County of Los Alamos

Council Meeting Staff Report

August 28, 2018

Agenda No.:	A.
Indexes (Council Goals):	2018 Council Goal – Quality Governance – Operational Excellence – Maintain Quality Essential Services and Supporting Infrastructure Including Updated Enterprise Software and Permitting
Presenters:	Bob Westervelt
Legislative File:	CO0534-18

Title

Incorporated County of Los Alamos Code Ordinance No. 02-288, An Ordinance Amending Chapter 40, Article III, Section 40-201 and 40-202 of the Code of the Incorporated County of Los Alamos Pertaining to the Sewage Service Rate Schedule and Determination of Charges

Recommended Action

I introduce, without prejudice, Incorporated County of Los Alamos Ordinance No. 02-288; An Ordinance Amending Chapter 40, Article III, Section 40-201 and 40-202 of the Code of the Incorporated County of Los Alamos Pertaining to the Sewage Service Rate Schedule and Determination of Charges, **and ask staff to assure that it is published as provided in the County Charter.**

Utilities Manager Recommendation

The Utilities Manager recommends introduction of the ordinance as presented.

Board, Commission or Committee Recommendation

The Board of Public Utilities recommends introduction of the ordinance as presented.

..Body

In July, the Board of Public Utilities heard a preliminary presentation of the proposed Sewer Rate Increase presented for approval. After discussion, the Board approved the ordinance at a public hearing in August.

The ten-year forecast for the sewer utility presented with the FY2018 budget included a series of incremental rate increases to generate revenues needed for current operations and to build cash reserves necessary for future infrastructure replacements, most notably the needed replacement for the White Rock waste water treatment facility. Several alternatives have been considered as to timing of that plant replacement and financing alternatives. While the long-term projection of rate increases in each scenario that was considered were somewhat different, all include a series of rate increases in the coming years. The scenario adopted by the Board included an 8% increase in FY18 and another in FY19, with declining increases in years following. The FY19/20 budget represents implementation of that scenario, updated to reflect current known conditions and financing decisions that have been or are planned for implementation. $2.5 million has been transferred from the Gas fund to the Sewer fund and used to pay down the 2012 NMED Loan that was used to finance the design and construction of the Los Alamos Wastewater Treatment Facility. We are currently working on refinancing that loan at a lower rate and extending the term somewhat to improve cash flow for the utility. The Board has also adopted a financing strategy for the new White Rock plant that strikes a reasonable balance between life of plant, term of loan, and cash flow requirements of the utility. While these actions work together toward allowing some flexibility in terms of future rate increases, staff considers it prudent to move forward with the 8% that was budgeted for FY19 and consider adjusting future rate increases accordingly, if feasible given financial conditions when those rate actions are considered. This ordinance implements that budgeted rate adjustment.

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Attached for reference is the ten-year projection included with the FY19 budget package (Attachment A1), and an updated projection showing the results of the refinancing that is underway and the project plan for the White Rock Treatment Facility (Attachment A2). Also attached is the chart of the longer term financial plan adopted by the Board of Public Utilities in FY18, known as "Plan 20" (Attachment B1), and an update to that plan with those same changes (attachment B2). As shown in the chart of that updated long range forecast (Attachment B3), we are projecting that by moving forward with this budgeted rate adjustment and the planned financing package, we are able to significantly curtail future rate increases, plus achieve our targeted cash balance by FY2023, instead of the FY2034 or FY2035 date previously projected

The monthly sewer bill for residential customers for fiscal years 2017 through 2027 as originally projected in "Plan 20" is provided (Attachment C1), as well as revised projections resulting from this updated financial plan (Attachment C2). As shown, in either case the projected sewer costs remain well below 1% of Los Alamos Median household income, but the trajectory is significantly improved with this revised financial plan. Recent changes in the industry call for including system condition assessment and locality specific economic conditions in assessing affordability, so it is hard to just reference a specific value for comparison, but all assessments staff has been able to generate or reference indicate that sewer costs of less than 1% of median household income would be considered very affordable.

In response to prior discussion, also provided is a comparison of projected annual sewer charges against the much more modest statewide median household income. One should consider our typography and system requirements, the age of our system and known and planned system upgrade and replacement needs in considering if comparing against even this lower economic threshold should be considered affordable.

Finally, Attachment D shows a comparison of Los Alamos' projected residential sewer bill at various consumption quantities with those of nearby communities. Note, the comparison targets communities of similar size or topography. We did not chart the very high Taos ski valley rate as it is such an outlier it would have distorted the scale of the rest of the comparison, but the remaining communities in the table are shown graphically and indicate that with the increase we are still comparable to the most similar cities for which we could obtain data.

Alternatives

As noted above, in all the scenarios that have been considered a series of rate increases are going to be needed to fund necessary operations and replacement of facilities. Because of the actions already taken or underway to strengthen the fund, a lower increase of 4 or 6 percent could be considered. That alternative is not without risk, as the fund, while improved, is still several years away from achieving targeted cash reserves, and with major facilities replacement in the immediate planning horizon it is most prudent to have adequate reserves. This proposal is to proceed with the 8% increase that was budgeted for FY19 to further strengthen the financial position of the utility in anticipation of those major capital expenditures.

Fiscal and Staff Impact

The budgeted 8% increase is expected to generate $318,459 additional revenue annually.

Attachments

A - Ten-year budget projections

1. Original from FY19/20 Budget Book
2. Revised

B - Long Term twenty-five-year financial projections

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1. Original “Plan 20” - Chart
2. Revised - Table
3. Revised - Chart

C - Ten Year projected monthly sewer bill for residential customers

1. As originally projected in “Plan 20”
2. Revised

D - Residential sewer rates - Comparison with similar neighboring communities

E - Incorporated County of Los Alamos Code Ordinance 02-288

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