



# REPORT TO Utilities Rate Advisory Commission City of Sacramento

1395 35<sup>th</sup> Ave. Sacramento, CA 95822  
[www.cityofsacramento.org/utilities](http://www.cityofsacramento.org/utilities)

**Public Hearing**  
**January 25, 2012**

**Honorable Chair and Members of  
Utilities Rate Advisory Commission**

**Title: Three-Year Water and Wastewater Utility Service Rate Adjustments**

**Location/Council District:** (Citywide)

**Recommendation:** Conduct a public hearing as required by Proposition 218 on the Department of Utilities' proposal for a three-year water and wastewater utility service rate increase, and after the hearing is closed discuss and approve recommendations to the Mayor and City Council.

**Contact:** Jamille Moens, Business Services Manager, (916) 808-5988 Department of Utilities

**Presenters:** Dave Brent, Interim Director, (916) 808-1420, Department of Utilities

**Department:** Department of Utilities

**Division:** Business Services

**Organization No:** 14001611

## **Description/Analysis**

**Issue:** The Department of Utilities (Department) is proposing three-year rate increases of 10% per year for water, and 16%, 15% and 14% per year, respectively, for wastewater (sewer). This will increase the overall monthly bill of a typical residential customer who receives both water and wastewater service from the City by approximately 6% each year for the next three years beginning July 1, 2012. Over the course of the next three years, the average single-family residential customer who receives both City water and wastewater service would see their monthly City utility bill rise approximately 19%, or \$19.06 (equivalent to 64 cents per day). The proposed wastewater rate increase would not apply to City residents who receive wastewater service from the Sacramento Area Sewer District instead of the City. This rate proposal





# REPORT TO Utilities Rate Advisory Commission City of Sacramento

1395 35<sup>th</sup> Ave. Sacramento, CA 95822  
[www.cityofsacramento.org/utilities](http://www.cityofsacramento.org/utilities)

## Background

### Department of Utilities Financial Plan Overview

On November 8, 2011, the Department of Utilities (DOU) presented its Financial Plan (Plan) to City Council. The Plan included a 30-year Water and Wastewater Infrastructure Investment Program (Program), discussed in more detail below, and also set forth the needs of the solid waste and storm drainage funds as well as funding requirements for future development.

The Solid Waste Division is in the process of developing a business plan to guide its future operations. Once the business plan is complete, recommendations for solid waste services and operations will be brought forward for City Council consideration under the new leadership of the General Services Department. Regarding storm drainage, under Proposition 218, rate adjustments for this service require voter approval. DOU has retained consultant services to conduct a storm drainage rate study and make recommendations for a future storm drain rate design and structure. DOU will present the consultant's findings and recommendations to the City Council for its consideration at a future date.

The final component of the financial plan addresses impact fees and the ability of the City to fund improvements necessary to serve new growth. In order to meet this need, impact fees must reflect the current cost of constructing facilities needed to serve new development. At a future date, DOU will present an impact fee adjustment proposal to City Council that reflects current development costs and better positions the City for growth.

### 30-Year Water and Wastewater Infrastructure Investment Program Overview

On November 8, 2011, the City Council conceptually approved DOU's Water and Wastewater Infrastructure Investment Program (Program). The overall Program is not intended to function as a specific Capital Improvement Program, but rather as a long-term strategy of investing in the City's water and wastewater capital and regulatory programs at levels that reduce the risk of infrastructure failures, maintain reliable and high quality service, and comply with regulatory mandates.

The Program includes the following components:

- A 30-year Water and Wastewater Infrastructure Investment Program based on industry best practices for system replacement – given the long term nature of this Program, it is the Department's intent to remain flexible and adjust the Program as needed to respond to future circumstances and conditions



# REPORT TO Utilities Rate Advisory Commission City of Sacramento

1395 35<sup>th</sup> Ave. Sacramento, CA 95822  
[www.cityofsacramento.org/utilities](http://www.cityofsacramento.org/utilities)

- A specific 5-year Capital Improvement Program for FY2012/13 through FY2016/17.
- Compliance with new and existing regulatory mandates
- Continuity of existing production and maintenance activities

### ***Rate Proposal***

To begin implementation of the Program, DOU has proposed 3-year rate increases of 10% per year for water, and 16%, 15% and 14% per year, respectively, for wastewater (sewer). This will increase the overall monthly bill of a typical residential customer who receives both water and wastewater service from the City by approximately 6% (equivalent to 19 cents per day) during the first year. Over the course of the next three years, the average single-family residential customer who receives both City water and wastewater service would see their monthly City utility bill rise approximately 19%, or \$19.06 (equivalent to 64 cents per day). The proposed wastewater rate increase would not apply to City residents who receive wastewater service from the Sacramento Area Sewer District instead of the City. This rate proposal was included in the Proposition 218 Rate Increase Notification Mailing sent to City utilities customers on December 8, 2011.

