

Rate Increase Recommendations 2012 & 2013

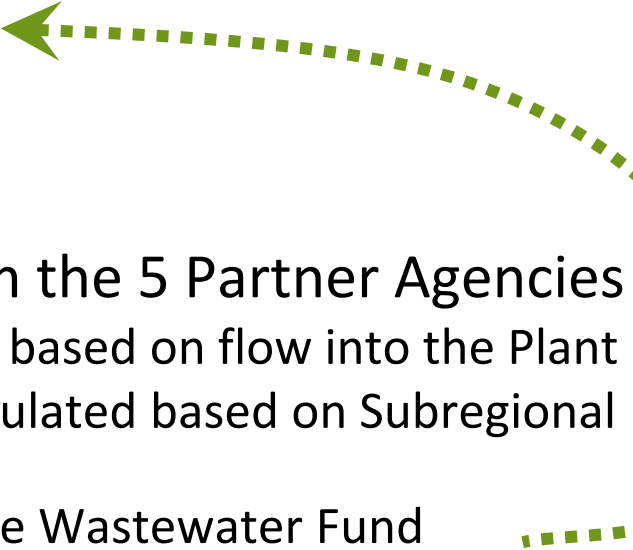
Board of Public Utilities

October 6, 2011

Utilities Mission Statement

Our mission is to provide our community a safe, economical, dependable and environmentally friendly water supply, wastewater collection system, and Subregional Wastewater Treatment and Reclamation System for our customers and our Subregional partners.

Enterprise Funds

- Water
 - Funded by Fees and Rates
 - Wastewater
 - Funded by Fees and Rates
 - Subregional
 - Funded by Contributions from the 5 Partner Agencies
 - Operating costs are distributed based on flow into the Plant
 - Debt Service payments are calculated based on Subregional Agreement
 - Santa Rosa's share is paid by the Wastewater Fund
- 

New Rates Are Set

- Annually for 5 years (set by Council in 2009)
 - Wholesale water rate ‘pass-through’ goes into effect in July (2010 – 2014)
 - Can be renewed for additional 5-year blocks
- Biennially (Every two years)
 - Board of Public Utilities recommends rates to City Council
 - City Council sets rates at a Public Hearing

RATE SETTING REGULATIONS

City Charter

(City Charter) Sec. 26. Water and Sewer Rates; Connection/Demand Fees; and Miscellaneous Fees and Charges.

- (c) Notwithstanding any other provision of this Charter, no funds derived from the sale of water or the providing of sewer services, from fees imposed for connections to either City system, or fees or charges imposed and collected in connection with the operation of either system shall be transferred to the general fund of the City; but all such funds shall be used exclusively for the uses and purposes of the City water system and the City sewer system, respectively, and for the payment of interest on, and the redemption of, bonds issued by the City for the purpose of providing City water and sewer services.

Prop 218

- “Right to Vote on Taxes Act”, approved in 1996 – amends the CA constitution
- Various case law and implementing legislation since then
- California Supreme Court decision, 2006 -
Water rates are considered “property related fees and charges” and are subject to Proposition 218

Prop 218 Language

California Constitution, Article XIII D, section 6(b) (Proposition 218) Applies to rates (existing users)

- Revenues derived from the charges cannot exceed the cost to provide the services.
- Revenues derived from the charges cannot be used for any other purpose other than the service for which the charge is imposed.
- The amount of the fee or charge imposed on any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

Prop 218 - Process

- 45 day advance mailed notice
 - To all property owners and utility customers associated with each property upon which the fee or charge is proposed for imposition
 - The notice must state the amount of the fee or charge, the basis upon which the fee or charge was calculated, the reason for the fee or charge and the date, time and location of the public hearing
- Public Hearing
- Subject to defeat by written majority protest
- Ballot initiative possible

Steps

- City Council Study Session – informational
- Prop 218 Notices mailed
- Public Hearing
 - Review public feedback
 - City Council debate and final decision
 - Rates can be lowered, but not raised from noticed amounts at Public Hearing

RATE SETTING PROCESS

Rate Analysis

- Rate Model
 - Projected Expenditures
 - Operating Expenses
 - Capital Improvement Program
 - Current and Projected Debt Service
 - Projected Turnback (unspent budget)
 - Reserve Goals
 - Projected Revenues
 - Fees and Charges to pay for services
 - Demand Fees (development)
 - Miscellaneous Income (interest, grants, rent, etc.)
 - **Rates**



BPU Rate Recommendations

- BPU Budget Subcommittee
 - Motion 9/7/11
- Board of Public Utilities – Study Session
 - Suggested revisions
- BPU Budget Subcommittee
 - Motion 9/21/11
- Board of Public Utilities – Recommendation to City Council
 - Potentially 10/6/11

Board of Public Utilities and BPU Budget Subcommittee

GROUND WORK FOR 2011 RATE REVIEW

Board of Public Utilities Rate Input – 2010/11

- October 21, 2010 – Review of Fixed vs. Usage Revenues
- November 4, 2010 – Water Use Assumptions
- November 18, 2010 – Conservative Revenue Projections
- December 2, 2010 – Future Rate Increases
- January - March – Budget Reduction Decisions
 - Water – down 8.9%
 - Wastewater – down 2.8%
 - Subregional – down 3.9%
 - 15 full time positions eliminated
- May, 2011 – Budget Strategies Policy Resolution

Rate Model Assumptions

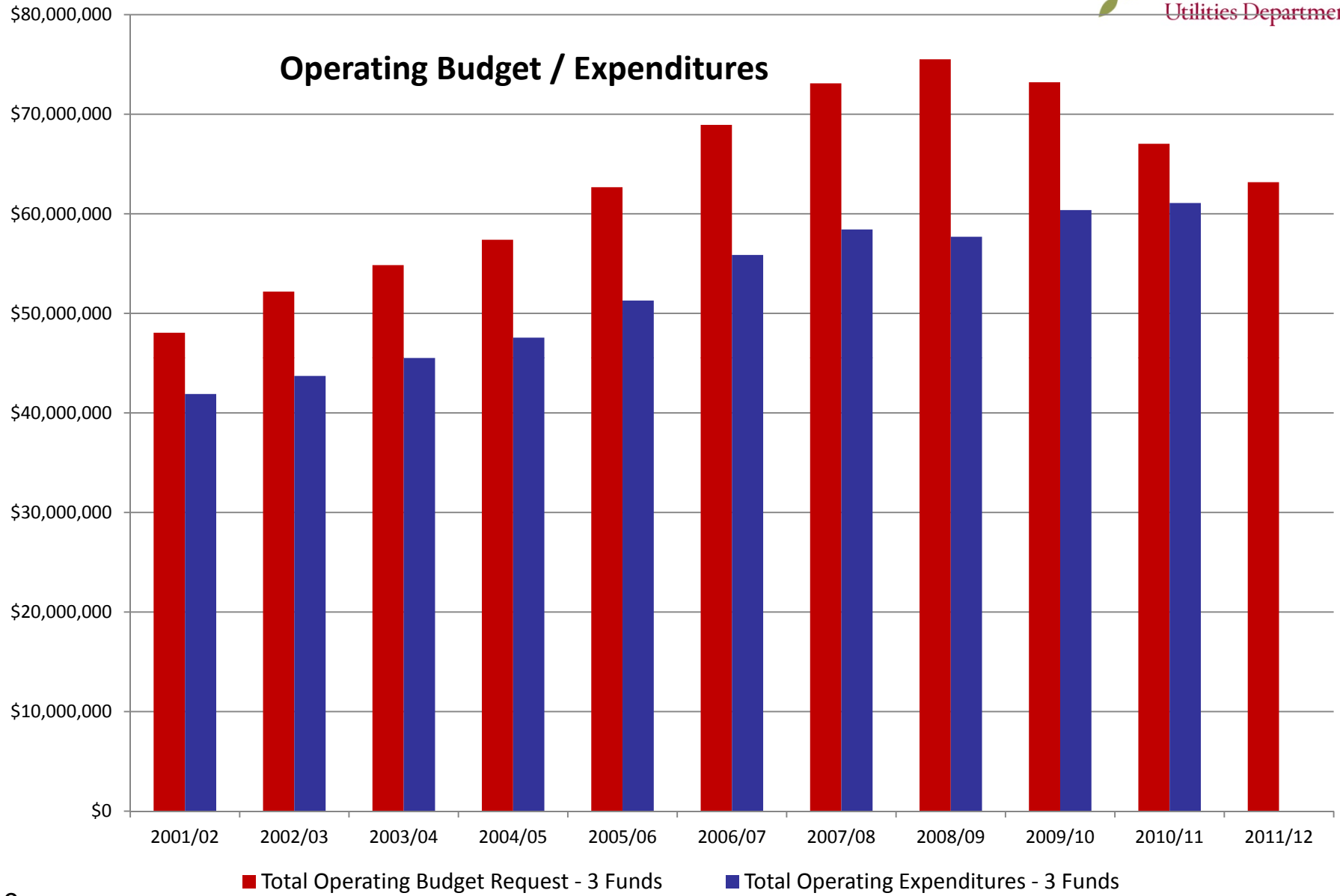
- Flat water usage in out years
- Flat 'other revenue' in out years
- Operating expenditures grow at rate of inflation
- CIP grows with rate increases and demand fee revenue
- Potential bond sale in 2013/14
- Index catastrophic reserve to ENR 20-Cities report starting 2012/13
- SCWA increase passed through to customers annually

