

# City of Los Altos Sewer Rate Study

*November 21, 2022*

# Presentation Overview

- Approach
- Financial Plan
- Cost of Service
- Rate Design and Proposed Rates
- Bill Impact
- Next Steps

# Our Approach is Based on a 3- Step Process

- Based on the 7<sup>th</sup> Edition & Water Environment Federation (WEF) Financing and Charges for Wastewater Systems, Manual of Practice 27
- This approach is widely used across the industry

## 1 FINANCIAL PLAN

Compares current sources and uses of funds and determines the revenue needed from rates and projects rate adjustments.

## 2 COST-OF-SERVICE ANALYSIS

Proportionately allocates the revenue requirements to the customer classes in compliance with industry standards and State Law.

## 3 RATE DESIGN ANALYSIS

Considers what rate structure will best meet the City's need to collect rate revenue from each customer class.

# FINANCIAL PLAN

# FINANCIAL PLAN

- The Financial Plan estimates the costs to be recovered from rates (rate revenue requirement)
- These costs include O&M, debt service, planned pay-as-you-go capital projects, and reaching target fund balances
- Rate revenue requirements = O&M + debt service + capital – non rate revenues

# THE CITY HAS OPERATING, CAPITAL, & PALO ALTO RWQCP RESERVE FUNDS

- The operating fund target was estimated 180 days of O&M costs (about \$4.1M).
- The capital reserve fund equal to the average annual capital expenditures (about \$3.3M).
- Palo Alto RWQCP fund target equal to one year of CIP costs that the City pays to Palo Alto (about \$800K)

