



## Council Meeting Staff Report

August 17, 2016

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|---------------------------------|----------------|
| <b>Agenda No.:</b>              | 4.B.           |
| <b>Indexes (Council Goals):</b> | BCC - N/A      |
| <b>Presenters:</b>              | Bob Westervelt |
| <b>Legislative File:</b>        | OR0753-16      |

### Title

Incorporated County of Los Alamos Code Ordinance No. 02-287; an Ordinance Amending Chapter 40, Article III, Sections 40-171 and 40-175 of the Code of Ordinances of the Incorporated County of Los Alamos Pertaining to Potable Water Rates and Bulk Delivery Rates

### Recommended Action

**I move that the Board of Public Utilities approve Incorporated County of Los Alamos Code Ordinance No. 02-287 as presented and forward to Council for adoption.**

### Staff Recommendation

Staff recommends the motion be passed as presented.

### Body

At its regular meeting held June 15, 2016, the Los Alamos County Board of Public Utilities held preliminary discussion on the draft water rate ordinance presented here, and was briefed by staff on the budgetary and operational reasons for the proposed rate adjustment. This proposed ordinance (attachment A) is now before the Board for approval and to be forwarded to Council for adoption.

Continuing cool weather with consistent moderate rainfall has created a trend toward reduced water sales. Attachment B shows the historical consumption and the significant decline beginning in fiscal year 2014, which aligns with the noted change in weather patterns. While the DPU used to budget for 1½ percent increases each year, we are now projecting a more conservative constant annual sales quantity of 775,000 kgal, down from prior budget amounts over 880,000 kgal. Even with reduced sales, however, costs of operating and maintaining a complex water production and delivery system continue to increase. As attachment C shows, the DPU has invested almost \$28 million dollars in water system repair, replacement, and improvement projects since 2003. To continue a prudent level of maintenance and replacement with current sales projections, increases in rates are necessary.

In the FY2017 budget we projected a 10 percent increase in both wholesale and retail sales rates. It was recognized during budget formulation that 10 percent may not be enough to stabilize revenue at a level sufficient to support necessary operations and maintenance costs, but water sales are heavily dependent on weather. Rather than propose a higher increase at this time, staff is proposing an increase of 10 percent as budgeted, with continued monitoring of sales and weather projections to determine what future adjustments, if any, will be required.

To validate the necessity of the proposed rate increases, DPU finance staff looked at the assumptions that were used for those budget projections. As shown on Attachment D, the current cash balance projection for water distribution is \$845k lower than was projected when the FY16 budget was adopted. Sales are also lower, currently projected at 704,000 kgal, down from a budget

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projection of 850,000 kgal. As the attachment further shows, a 17.1 percent rate increase would be required to achieve the targeted FY17 year-end cash balance if present sales trends continue. Attachment E shows similar conditions for water production. Future longer term projections indicate that additional increases are likely to be needed to maintain cash at an acceptable level. Again, due to the variability of weather patterns and the close relationship between water sales and weather, staff suggests an incremental approach to rate adjustments is prudent.

Attachment F is a history of residential water rates charged Los Alamos residents back to 1999. As shown, the DPU reduced rates when the water system was transferred to County ownership and operation in 1999, while still maintaining a healthy cash reserve and performing significant infrastructure upgrades and replacement (refer again to Attachment C). Only with the rate action implementing tiered water rates in FY2014 did rates return to levels exceeding those 1999 levels, and only during peak season and at the higher rate tiers. With this proposed rate action, the base rate of \$4.61/kgal represents a 6 ½ percent increase over what residents were paying for water in 1999.

Attachment G is a rate comparison with certain neighboring communities, and further shows that even with this rate increase Los Alamos remains competitive with other New Mexico locations.

### **Alternatives**

The existing rates could be retained, in which case funds would likely be insufficient to perform required and prudent water system maintenance or upgrades and staff would have to focus on the most critical areas to maintain service, rather than continuing a program to improve reliability, consistency in delivery volumes and pressures, and reduction of unaccounted for water (losses). Alternatively, the Board could elect to adopt a more aggressive rate strategy now rather than having to potentially revisit this issue again within the next year or two. Staff's concern and recommendation on this alternative is noted above.

### **Fiscal and Staff Impact**

Staff impact is minimal. With current production and sales projections, the proposed increases would generate an additional \$713k revenue in water distribution and an additional \$333.5k revenue in water production, with approximately \$225k of that coming from the water distribution subfund. Thus the net gain to the utility is \$821,500 overall.

### **Attachments**

- A - Code Ordinance 02-287
- B - DOE and LAC Consumption history
- C - Water system capital improvement summary
- D - Pro Forma ten-year financial forecast, water distribution
- E - Pro Forma ten-year financial forecast, water production
- F - Residential water rate history
- G - Water rate comparison with neighboring communities