Goals

- Reduce Operating Expenses
- Restore water reserves
- Increase ratio of water rates received from fixed charge to 25% of revenue
- Adopt a strategy for expenditure reductions if revenues fail to meet projections
- Maintain or increase funding for the Capital Improvement Program
 - Explore alternative funding options where feasible
- Add an annual index factor to the catastrophic reserve
- Minimal rate increases

Reduce Operating Expenditures

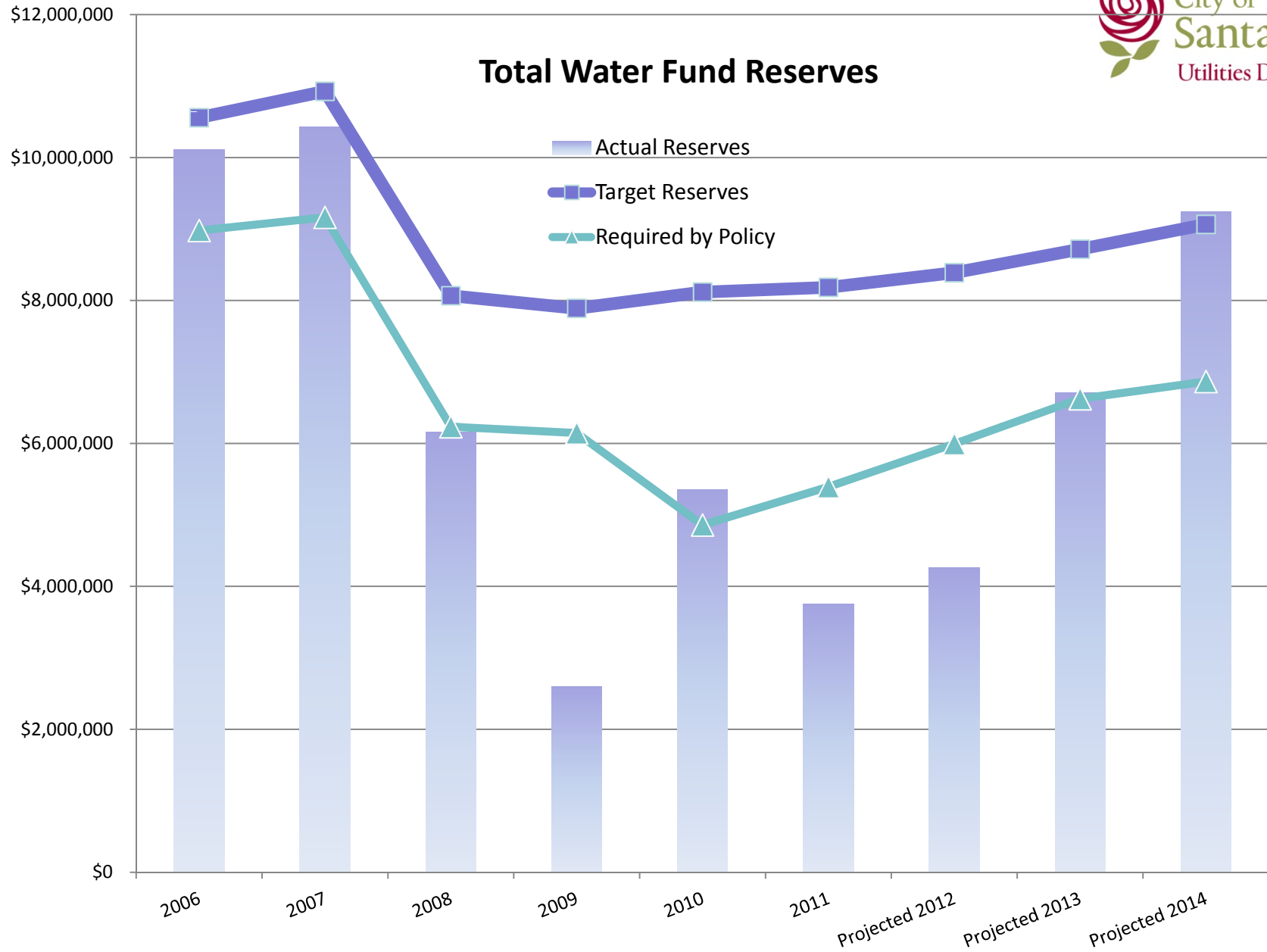
- Sustainable Operation and Maintenance reductions
 - Reduce Service and Supply budgets
 - Eliminated 15 positions
- Prioritize ‘must do’ tasks
- Identify budget strategies to be enacted mid-year if revenues do not meet projections (“triggers”)



Water Fund Reserves

- Used Catastrophic Reserve per policy during declared water shortage emergency
 - Restoring over time
- Used additional reserves due to reduced rate and demand fee revenues
 - Reduced operating and capital expenditures as revenues declined – not enough
 - 2011/12 budget and beyond – operating at surplus to restore additional reserves

Total Water Fund Reserves

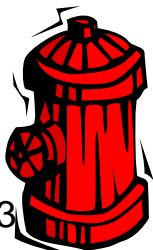
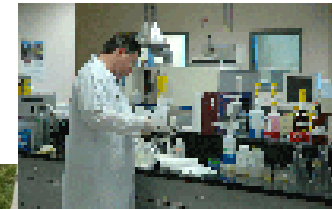
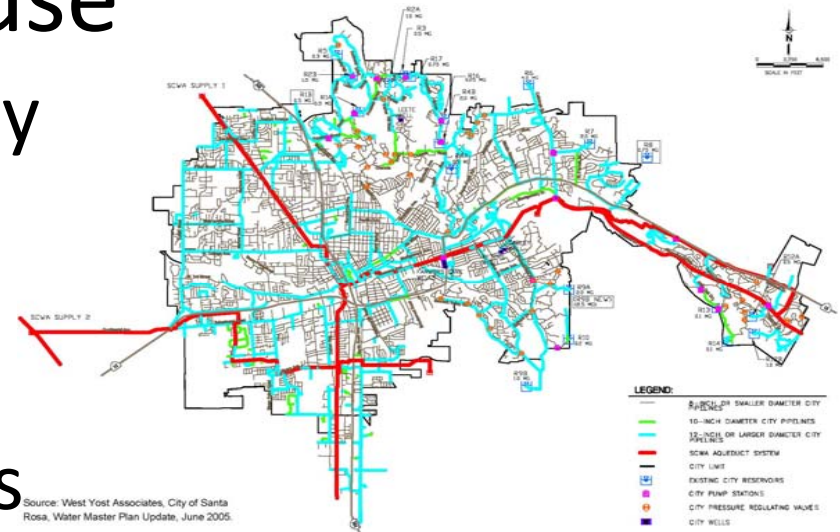


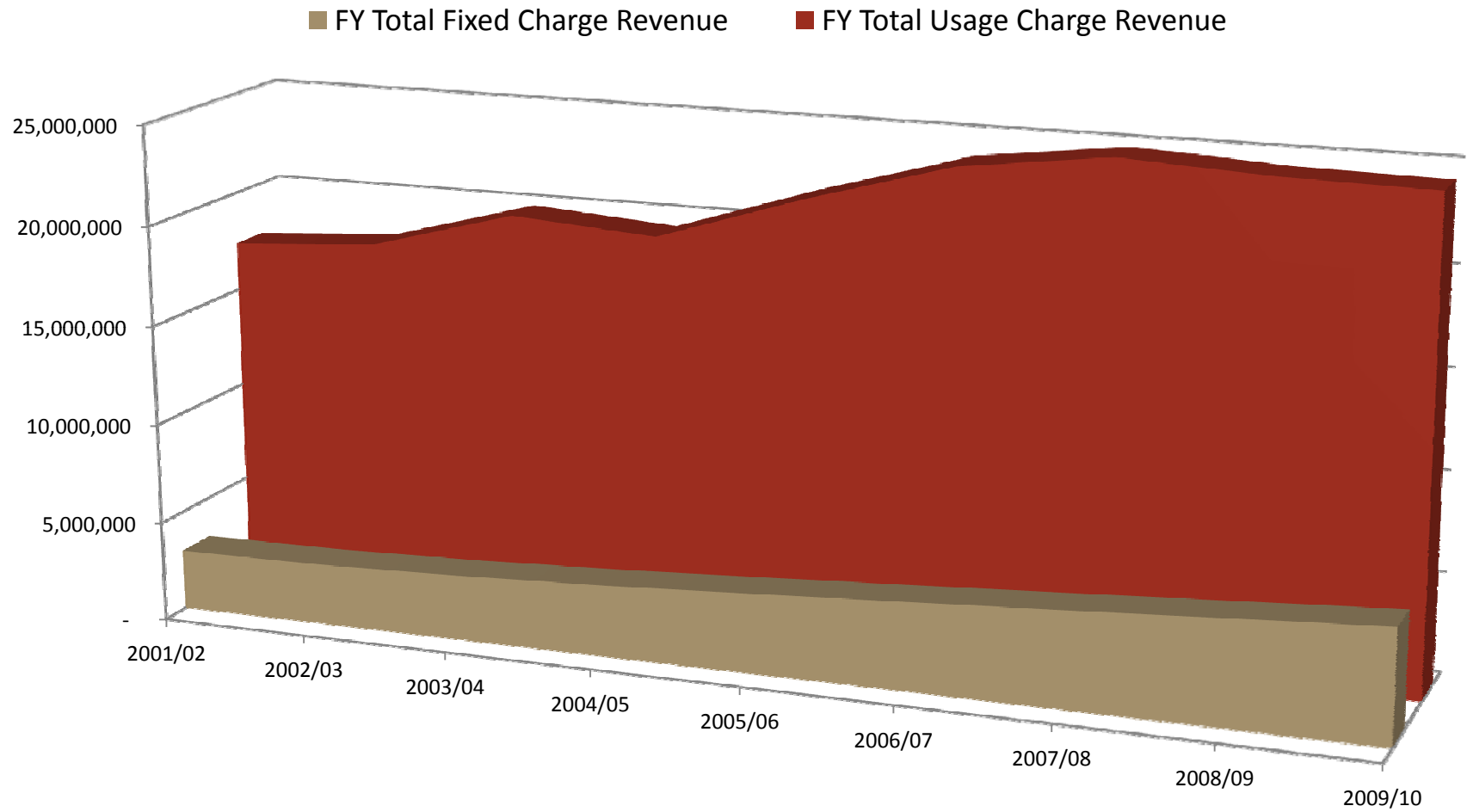
Fixed v. Usage Charges - Requirements for Revenue from Usage Charges