# RATE REVENUE REQUIREMENTS

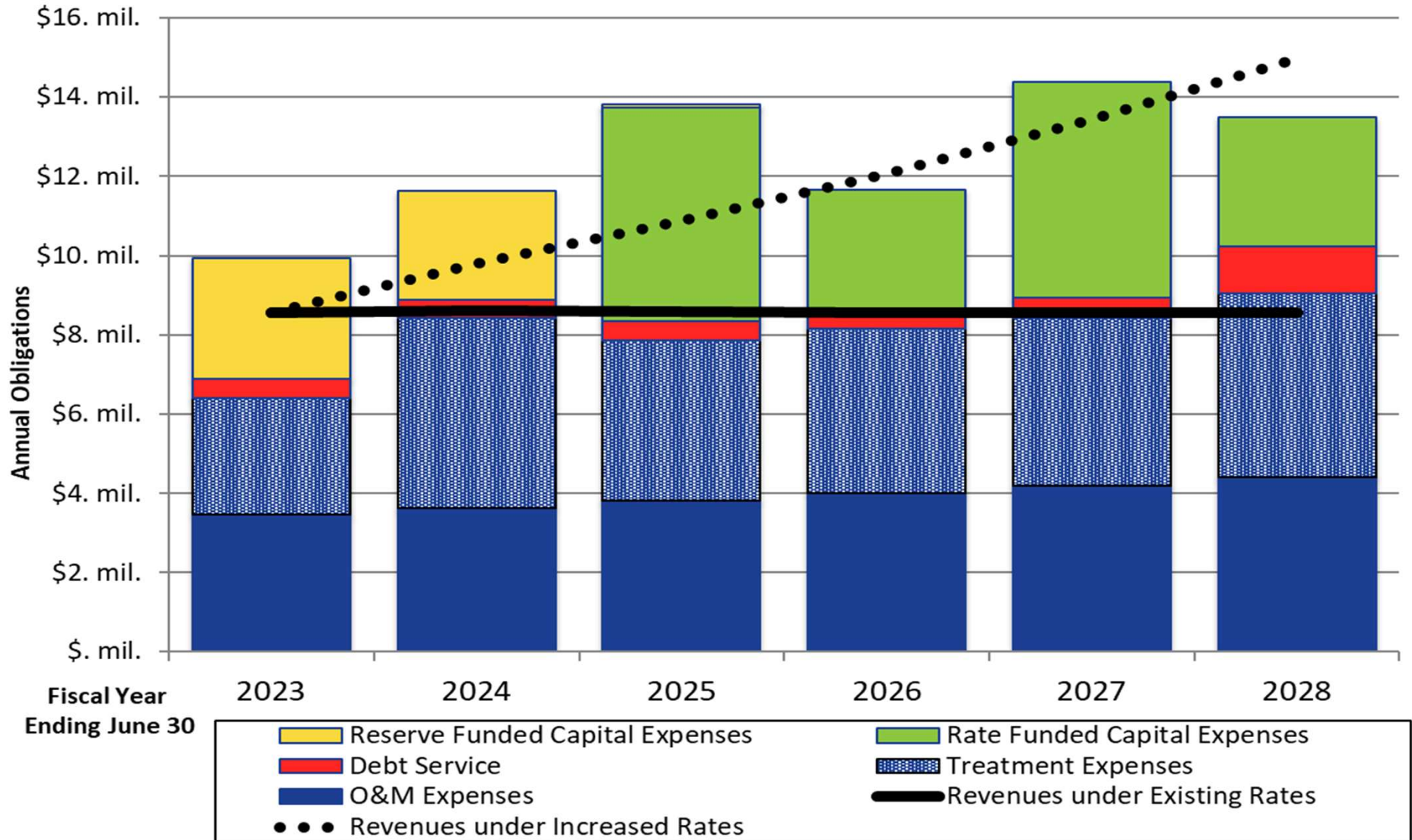
Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
<b>Sources of Wastewater Funds</b>						
Rate Revenue Under Prevailing Rates	\$ 7,910,000	\$ 7,910,000	\$ 7,910,000	\$ 7,910,000	\$ 7,910,000	\$ 7,910,000
Additional Revenue from Rate Increases <sup>1</sup>	-	1,186,500	2,278,080	3,500,650	4,869,928	6,403,519
Sewer Service Charge not on Tax Roll	600,000	600,000	600,000	600,000	600,000	600,000
Non-Rate Revenues	55,000	93,630	78,077	52,898	57,235	50,075
<b>Total Sources of Funds</b>	<b>\$ 8,565,000</b>	<b>\$ 9,790,130</b>	<b>\$ 10,866,157</b>	<b>\$ 12,063,547</b>	<b>\$ 13,437,162</b>	<b>\$ 14,963,594</b>
<b>Uses of Wastewater Funds</b>						
Operating Expenses	\$ 6,406,182	\$ 8,414,226	\$ 7,859,922	\$ 8,148,292	\$ 8,436,706	\$ 9,038,089
Debt Service	468,090	468,007	492,102	492,306	491,782	1,178,338
Rate-Funded Capital Expenses	-	-	5,374,635	3,014,834	5,458,718	3,264,516
<b>Total Use of Funds</b>	<b>\$ 6,874,272</b>	<b>\$ 8,882,232</b>	<b>\$ 13,726,659</b>	<b>\$ 11,655,431</b>	<b>\$ 14,387,206</b>	<b>\$ 13,480,943</b>
<b>Projected Annual Rate Increase</b>	<b>0.00%</b>	<b>15.00%</b>	<b>12.00%</b>	<b>12.00%</b>	<b>12.00%</b>	<b>12.00%</b>
<b>Cumulative Rate Increases</b>	<b>0.00%</b>	<b>15.00%</b>	<b>28.80%</b>	<b>44.26%</b>	<b>61.57%</b>	<b>80.95%</b>
<b>Rate Revenue with Annual Rate Increase(s)</b>	<b>\$ 7,910,000</b>	<b>\$ 9,096,500</b>	<b>\$ 10,188,080</b>	<b>\$ 11,410,650</b>	<b>\$ 12,779,928</b>	<b>\$ 14,313,519</b>
Surplus (Deficiency) before Rate Increase	1,690,728	907,897	(2,860,501)	408,116	(950,044)	1,482,651
Surplus (Deficiency) after Rate Increase	1,690,728	2,094,397	(582,421)	3,908,765	3,919,884	7,886,170
<b>Net Revenue Requirement<sup>2</sup></b>	<b>\$ 6,219,272</b>	<b>\$ 8,188,603</b>	<b>\$ 13,048,581</b>	<b>\$ 11,002,534</b>	<b>\$ 13,729,971</b>	<b>\$ 12,830,868</b>