### ***Future Obligations***

The proposed 3-year rate increase finances a program that uses a mix of bond and cash financing that allows the City to invest in its infrastructure and meet regulatory requirements while smoothing rate increases and avoiding rate spikes for utility customers. The 3-year proposal is essentially self-contained, and can be viewed as a stand-alone proposal. If the proposed 3-year rate increase is approved, this financing methodology would necessitate an increase of water rates by approximately 2% and an increase of wastewater rates by approximately 1% in the fourth year (FY2015/16) in order to meet program bond requirements and debt service obligations. After FY2015/16, no additional rate increases would be needed to finance existing programs. It is likely that subsequent rate increases will be necessary to continue to comply with regulatory requirements and to invest in rehabilitation and replacement of old infrastructure.

### ***Return on Investment and Economic Benefits***

The proposed rate increase will generate enough revenue to finance the following projects:

- Rehabilitation of the Sacramento River Water Treatment Plant built in 1923
- Increased investment in the residential water meter program to comply with state law and encourage water conservation



CITY OF SACRAMENTO  
DEPARTMENT  
OF UTILITIES

# REPORT TO Utilities Rate Advisory Commission City of Sacramento

1395 35<sup>th</sup> Ave. Sacramento, CA 95822  
[www.cityofsacramento.org/utilities](http://www.cityofsacramento.org/utilities)

- Continued federally mandated investment in improvements to the City's Combined Sewer System to reduce discharges to the Sacramento River and minimize overflows from the system onto private property and city streets
- Compliance with existing and anticipated new federal, state, and local regulatory mandates
- Gradual transition to a 100-year replacement schedule of the City's water and wastewater infrastructure instead of the current 400 and 650-year schedules to improve system reliability and safety and minimize the risk of failures

Some of the specific returns on investment the proposed rate increase will fund include:

- Water system: replacement of approximately 2 miles of transmission main pipe and 9 miles of distribution pipe as well as the rehabilitation and repair of 12 north area wells
- Wastewater system: rehabilitation and replacement of approximately 3 miles of pipe in the Separated System and replacement of approximately ½ mile in the Combined System as well as rehabilitation and replacement work at approximately 9 sump stations

The Department has developed a draft Capital Improvement Program Accountability Plan (Plan) to ensure funds dedicated to the Water and Wastewater Infrastructure Investment Program are spent appropriately and that DOU is accountable for those expenditures. Some of the proposed components the Plan are:

- Adoption of an annual one-year and five-year Capital Improvement Program (CIP) by City Council
- Semi-annual and annual Water and Wastewater Infrastructure Investment Program (Program) progress report to the City Council and Utility Rate Advisory Commission (URAC)
- The City Council and URAC will hold the Department accountable to spend rates earmarked for the capital program as planned
  - The URAC could create a "report card" that grades the Department's accountability and efficacy administering the Program. Some of the items that could be graded are:
    - Communication with the community regarding how funds would be used
    - Use of funds in a manner appropriate to their original intent



# REPORT TO Utilities Rate Advisory Commission City of Sacramento

1395 35<sup>th</sup> Ave. Sacramento, CA 95822

[www.cityofsacramento.org/utilities](http://www.cityofsacramento.org/utilities)

- Use of funds in a way that is compatible with the Department's overall CIP Programming Guide, the Department's Asset Management Program and proposed CIP budget.

DOU has contracted with the California State University, Sacramento College of Business Administration to determine the regional economic impact of the proposed DOU Water and Wastewater Infrastructure Investment Program. Preliminary results of that study indicate that investing in the City's infrastructure at the levels proposed will create approximately 6,446 new jobs in the first five years and 26,620 new jobs over the 30-year life of the program. DOU anticipates the final economic impact report to be complete in early 2012 and will present the findings during the February 2012 rate adjustment process.

## **Regulatory Program Overview**

Compliance with existing regulations and anticipated new requirements and mandates is the primary driver of the Program. The following information provides an overview of the major regulatory mandates funded in Program:

### ***Water***

The primary regulatory mandate affecting the water fund is the state mandate to have water meters installed on all the City's residential connections by January 1, 2025. On September 24, 2004, Governor Arnold Schwarzenegger signed Assembly Bill 2572 setting a deadline of 100% metering of all accounts by 2025. On May 24, 2005, the City Council adopted Resolution 2005-347, directing that water meters be installed throughout the City.

If the City cannot meet the requirements of this law, eligibility for state grants and low interest loans will be compromised, and the City's water rights and future diversions off the Sacramento and American Rivers may be adversely impacted.