- Signatory to California Urban Water Conservation Council (CUWCC)
- Required by our Water Supply Agreement and State regulations
- Requires conservation pricing
 - Revenue from usage rates must be 'equal to or greater than' 70% of the total rate revenue

Many costs are incurred irrespective of water use

- Maintaining water quality
- Reading meters
- Fixing water main leaks
- Maintaining fire hydrants
- Replacing aging infrastructure
- Debt Service Payments

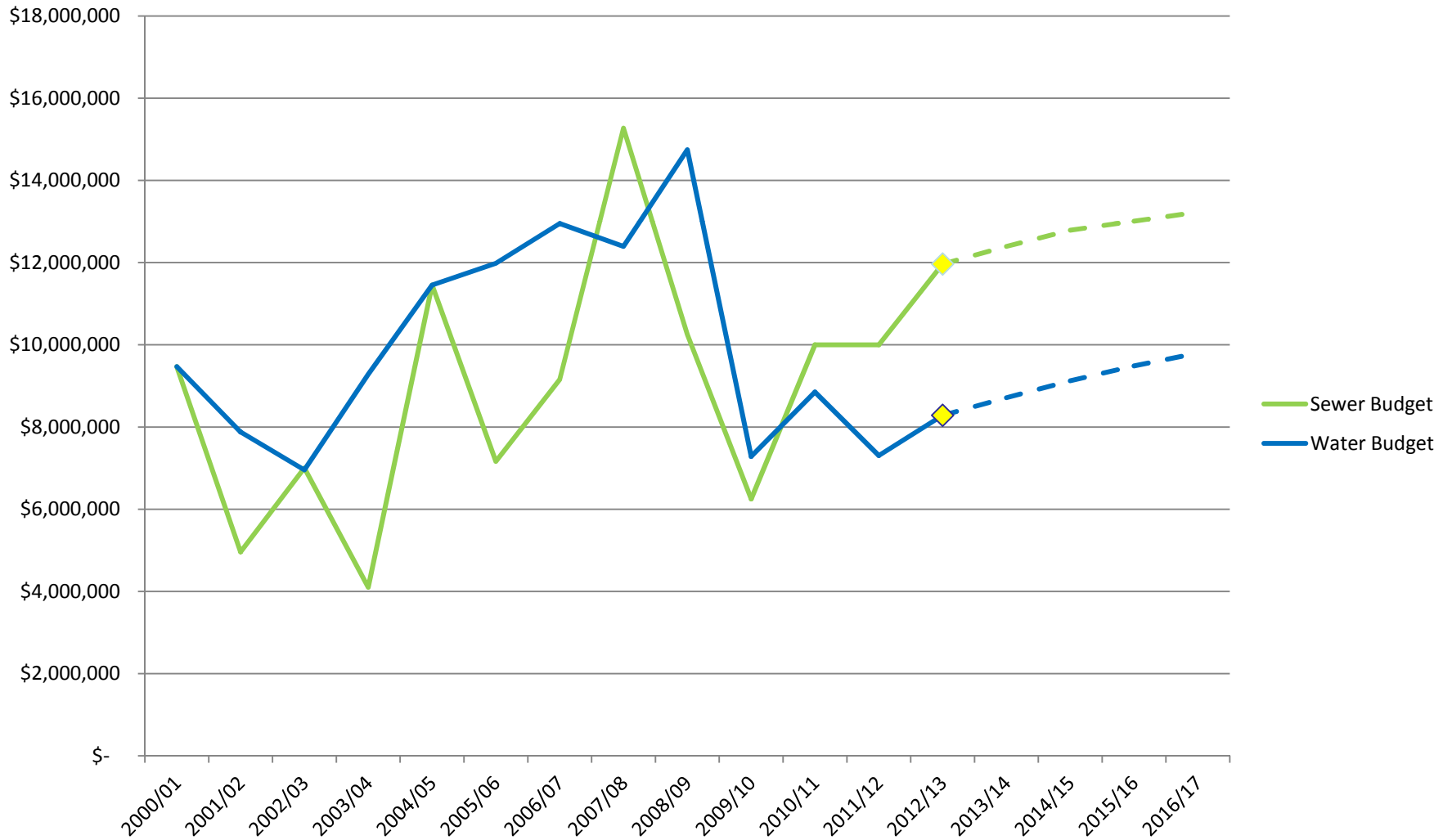




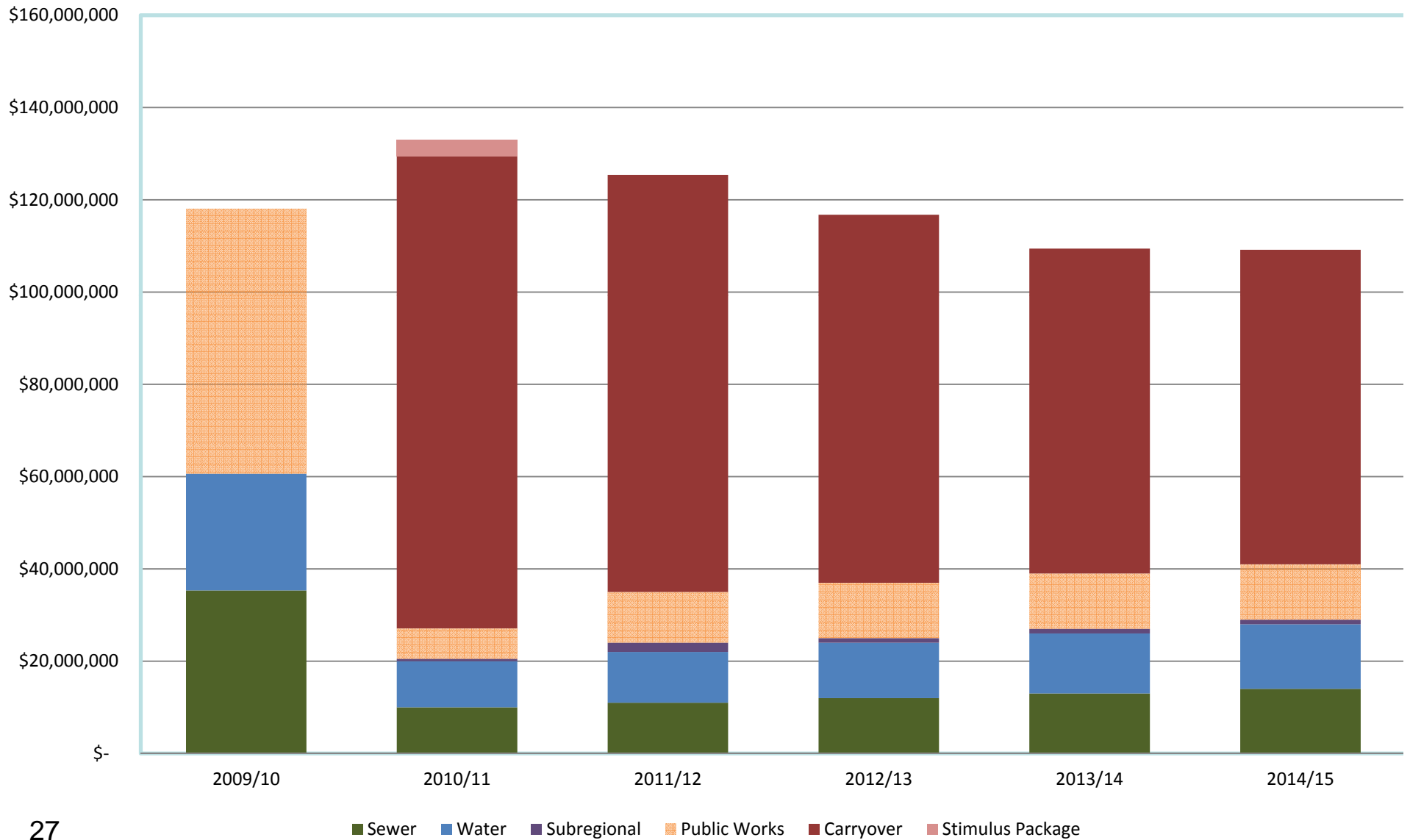
Pass-through rate

- Started July, 2010
- Calculated to accommodate Sonoma County Water Agency wholesale water rate
- Only applies to usage
 - 2.8% increase in July 2010
 - 2.1% increase in July 2011
 - Further skews revenue to the more volatile usage charge