1. Assumes new rates are implemented July 1, 2023.

2. Total Use of Funds less non-rate revenues. This is the annual amount needed from wastewater rates.

# RATE REVENUE REQUIREMENTS

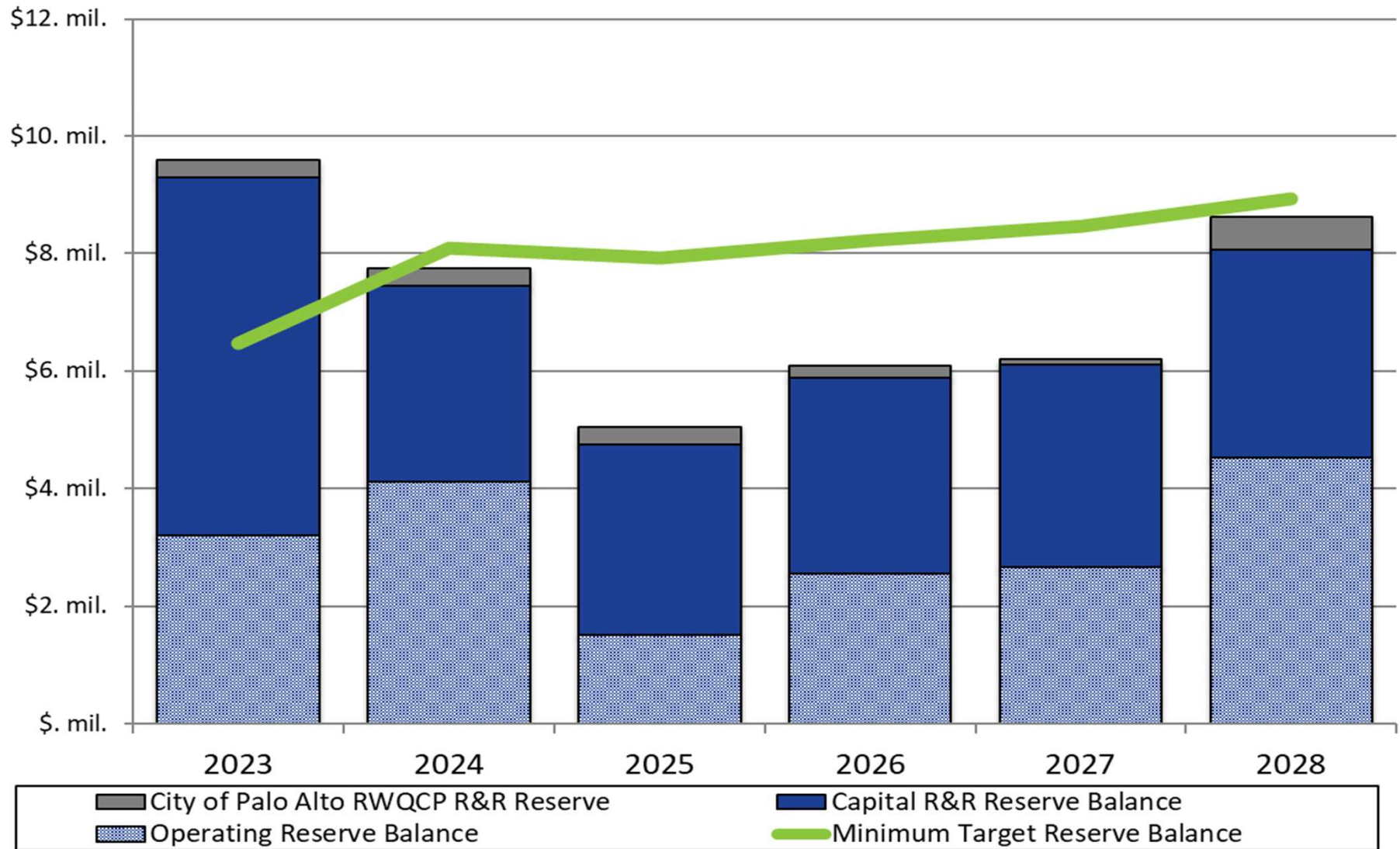
## Sewer Revenue Requirements vs. Revenue Under Existing and Increased Rates





