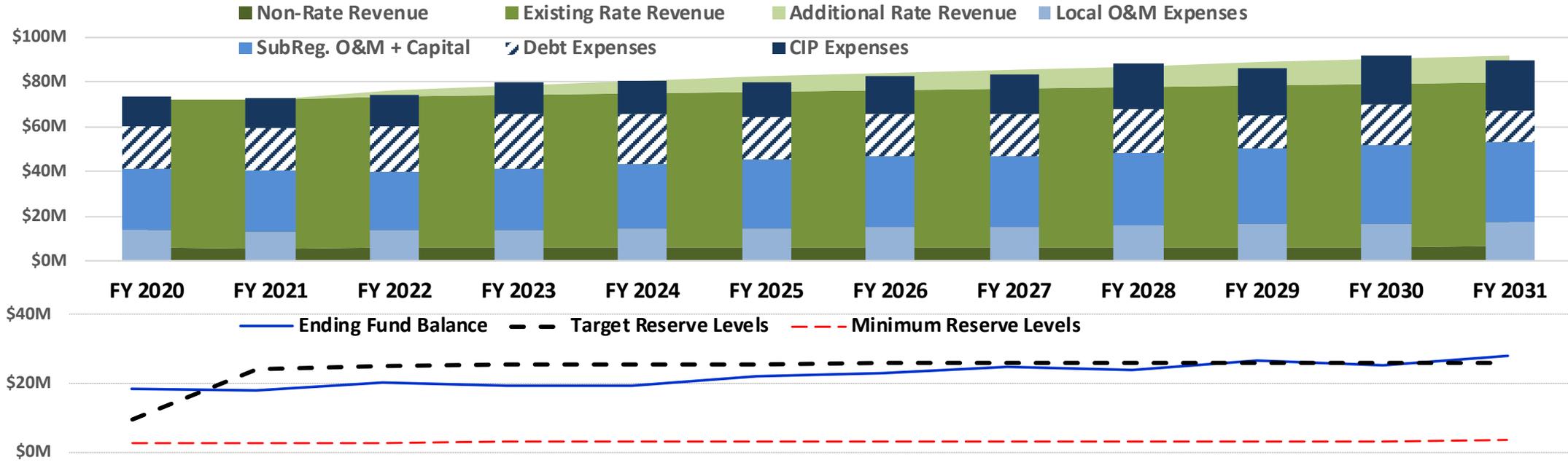
# Water Utility Financial Plan Summary



	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
<b>Water Rate Increases:</b>	5.0%*	5.0%*	2.0%	4.0%	4.0%	4.0%	5.0%	4.0%	4.0%	4.0%	3.5%	3.5%
<b>Debt Coverage Ratio:</b>	17.94	16.76	20.69	21.75	12.15	6.30	6.19	6.49	6.82	6.42	6.49	6.76

\* FY2020 and FY2021 rate increases were previously adopted 5% on fixed rate plus the Sonoma Water Pass Through on usage rates.

# Wastewater Utility Financial Plan Summary



	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
<b>Wastewater Rate Increases:</b>	2.5%*	2.5%*	2.00%	2.00%	2.00%	2.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
<b>Combined Debt Coverage Ratio:</b>	4.44	4.28	4.45	4.45	4.18	3.81	4.28	5.21	5.40	5.70	5.94	7.11

\* FY2020 and FY2021 rate increases were previously adopted

# Estimated Water/Wastewater Rate Adjustments

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

# Current Water Rates

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

Single Family Residential & Duplex		
Tier 1	Use up to Sewer Cap (1)	\$5.84
Tier 2	Above Sewer Cap	\$6.79
Single Family with No Irrigation Needs (Z=Y)		
	All water use	\$5.84
Multi-Family, Commercial, Industrial, Institutional		
	All water use	\$6.20
Irrigation (potable water)		
Tier 1	Use up to 125% of water budget (2)	\$5.90
Tier 2	Over 125% of water budget	\$7.34
Irrigation (recycled water)		
Tier 1	Use up to 125% of water budget (2)	\$5.60
Tier 2	Over 125% of water budget	\$7.34

**Monthly Service Charges**

**Potable Water Recycled Water**

5/8" meter	\$13.76	\$12.39
1" meter	\$30.86	\$27.77
1 1/2" meter	\$59.36	\$53.42
2" meter	\$93.57	\$84.21
3" meter	\$173.36	\$156.03
4" meter	\$287.36	\$258.63
6" meter	\$572.36	\$515.12

**Notes:**

- (1) The Sewer Cap is calculated for each customer account based on the average monthly water use during the months of November through March.
- (2) The Water Budget varies each month and is determined by a formula using the site's square footage for the types of landscape and the evapotranspiration rate.

# Current Wastewater Rates

As of July 1, 2020

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

Residential	\$14.86
<b>Commercial</b>	
Standard	\$14.86
Low Strength	\$12.35
Medium Strength	\$16.48
High Strength	\$20.36

## ***Monthly Service Charges***

Single Family & Duplexes	\$25.85
Multi-Family, Commercial, Industrial, Institutional	
5/8" meter	\$25.85
1" meter	\$62.26
1 1/2" meter	\$122.91
2" meter	\$195.72
3" meter	\$365.58
4" meter	\$608.24
6" meter	\$1,214.89

### **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 monthly water use or the Sewer Cap. The Sewer Cap is calculated for each residential account based on the average water usage from complete billing periods within the months of November through March. For non-residential customers with separate irrigation meters the wastewater is based on actual monthly water usage.

# Cost of Service and Rate Structure Issues

1. Water and wastewater cost of service analyses (COSA) are being updated to justify proposed rates based on current financial analyses and revenue needs
2. Current water and wastewater rate structures will be 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

# Next Step – Oct. 29 Budget Subcommittee Meeting

1. Revisions to financial plans, if needed
2. Reserve policy updates
3. Water and wastewater cost of service analyses
4. Water and wastewater rate calculations and 4-year rate schedules
5. Bill impacts and comparisons with neighboring communities