CIP Funding History



Utilities & Public Works CIP Budget



RECOMMENDED RATE INCREASES

Wastewater Rate Recommendation

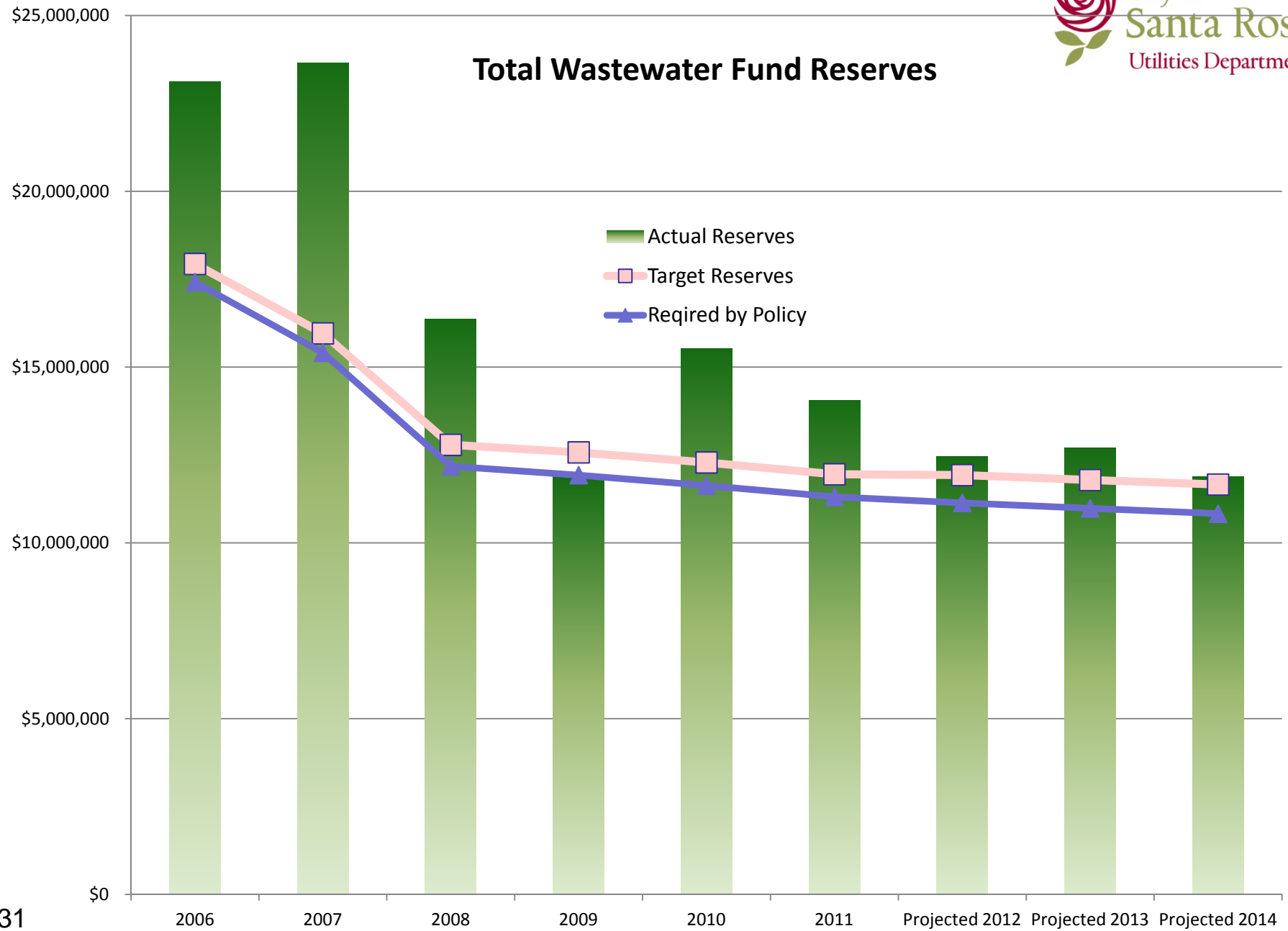
- 3% rate increase to both the fixed and the usage charge in 2012 and in 2013
 - Operating expenses grow at the rate of inflation
 - Reserves are projected to remain just over target levels
 - Catastrophic Reserve grows at construction cost index beginning in 2012/13
 - Ratio of revenue from fixed charges remains at 25%
 - Capital Improvement Program funding grows 3% per year plus any increase in demand fee revenue

City of Santa Rosa Wastewater Rates

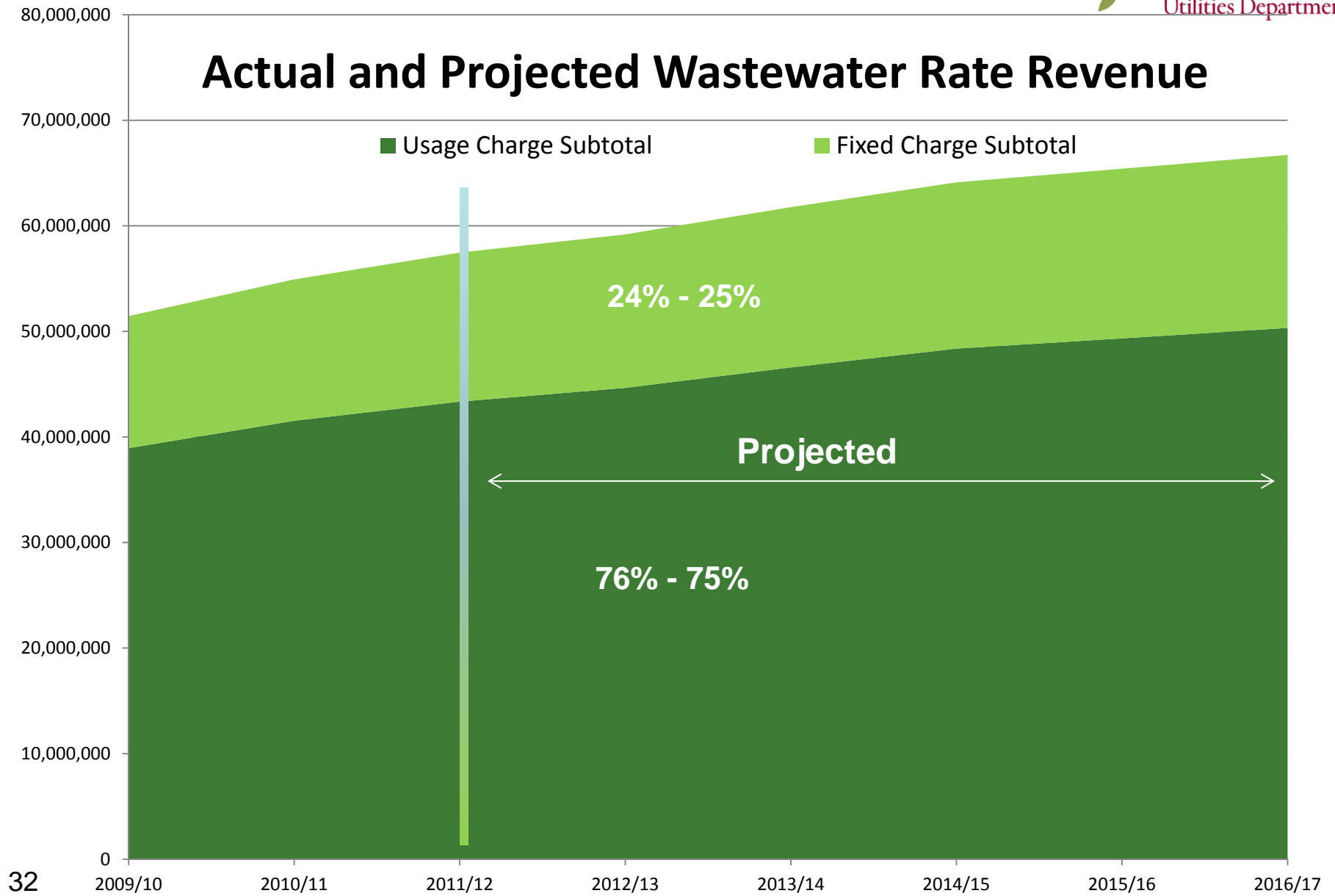
	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Fixed/Usage Rate (January)	3.0%	3.0%	5.7% *	2.0%	2.0% *	2.0%
Additional Annual Debt Service Assumption			\$2,300,000		\$300,000	
Operating Surplus/Deficit *	\$1,452,514	\$233,765	-\$813,945	\$245,264	\$93,070	\$232,865
Reserves - Over/Under Target	\$535,703	\$909,536	\$223,175	\$598,359	\$823,647	\$1,191,137
CIP Expenditures	\$10,000,000	\$11,964,901	\$12,395,203	\$12,789,139	\$13,007,416	\$13,229,919
Fixed vs. Usage	25% / 75%	25% / 75%	25% / 75%	25% / 75%	25% / 75%	25% / 75%