# RESERVES USE FOR CAPITAL THEN BUILD UP AGAIN

## Ending Cash Balances vs. Recommended Reserve Targets (Sewer Fund: Un-Restricted Reserves)



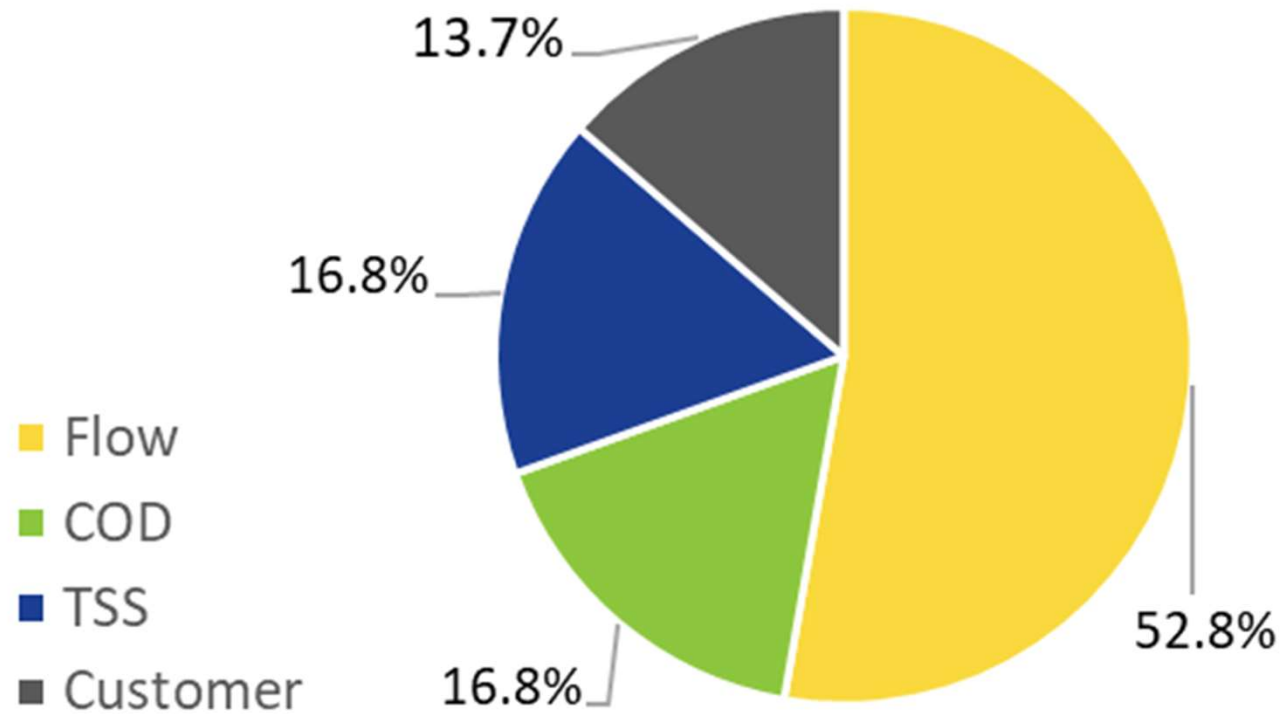
# **COST OF SERVICE (COS)**

# **COS ALLOCATES COSTS TO CUSTOMERS BASED ON THEIR CUSTOMER BILLING STATISTICS**

- First, WW costs are allocated to four parameters
  - Customer Costs
  - Flow Related Costs
  - Chemical Oxygen Demand (COD) Costs
  - Total Suspended Solids (TSS) Costs
- Then, costs are allocated to customers based on their contribution to the plant

# RESULTING COST OF SERVICE ANALYSIS

Total Costs Allocated to Customer Classes



# **RATE DESIGN**

## RATE DESIGN GOALS INCLUDE

- Follows cost of service (equitable & non-discriminating)
- Ease of administration and understanding
- Provide revenue stability

*The current rate structure meets these criteria, so it makes sense to leave the rate structure as is*

# RATE CALCULATION FOR FY 2023/24

Fixed Charges (per EDU)	Total Revenue Requirements	% of Total Rev. Req't. from Fixed Charges	Fixed Charges	Number of Equivalent Dwelling Units	Rate per EDU
	<i>A</i>	<i>B</i>	$C = A * B$	<i>D</i>	$E = C / D$
<b>All Customers</b>	\$9,096,500	52%	\$4,730,180	14,595	<b>\$324.09</b>

Volumetric Charges (per HCF)	Total Revenue Requirements	% of Total Rev. Req't. from Volumetric Charges	Volumetric Charges	Annual Billable Volume (hcf)	Rate per HCF
	<i>F</i>	$G = 1 - B$	$H = F * G$	<i>I</i>	$J = H / I$
<b>All Customers</b>	\$9,096,500	48%	\$4,366,320	1,322,896	<b>\$3.30</b>

