

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
SUBJECT: BOARD OF PUBLIC UTILITIES WATER, RECYCLED
WATER AND WASTEWATER RATE INCREASE
RECOMMENDATIONS FOR 2012 AND 2013
STAFF PRESENTER: LINDA REED, ADMINISTRATIVE SERVICES OFFICER
UTILITIES DEPARTMENT
AGENDA ACTION: STUDY SESSION

ISSUE(S)

At their meeting on October 6, 2011, the Board of Public Utilities passed resolutions recommending that the City Council raise potable water, recycled water and wastewater fixed and usage charges in order to provide sufficient revenue to operate the water and wastewater enterprises and fund the Capital Improvement Program for 2012 and 2013.

The City Council will consider these rate recommendations at a public hearing scheduled on December 6, 2011. Notices of any intended water or wastewater rate increase must be sent to all ratepayers at least 45 days prior to the public hearing. This study session will inform the City Council of the Board's recommendation and reasoning prior to the public notices being mailed.

COUNCIL GOALS AND STRATEGIES

This recommendation supports City Council Goal 2, *'Promote a City Organization that is Sustainable and Maintains Employee Morale, Productivity, and Effectiveness'* by ensuring that the water and wastewater enterprise funds, while operating efficiently, are properly funded to meet the needs of the ratepayers, providing our community with a safe, economical, dependable and environmentally friendly water supply, wastewater collection system and Subregional Wastewater Treatment and Reclamation System..

BACKGROUND

Santa Rosa's water, which includes the recycled water system, and wastewater utilities are enterprise funds fully supported by user rates and fees. The Santa Rosa City Council holds a Public Hearing and sets utility rates biennially at the recommendation of the Board of Public Utilities.

The Board of Public Utilities has prioritized four major goals for the utility over the past budget year:

- Reduce water and wastewater operating expenditures
- Restore water fund reserves
- Increase the ratio of revenue received into the water fund from fixed charges within the limits of Best Management Practice 11 required by the California Urban Water Conservation Council (CUWCC)
- Maintain or increase water and wastewater capital improvement program funding

After extensive review of revenue and expenditure assumptions and the operating and capital needs of the water and wastewater utilities the Board recommends that the City Council:

- Increase the potable and recycled water fixed charges by 18% (\$1.50 for the average single family residence) in 2012 and by 15.2% (\$1.50 for the average single family residence) in 2013 in order to adjust the ratio of revenue received from fixed charges.
- Also increase potable and recycled water usage charges by 1% in order to provide sufficient funding to operate the water utility, to restore the water fund reserves and increase the rate of infrastructure replacement.
- Increase the wastewater fixed and usage charges by 3% each in order to provide sufficient funds to operate the wastewater collection system and wastewater treatment and disposal system and fund necessary capital improvements and infrastructure replacement.

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- Also increase potable and recycled water usage charges by 1% in order to provide sufficient funding to operate the water utility, to restore the water fund reserves and increase the rate of infrastructure replacement.
- Increase the wastewater fixed and usage charges by 3% each in order to provide sufficient funds to operate the wastewater collection system and wastewater treatment and disposal system and fund necessary capital improvements and infrastructure replacement.

These increases will raise the average single family residential combined water and wastewater bill by about 3% - 6% overall each year depending on water use (approximately \$2.50 - \$7.00 per month).

ANALYSIS

Water Rate Recommendations –

In 2007 - 2010, the City experienced unprecedented declines in water revenues due to the compounded effects of drought, regulatory water restrictions, economic recession, housing market downturn, water conservation, new aggressive tiered water rates and cool summer weather. Reserve levels dropped below recommended target levels on the water side despite regular rate increases and ongoing expenditure reductions in both capital improvement and in operations and maintenance expenditures over this time.

Board of Public Utilities Goal: Reduce Operating Expenditures –

Based on direction from the Board of Public Utilities and the Director of Utilities, a Utilities Steering Team was convened in 2010 to develop long-term budget reduction recommendations. Staff and the Board of Public Utilities Budget Subcommittee met numerous times during the 2011/12 budget process to refine the proposed Operations and Maintenance and Capital Improvement Program budget reductions and proposals, and the Council adopted water, wastewater and Subregional budgets with significant reductions in operating expenditures and in water capital improvement program funding. The Utilities Department reduced its work force by 15 positions.

Fund	Enterprise Fund Expenditures		
	Water 1611	Wastewater 1621	Subregional 1631
Approved Budget 2010/11	\$28,716,302	\$10,816,223	\$28,049,998
Approved Budget 2011/12	\$26,151,894	\$10,510,645	\$26,944,539
Reduction	(\$2,564,408)	(\$305,578)	(\$1,105,459)
Percent change	-8.9%	-2.8%	-3.9%

In addition, the Board of Public Utilities adopted a ‘Budget Strategies; Revenue Shortfall/Overage’ policy by resolution which identifies the expenditure cuts that will be undertaken at the end of each quarter in 2011/12 if water revenues fall short of expectations.