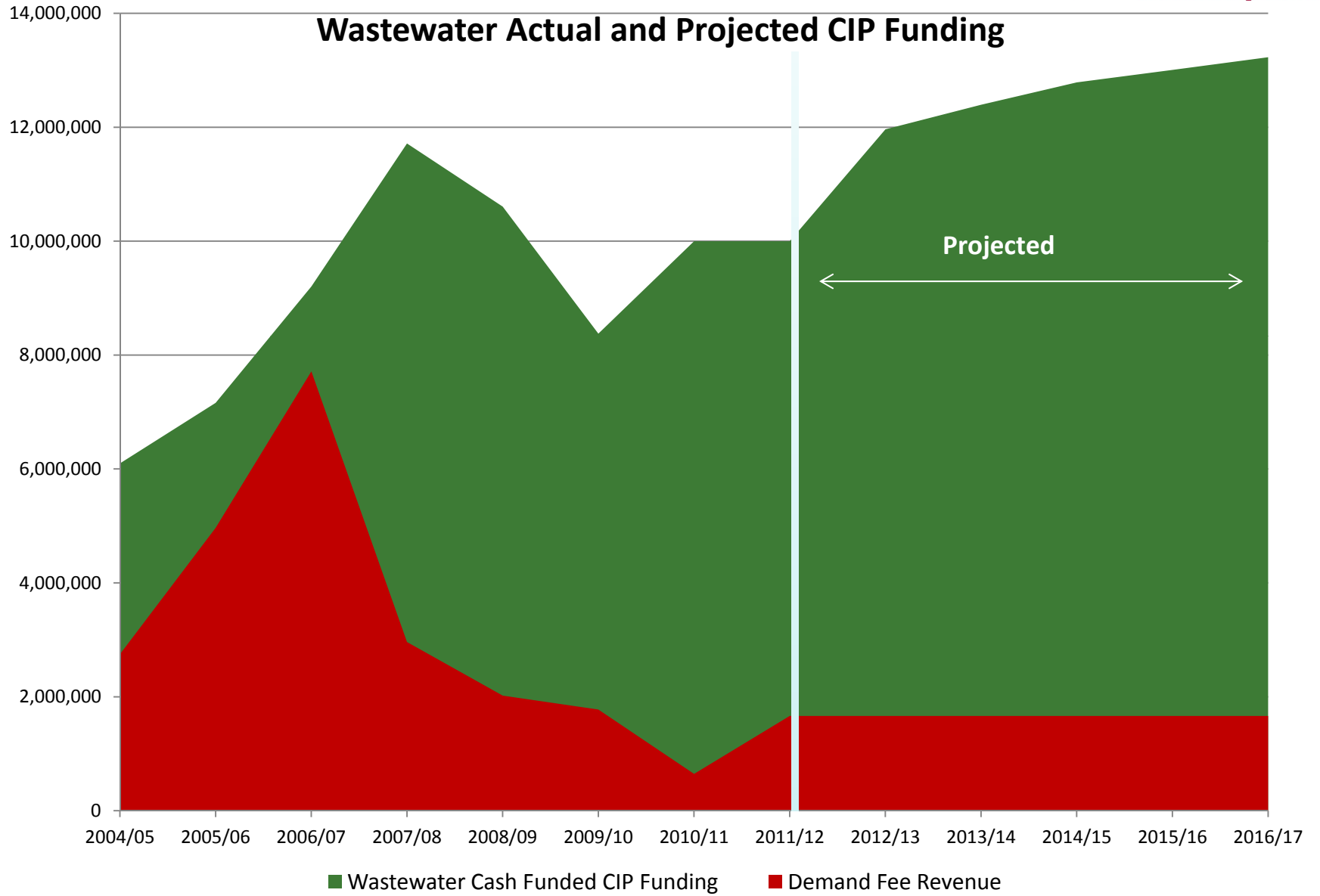
* Additional debt service assumption in FY 2013/14 and 2015/16

Total Wastewater Fund Reserves



Actual and Projected Wastewater Rate Revenue



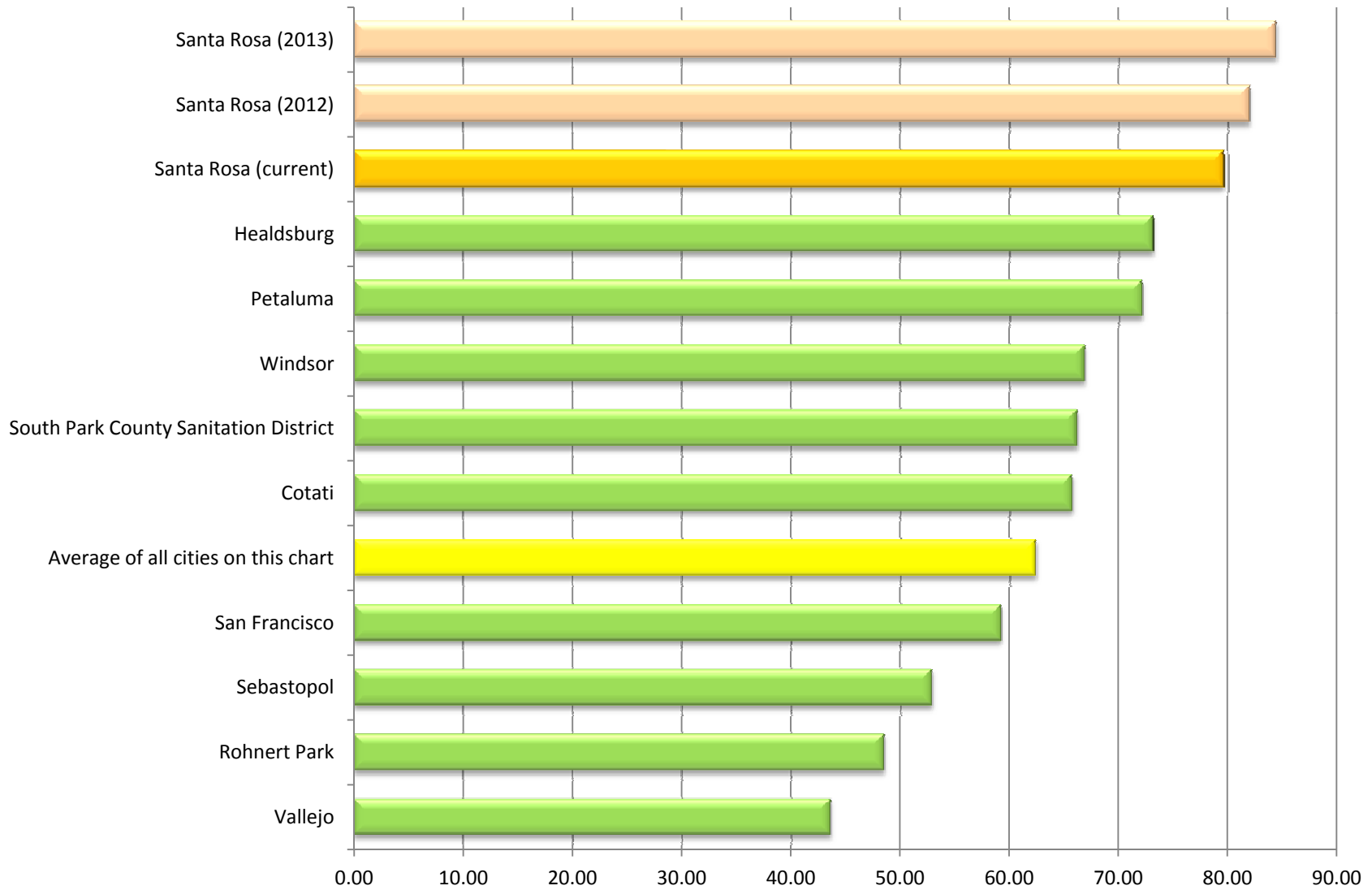


**WASTEWATER
IMPACT OF PROPOSED WASTEWATER RATES ON SAMPLE CUSTOMERS**

Type of Customer	Meter Size	Sewer Cap * (Gallons)	Current Monthly Sewer Bill	3% 2012		3% 2013	
				Monthly Bill	Dollar increase	Monthly Bill	Dollar increase
Small - Single Family Residential (SFR)	5/8"	4,000	\$65.60	\$67.57	\$1.97	\$69.60	\$2.03
Average - Single Family Residential (SFR)	5/8"	5,000	\$77.25	\$79.57	\$2.32	\$81.95	\$2.39
Large - Single Family Residential (SFR)	5/8"	8,000	\$112.20	\$115.57	\$3.37	\$119.03	\$3.47
Medium Office Building	1"	34,000	\$438.42	\$451.57	\$13.15	\$465.12	\$13.55
Medium Restaurant	1"	50,000	\$811.82	\$836.17	\$24.35	\$861.26	\$25.09
20-unit Apartment Building	2"	70,000	\$972.83	\$1,002.01	\$29.18	\$1,032.08	\$30.06

* Usage is charged at sewer cap level year-round unless usage is less than the sewer cap