# CURRENT AND PROPOSED RATES

Sewer Rate Schedule	Current Rates	Proposed Yearly Sewer Rates				
		Year 1	Year 2	Year 3	Year 4	Year 5
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Annual Fixed Service Charge per EDU	\$301.29	\$324.09	\$372.70	\$428.61	\$492.90	\$566.84
Volumetric Rate (\$/hcf) <sup>1,2</sup>	\$2.42	\$3.30	\$3.80	\$4.37	\$5.03	\$5.78

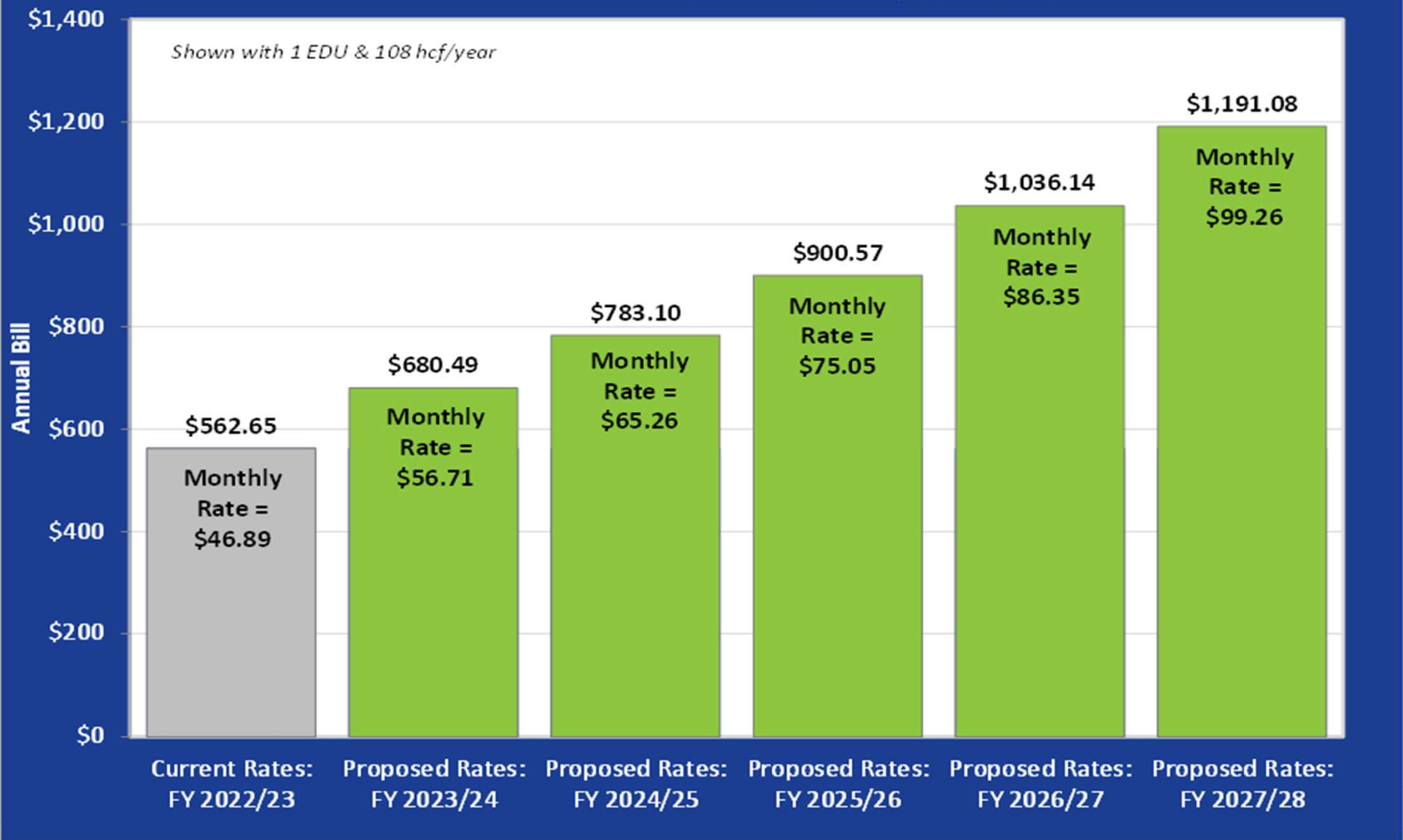
1. One Unit is equal to one HCF (Hundred Cubic Feet) or 748 gallons.