Board of Public Utilities Goal: Restore Water Fund Reserves –

The water reserves have been used since 2006 to bridge the gap between expenditures and the reduced revenues caused by three years of drought, regulatory water restrictions, economic recession, housing market downturn, water conservation, new aggressive tiered water rates and cool summer weather (14% reduction in Eto compared to average) in 2010. Water fund reserves failed to meet Council policy in

fiscal years ending in 2008, 2009 and 2011. The proposed rate increase is designed to restore water fund reserves to their target level by 2013/14.

Board of Public Utilities Goal: Increase the Ratio of Revenue received from Fixed Charges –

The City of Santa Rosa is required by the 'Restructured Agreement for Water Supply' with the Sonoma County Water Agency to be a signatory to the California Urban Water Conservation Council (CUWCC) Best Management Practices. Included, for water conservation purposes, is a requirement that no more than 30% of water sales revenue be derived from fixed charges.. By requiring that at least 70% be based on usage charges, customers have a financial incentive to improve water use efficiency. The City also has an interest in basing much of the rate on usage charges in order to allow our customers greater control over their total bill.

Due to both the decline in water use and the annual pass-through rate increase (the pass-through rate is based on the wholesale cost of water and applies only to the usage rate), the City's current ratio of fixed to usage revenue has moved to about 19% fixed and 81% usage. The high amount of revenue from the usage rate leads to a more volatile income stream. The Board of Public Utilities directed a change in rates to achieve about 25% of revenue from the fixed charges.

The Board of Public Utilities Budget Subcommittee recommends a water fixed rate increase of 18% in 2012 and 15.2% in 2013. For the average single family residential customer this will amount to a monthly increase of \$1.50 each year. The actual percentage increase per bill will vary by customer depending on water use. Customers with the lowest use will see greater overall increases.

Board of Public Utilities Goal: Maintain or Increase Capital Improvement Program Funding –

The Board of Public Utilities values maintaining and replacing the City's infrastructure. Keeping up with a reasonable capital improvement and replacement schedule is more cost effective in the long run than dealing with a failing system in the future. In order to reduce expenditures to meet revenues, the Department has reduced water Capital Improvement Program (CIP) several times over the last few years. The rate increases recommended by the Board will generate funding for increased CIP funding after the reserves have been replenished.

Water Rate Recommendation Summary –

The water rate increases recommended by the Board of Public Utilities are calculated to generate sufficient revenue to restore the water reserves by 2013/14; adjust the ratio of fixed to usage charges to 25% / 75% by 2015/16 and increase rate revenue funding to the water CIP starting in 2013/14.

The overall actual bill increase for various water ratepayers will vary based on the percentage of the bill that is fixed. Very low water users will see higher total water bill increases. (See sample bills in Attachments 4 – 6.)

Wastewater Rate Recommendations –

Wastewater rate revenues have been much less volatile than water rate revenues. The Department reduced operating expenditures for the local wastewater collection system by over 2% and for the Subregional Water Reuse System by almost 7% in 2011/12. Costs continue to rise for employee benefits, materials and chemicals, and the City is subject to increasingly stringent and costly regulations for the treatment and mitigation of wastewater and biosolids disposal. As with water infrastructure, the Board places a high priority on keeping up with a reasonable capital improvement and replacement schedule. In addition, the Subregional Treatment Plant is beginning to age, which will necessitate capital expenditures for replacing and upgrading equipment.

The current ratio of wastewater rate revenue from the fixed portion of the bill meets the Board's 25% target. A wastewater rate increase of 3% for both fixed and usage fees provides sufficient revenue to operate the wastewater collection system, fund the proposed Capital Improvement Program, and pay Santa Rosa's share of the Subregional Water Reuse system costs while keeping reserves at target levels.

RECOMMENDATION

At their meeting on October 6, 2011, the Board of Public Utilities passed resolutions recommending that the City Council raise potable water, recycled water and wastewater fixed and usage charges in order to provide sufficient revenue to operate the water and wastewater enterprises and fund the Capital Improvement Program for 2012 and 2013.

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The City Council may comment on this item.

Author: Linda Reed, Administrative Services Officer, Utilities Department

ATTACHMENTS:

1. Utilities Department Budget Analysis and Annual Report
2. Historical and Projected Utility Reserve Levels
3. Rate Increase History
4. Sample Water Bills
5. Sample Wastewater Bills
6. Sample Combined Water and Wastewater Bills