Wastewater Bill Comparison with Other Water Districts




Water and Recycled Water Rate Recommendation

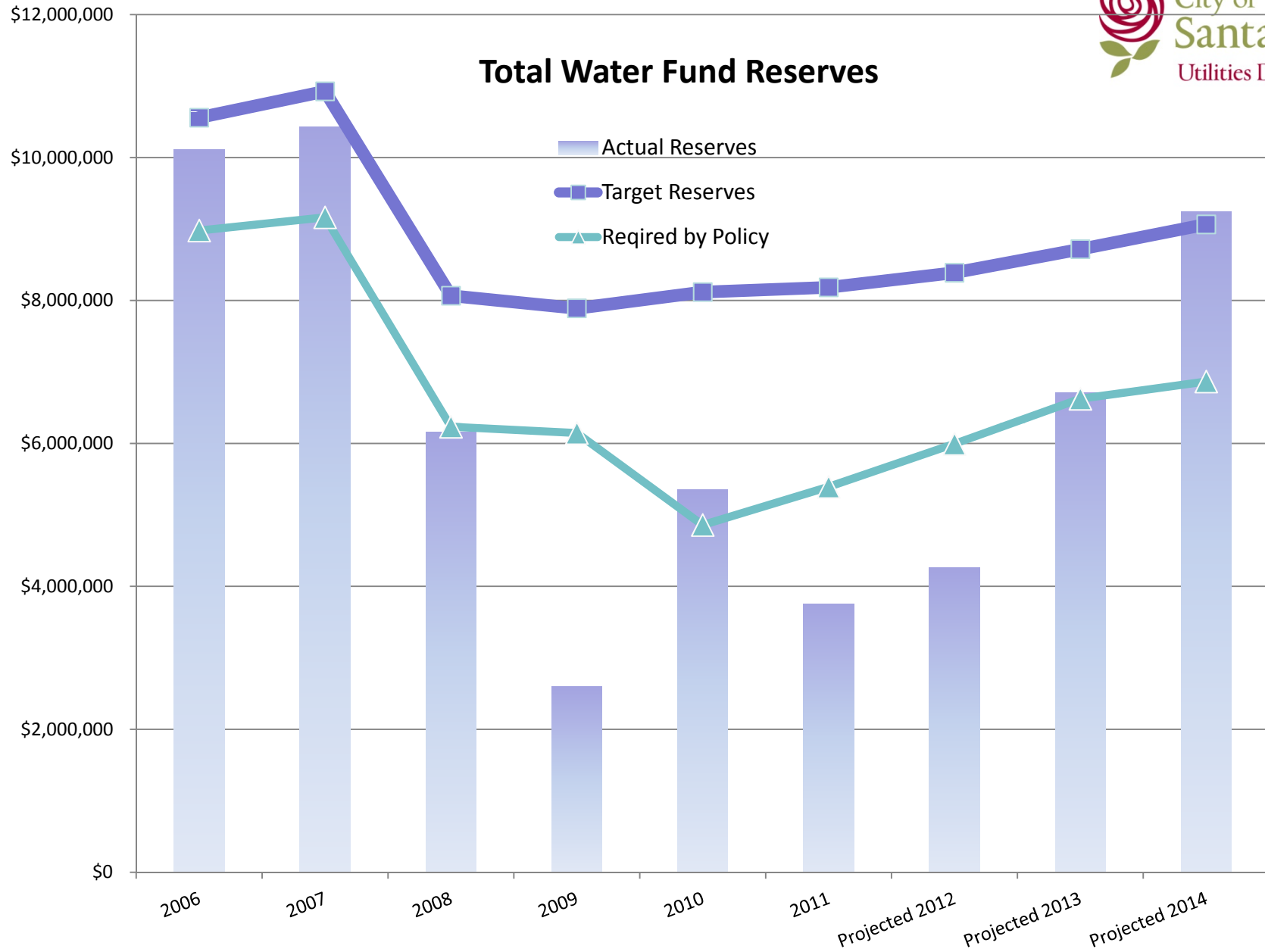
- 18% Fixed Charge increase in 2012
 - **\$1.50 per month for Average Single Family Residence**
- 15.2% Fixed Charge increase in 2013
 - **\$1.50 per month for Average Single Family Residence**
- 1% Usage Charge increase in 2012
- 1% Usage Charge increase in 2013

Interests Achieved

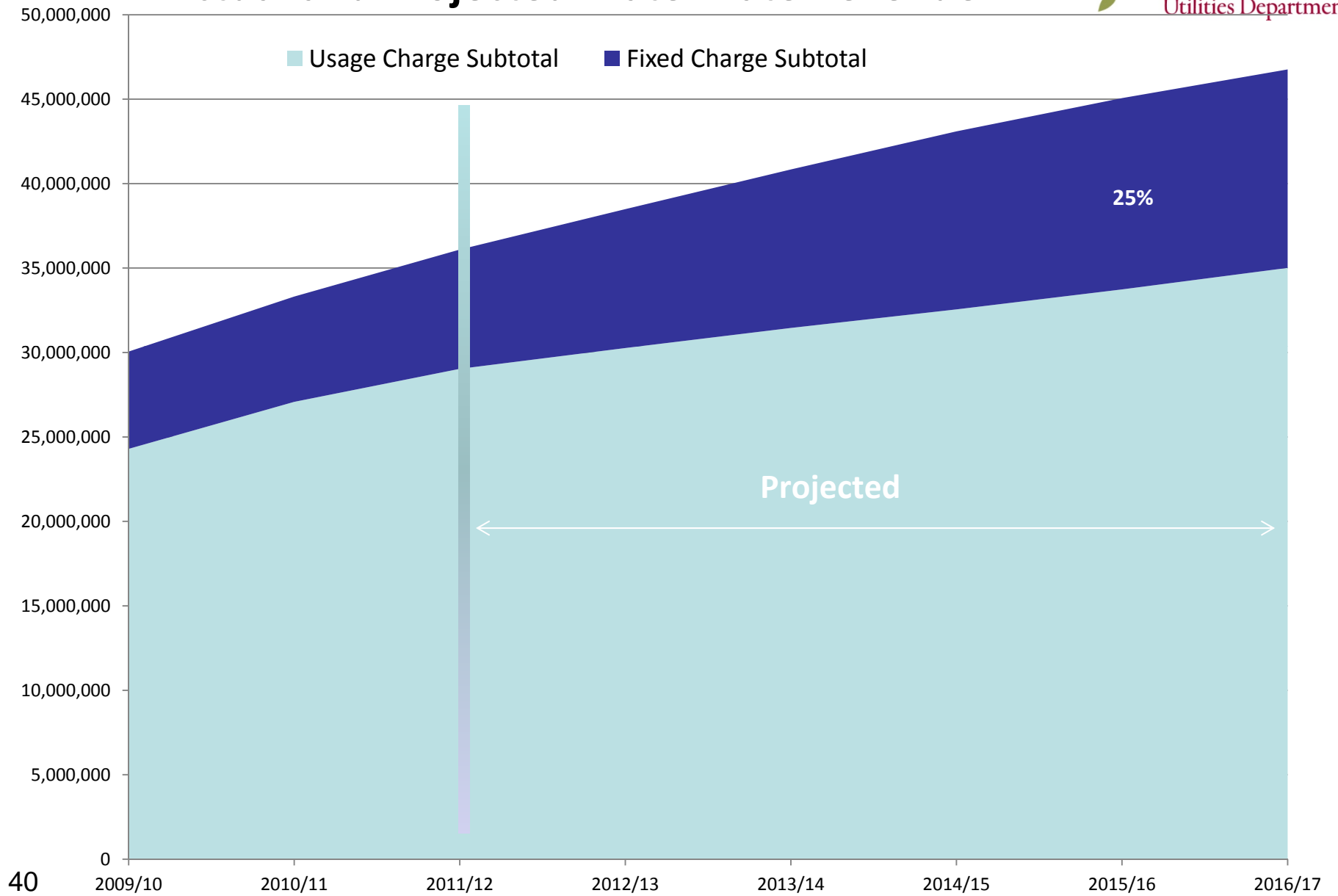
- Operating expenses grow at the rate of inflation
- Reserves are restored to target levels in 3 years
- Ratio of revenue from fixed charges increases to 25% in 5 years
- Catastrophic Reserve grows at construction cost index beginning in 2012/13
- After reserves are restored, additional revenue is generated to fund infrastructure replacement and/or additional reserves