2. Rates are charged based on average winter water consumption (three lowest consecutive months from previous year).



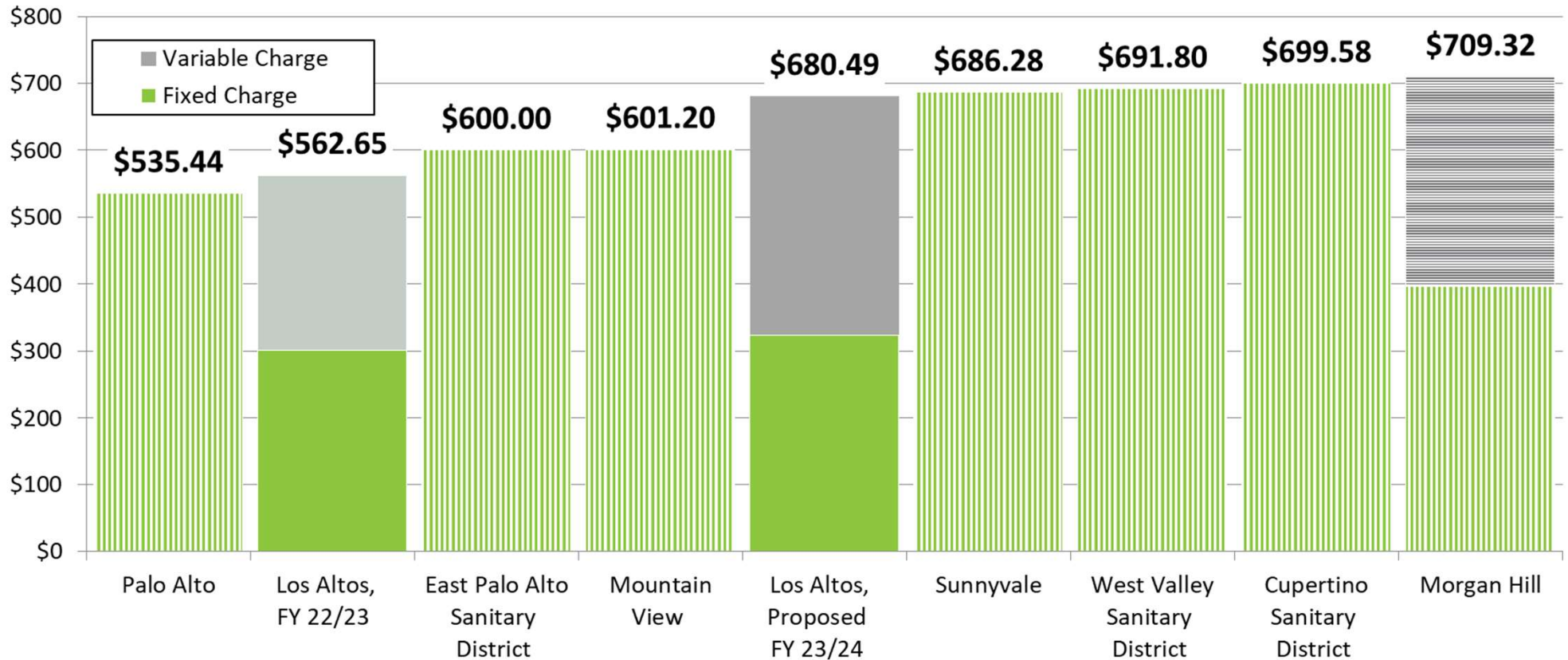
# SEWER UTILITY BILL COMPARISON

## 5 Year Annual Single Family Residential Sewer Bill Comparison Current vs. Proposed Rates



# REGIONAL SEWER UTILITY BILL COMPARISON

Regional Annual Bill Comparison for Single Family Residential



*Sewer rate calculation assumes a winter-based average consumption of 108 HCF Annually*

# NEXT STEPS

# OVERVIEW OF PROPOSITION 218 PROCESS

## Procedural Requirements for the Prop. 218 Protest Ballot Procedure:

1. Send Notice of Public Hearing to all customers/property owners
2. Hold Public Hearing no sooner than 45-days after mailing notices
3. If no majority protest (50% + 1), new rates can be adopted

# REQUESTED COUNCIL ACTIONS AND NEXT STEPS

## **Next Steps *(After Tonight)***

1. Approve Rate Studies and Proposed Rates
2. Complete Proposition 218 Process
3. Rate Approval Will be Requested *at the completion of the Public Hearing, if No Majority Protest*

# QUESTIONS AND ANSWERS