### ***Wastewater***

The City's Combined Sewer System (CSS) is governed by a State National Pollutant Discharge Elimination System (NPDES) Permit that prohibits dry weather discharges to the river and limits wet weather discharges to the river. The goals of the NPDES Permit are to eliminate pollution discharged to the river, reduce outflows and reduce flooding.

The Permit requires treatment for discharges to the river; implementation of a Long Term Control Plan requiring an approximately \$10 million annual capital improvement program; extensive monitoring and data analysis; system-wide cleaning and inspection; a fats, oils and grease control program; and various other specific minimum control measures.





CITY OF SACRAMENTO  
DEPARTMENT  
OF UTILITIES

# REPORT TO Utilities Rate Advisory Commission City of Sacramento

1395 35<sup>th</sup> Ave. Sacramento, CA 95822

[www.cityofsacramento.org/utilities](http://www.cityofsacramento.org/utilities)

The City's separated sanitary sewer system is governed by the federal Clean Water Act, and Statewide General Waste Discharge Requirements (WDR) that prohibit sewer overflows and requires implementation of a management plan. The WDR requires system-wide cleaning, inspection and rehabilitation; a fats, oils and grease control program; a root control program; enforcement; and a short and long term capital improvement program.

Failure to comply with these permits could subject the City to Federal and State enforcement actions and third party lawsuits. Enforcement actions could include cease and desist orders, fines for violations (up to \$10,000 per day plus \$10 per gallon of discharge), and consent decrees and/or building moratoriums. Beginning in the next fiscal year, operation and improvement of the City's separated sanitary sewer system will be subject to the mandatory provisions of a 5-year consent decree that resulted from a Clean Water Act lawsuit brought against the City in early 2011 by the California Sportfishing Protection Alliance. This consent decree was approved by the federal District Court on January 9, 2012.

## **Program Financing Approach and Methodology**

The proposed water and wastewater program uses a mix of bond and cash financing that allows the City to invest in its infrastructure and meet regulatory requirements while smoothing rate increases and avoiding rate spikes for utility customers.

By smoothing rates, rate spikes are minimized from one year to the next. Cash flow and coverage requirements are accounted for in future years, and rates are set so they are roughly equal from year to year to meet these requirements in future years. The rate increases are designed to gradually decrease over time. This methodology provides predictable rates for the utility's customers and provides additional revenues in the near term which will reduce future bond issuance amounts, ultimately lowering rates in the long run. The proposed program includes 30 months of capitalized interest which delays the first repayment on any projected bond issuances by two years. This pushes out rate increases in the near term and increases overall costs and rates to the utility's customers in the long term.

## **Next Steps**

The next steps in the water and wastewater rate adjustment process are as follows:

- Community Engagement Activities – Ongoing (Rate workshops, presentations, video/website)
- Presentation of Utility Rate Recommendation to City Council – February 2012
- If adopted, new Water and Wastewater Rates Effective – July 1, 2012

## Typical Single-Family Customer Monthly Bill<sup>1</sup>

UTILITY SERVICES	RATE EFFECTIVE 7/1/11 (NO INCREASE IN FY12)		INCREASE EFFECTIVE 7/1/12		INCREASE EFFECTIVE 7/1/13		INCREASE EFFECTIVE 7/1/14	
<b>Water (unmetered)</b>	\$0	\$34.35	\$3.44 (10%)	\$37.79	\$3.78 (10%)	\$41.57	\$4.16 (10%)	\$45.73
<b>Wastewater<sup>2</sup></b>	\$0	\$14.74	\$2.36 (16%)	\$17.10	\$2.57 (15%)	\$19.67	\$2.75 (14%)	\$22.42
Storm Drainage	\$0	\$11.31	0%	\$11.31	0%	\$11.31	0%	\$11.31
Solid Waste <sup>3</sup>	\$0	\$38.31	0%	\$38.31	0%	\$38.31	0%	\$38.31
<b>TOTAL</b>		\$98.71		\$104.51		\$110.86		\$117.77
<b>=Overall average increase</b>		<b>0.0%</b>		<b>5.9%</b>		<b>6.1%</b>		<b>6.2%</b>

<sup>1</sup> Utility charges will vary based on type of structure, room count, and other components that determine the rates for each parcel.

<sup>2</sup> Wastewater charges are City of Sacramento services only and do not include SRCSD charges

<sup>3</sup> Solid waste services rate calculation uses the containerized green waste service rate



## Proposition 218 Protest Results FY 2012/2013

Proposed Utility Service Rate Adjustments Protest Summary as of 1/19/12		
<b>Total Notices Mailed</b>	171,909	
- No Specific Comment	70	<1%
- Increase is Excessive or Unjustified	17	<1%
- Causes a Financial Hardship	34	<1%
- Reduce level of service to offset cost	1	<1%
- Quality/Level of service does not warrant increase	12	<1%
<b>Total Written Protests Received</b>	<b>134</b>	<b>&lt;1%</b>