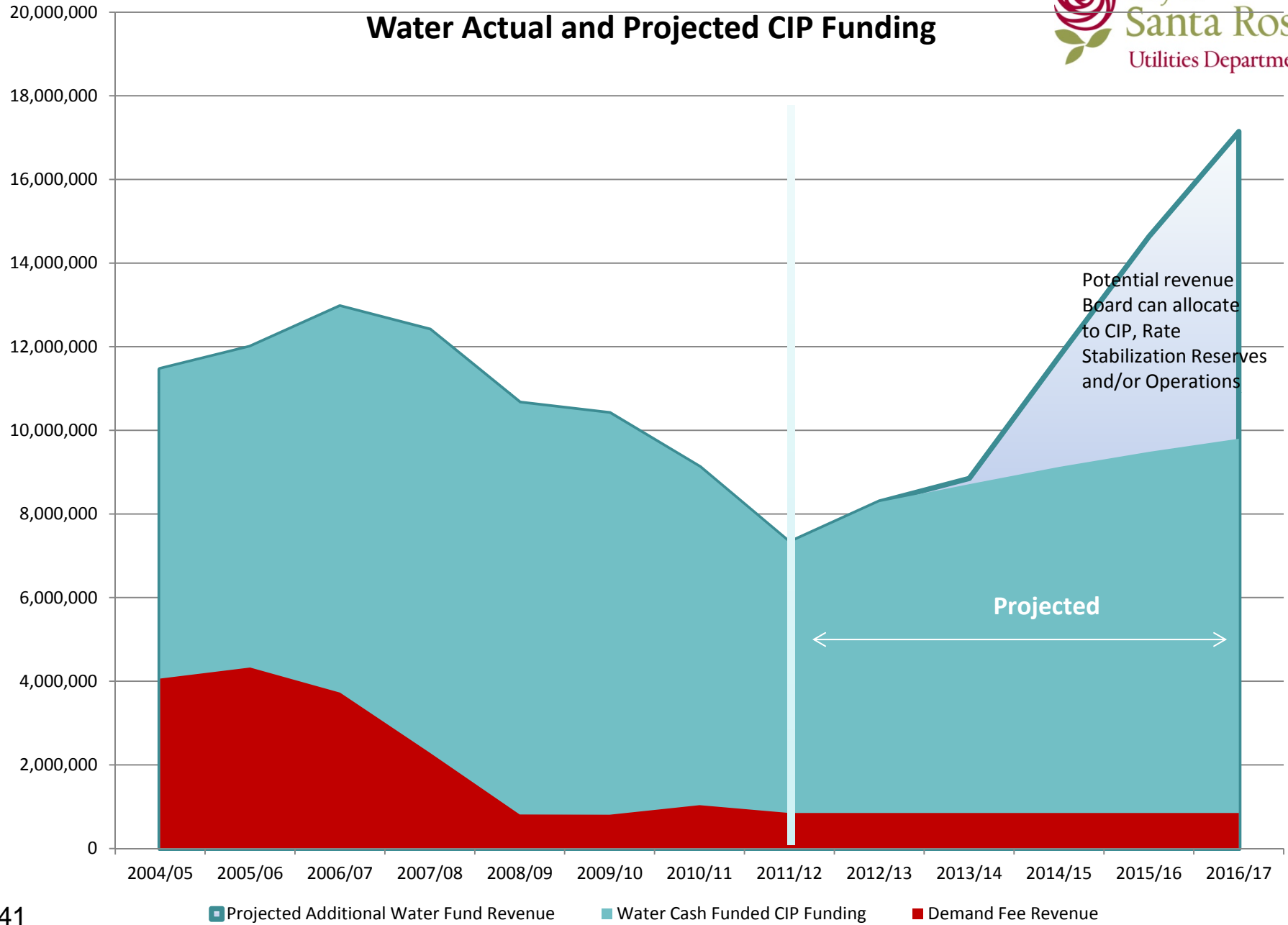
		<h1 style="text-align: center;">City of Santa Rosa Water Rates</h1>				
	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Fixed Rate (January)	18.0%	15.2%	13.2%	11.7%	3.6%	3.8%
Usage Rate (January)	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%
SCWA increase estimate / pass through estimate	5.0% / 2.1%	8.0% / 3.2%	8.0% / 3.3%	8.0% / 3.5%	8.0% / 3.6%	8.0% / 3.8%
Operating Surplus/Deficit	\$2,444,890	\$2,444,888	\$2,490,002	\$2,863,137	\$2,896,219	\$2,602,941
Reserves - Over/Under Target	-\$3,721,265	-\$2,006,090	\$137,243	\$2,635,650	\$5,147,896	\$7,346,350
CIP Expenditures	\$7,306,623	\$8,285,181	\$8,713,698	\$9,125,699	\$9,486,226	\$9,799,707
Fixed vs. Usage	20% / 80%	21% / 79%	23% / 77%	24% / 76%	25% / 75%	25% / 75%
Fixed Increase (5/8")	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 0.52	\$ 0.57
Total Fixed Fee (5/8")	\$ 9.85	\$ 11.35	\$ 12.85	\$ 14.35	\$ 14.87	\$ 15.43
Conservation/Decline	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Growth/Increase	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Total Water Fund Reserves



Actual and Projected Water Rate Revenue





IMPACT OF PROPOSED WATER RATES ON SAMPLE SINGLE FAMILY RESIDENTIAL CUSTOMERS

Type of Customer	Meter Size	Water Use in Gallons	Current Monthly Water Bill	2012			2013			
				Bill Amount	Dollar increase	% Increase	Bill Amount	Dollar increase	% Increase	
Lowest - Single Family Residential (SFR)		1000 *	\$12.85	\$14.40	\$1.55	12.1%	\$15.95	\$1.55	10.7%	
Small Single Family Residential (SFR) (2 persons; sewer cap = 4 tg/mo)	5/8"	4000 *	\$26.35	\$28.03	\$1.68	6.4%	\$29.73	\$1.70	6.1%	(Winter)
		7,000	\$41.92	\$43.76	\$1.84	4.4%	\$45.61	\$1.85	4.2%	(Summer)
Average Single Family Residential (Average for all SFR accounts; sewer cap = 5.2 tg/mo)	5/8"	5000 *	\$30.85	\$32.58	\$1.73	5.6%	\$34.33	\$1.75	5.4%	(Winter)
		12,000	\$67.04	\$69.27	\$2.23	3.3%	\$71.37	\$2.10	3.0%	(Summer)
Large Single Family Residential (6 persons; sewer cap = 8.5 tg/mo)	5/8"	8000 *	\$44.35	\$46.21	\$1.86	4.2%	\$48.11	\$1.90	4.1%	(Winter)
		22,000	\$123.71	\$127.36	\$3.65	2.9%	\$130.03	\$2.67	2.1%	(Summer)

* Assumes Water Usage = Sewer Cap

**Impact of Proposed Water Rates on Sample
Water Customers Other than SFR and Dedicated Irrigation**

Type of Customer	Meter Size	Water Use in Gallons	Current Monthly Water Bill	2012			2013		
				Bill Amount	Dollar increase	% Increase	Bill Amount	Dollar increase	% Increase
Medium Office Building* (1" meter)	1"	34,000	\$183.85	\$188.27	\$4.42	2.4%	\$195.86	\$7.59	4%
Medium Restaurant* (1" meter)	1"	50,000	\$263.21	\$268.43	\$5.22	2.0%	\$276.82	\$8.40	3%
20-unit Apartment Building* (2" meter)	2"	70,000	\$396.06	\$408.33	\$12.27	3.1%	\$420.63	\$12.30	3%

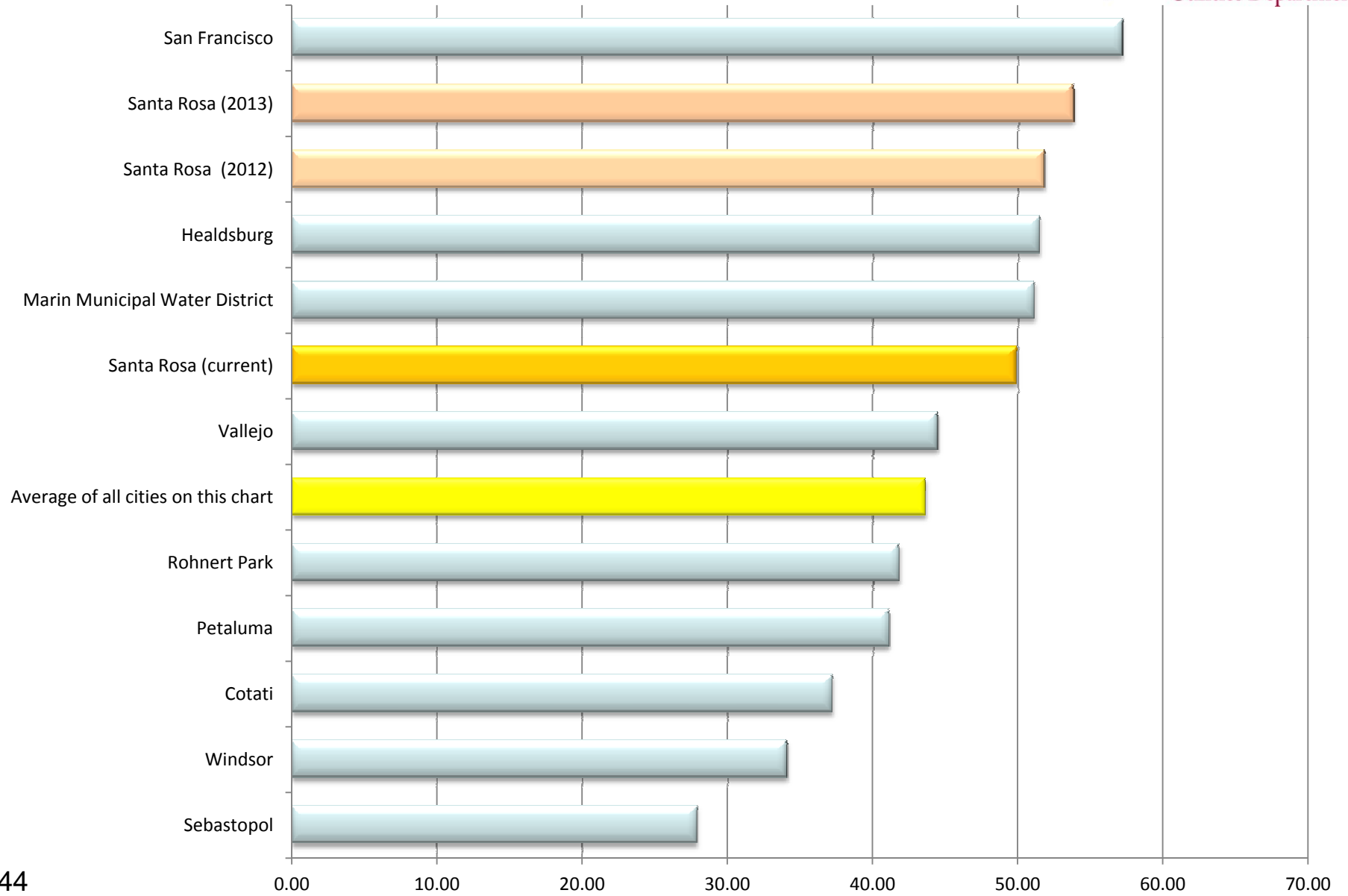
This bill is for indoor water usage only.

**Impact of Proposed Water Rates on Sample
Dedicated Irrigation Customer Bill**

Meter Size	Water Budget - 2010	Water Use in Gallons	Current Monthly Water Bill	2012			2013		
				Bill Amount	Dollar increase	% Increase	Bill Amount	Dollar increase	% Increase
1"	23,000	26,000	\$138.71	\$142.68	\$3.97	2.9%	\$146.72	\$4.04	3%
1"	23,000	34,000	\$185.74	\$190.18	\$4.44	2.4%	\$194.68	\$4.50	2%
1"	83,000	92,000	\$452.21	\$459.32	\$7.11	1.6%	\$466.69	\$7.37	2%
1"	83,000	125,000	\$645.53	\$654.55	\$9.02	1.4%	\$663.81	\$9.26	1%

This bill is for outdoor water usage only.

Water Bill Comparison with Other Water Districts



Water and Wastewater Rate Increase History			
	Water		Wastewater
	% Increase - Fixed	% Increase - Usage	% Increase - Fixed and Usage
2002	0%	0%	0%
2003	0%	0%	0%
2004	9%	9%	9%
2005	9%	9%	9%
2006	9%	9%	9%
2007	9%	9%	9%
2008	9%	9%	9%
2009	9%	9%	9%
2010	8%	8%	7%
Jul-10	-	2.8%	-
2011	8%	8%	7%
Jul-11	-	2.1%	-
2012	18.0%	1.0%	3.0%
2013	15.2%	1.0%	3.0%

Sample Combined Bill



IMPACT OF PROPOSED COMBINED WATER AND WASTEWATER RATES ON SAMPLE SINGLE FAMILY RESIDENTIAL CUSTOMERS

Type of Customer	Meter Size	Monthly Water Use in Gallons	Current Combined Bill	2012			2013		
				Bill Amount	Dollar increase	% Increase	Bill Amount	Dollar increase	% Increase
Lowest - Single Family Residential (SFR)	5/8"	1000*	\$43.50	\$45.97	\$2.47	5.7%	\$48.47	\$2.49	5.4%
Small - Single Family Residential (SFR) (2 persons; sewer cap = 4 tg/mo)	5/8"	4000 *	\$91.95	\$95.60	\$3.65	4.0%	\$99.33	\$3.73	3.9%
		7,000	\$107.52	\$111.33	\$3.81	3.5%	\$115.20	\$3.88	3.5%
Average - Single Family Residential (Average for all SFR accounts; sewer cap = 5.2 tg/mo)	5/8"	5000 *	\$108.10	\$112.15	\$4.05	3.7%	\$116.28	\$4.14	3.7%
		12,000	\$144.29	\$148.84	\$4.55	3.2%	\$153.33	\$4.49	3.0%
Large - Single Family Residential (6 persons; sewer cap = 8.5 tg/mo)	5/8"	8000 *	\$156.55	\$161.78	\$5.23	3.3%	\$167.15	\$5.37	3.3%
		22,000	\$235.91	\$242.92	\$7.01	3.0%	\$249.06	\$6.14	2.5%

* Assumes Water Usage = Sewer Cap

IMPACT OF PROPOSED COMBINED WATER AND WASTEWATER RATES ON SAMPLE COMMERCIAL & INDUSTRIAL CUSTOMERS

Type of Customer	Meter Size	Monthly Water Use in Gallons	Current Combined Bill	2012			2013		
				Bill Amount	Dollar increase	% Increase	Bill Amount	Dollar increase	% Increase
Medium Office Building (1" meter)	1"	34,000	\$622.27	\$639.85	\$17.58	2.8%	\$660.98	\$21.13	3.3%
Medium Restaurant (1" meter)	1"	50,000	\$1,075.03	\$1,104.60	\$29.57	2.8%	\$1,138.08	\$33.48	3.0%
20-unit Apartment Building (2" meter)	2"	70,000	\$1,368.89	\$1,410.34	\$41.45	3.0%	\$1,452.70	\$42.36	3.0%

Assumes that irrigation water is metered separately

Outreach Efforts

- Communicating with our ratepayers and customers
 - Internal communications
 - Staff represents ‘the utility’
 - Connections e-newsletter, bill stuffers
 - Webpage
 - Neighborhood groups/newsletters

 - Always open to other ideas!

Rate Timeline

- Board of Public Utilities Recommendation (10/6/11)
- City Council Study Session (10/18/11)
 - Information only
- Prop 218 Notices sent 45 days prior to Public Hearing
- Public Hearing (12/6/11)
 - City Council Decision
- 2012 Fees take effect 31 days after 2nd reading of ordinance (on or after January 14, 2012)
- Any 2012 SCWA pass-through takes effect on or after July 1, 2012
- 2013 Fees can take effect on or after January 1, 2013

Considerations

- There are many unknowns
 - Weather
 - Agreements with other Agencies
 - Regulations
- The Council can amend the rates that have been noticed to the public down, but not up

Resolutions from the Board recommending the City Council increase
Water, Recycled Water and Wastewater Rates

DISCUSSION / RECOMMENDATION

May need...

Bond Sale Assumption

- Current Subregional assessment underway for upgrades
- Potential Nutrient Offset program
- Fire flow upgrade analysis underway

- No definitive project list currently
 - Assume \$52M WW Bond sale in 2013/14
 - Assume \$10M Water Bond sale in 2013/14

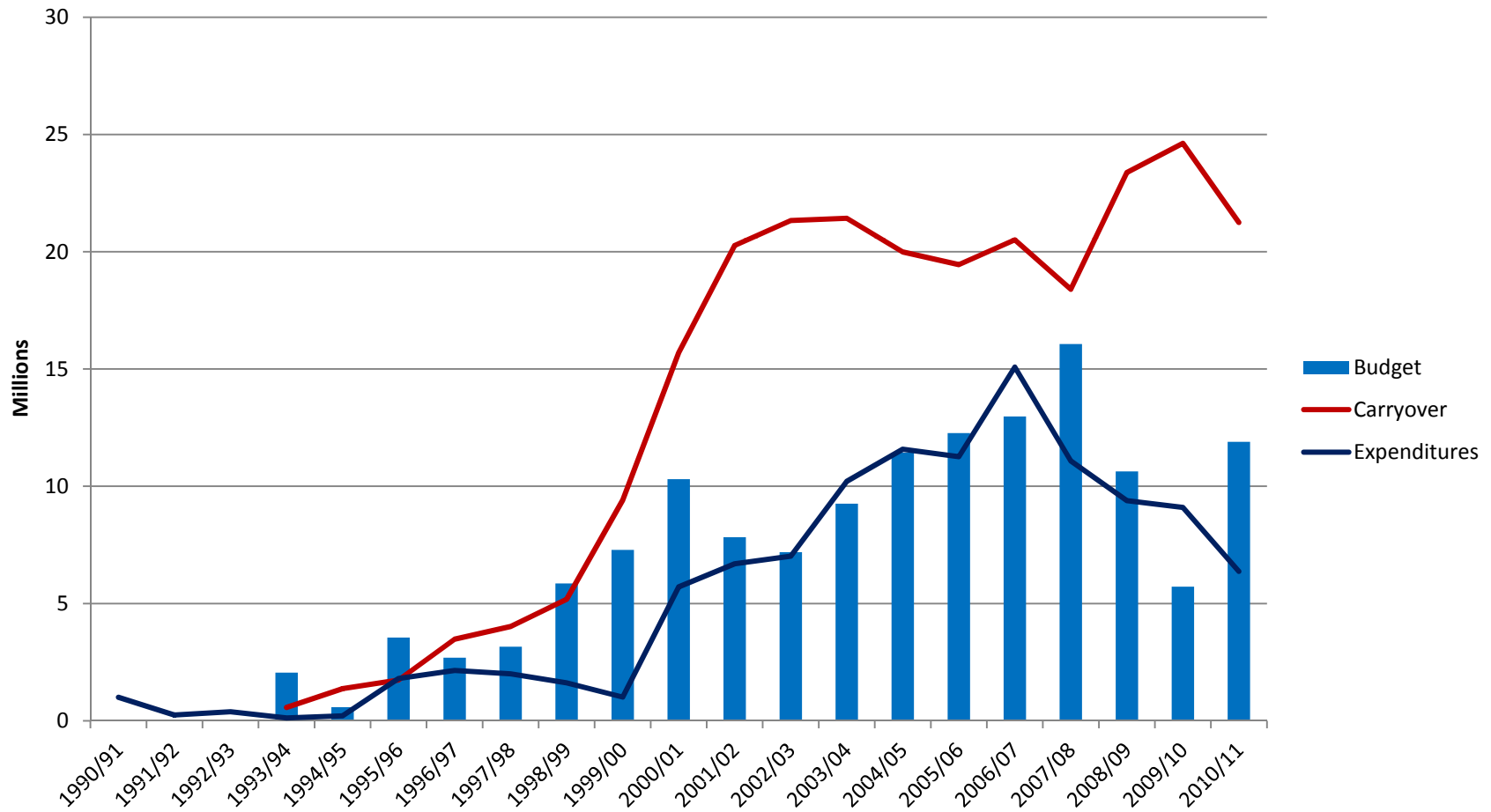
Indexing the Catastrophic Reserve

- Reserves were adopted in 2006
- Operating Reserve ‘floats’ at 15% of operating budget
- Catastrophic reserves have remained static
- Budget Subcommittee suggestion to escalate annually based on a construction index
- ENR 20-Cities index to escalate catastrophic reserves annually starting in 2012/13

SCWA Rate Increases

- SCWA estimates annual future increases of approximately 4% - 7%
- Rate model assumes 8% to be conservative
- If water use remains flat, the pass-through will gradually increase but will average about 3.5% per year
- Annual fixed rate increases must match or exceed the pass-through to maintain or increase ratio of fixed revenue

Water CIP



Wastewater CIP

