

## Council Meeting Staff Report

February 15, 2017

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<b>Agenda No.:</b>	7.C
<b>Indexes (Council Goals):</b>	BCC - N/A
<b>Presenters:</b>	Tim Glasco
<b>Legislative File:</b>	9091-17

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### Title

Discussion of Wastewater Fund Status, Rate and Future Capital Needs

### Recommended Action

**Discussion item only, no recommended motion.**

### Staff Recommendation

Staff recommends delaying construction of the White Rock Wastewater Treatment Plant replacement project until 2020, and implementing wastewater rate increases as discussed.

### Body

#### Background

The flow of wastewater into our treatment plants has been steadily decreasing over at least the past ten years. (See attached graph of wastewater inflows into the LA and WR plants.) As this has occurred, the old original plants the County inherited from the Atomic Energy Commission have reached, and passed, their design life. The County borrowed \$12 million from the New Mexico State Revolving Loan Fund to construct the Los Alamos Wastewater Treatment Plant. Repayment of that loan began in FY09 and added almost \$1 million per year debt service payments to the wastewater budget. Traditionally, the wastewater rate was based on the winter water use average of customers. This approach had several problems, including overall low winter water use due to the unusually high number of people who travel out of the county during the winter months. A 24% adjustment factor was utilized in an attempt to match the low winter water use data to the actual flows entering the plant. Revenue still lagged expenses however, and in 2011 it was decided to change to a flat rate for residential users, and to raise the rate by a series of five 8% annual increases. The last of those increases took effect in July of 2016.

In examining the income statement of the wastewater utility it is apparent that revenues have still not kept up with declining sales and the utility is barely financially solvent. At the present income level, the utility can function, but is not accumulating money to bring reserves up to the amount called for in the DPU financial guidelines adopted by the Board. When payments on the estimated \$14 million loan that will be required to construct the White Rock Wastewater Treatment plant are included, the fund flow into the wastewater utility becomes deeply negative.

The wastewater utility faces two large capital investments in the next five years, replacement of the White Rock Wastewater Treatment Plant and reconfiguring of the Los Alamos Wastewater Treatment Plant to achieve Class 1A effluent. Construction of the new White Rock plant is currently estimated to cost around \$12 million while alteration of the LA plant is estimated at \$3.5 million. Those estimates are in 2017 dollars and according to Engineering News Record, inflation in the construction sector is currently running around 5% per year. Engineering design for those two projects is estimated to cost around \$1.5-2 million. All this means that the wastewater utility will incur an additional \$17 million in debt by the time these projects are finished. Debt service for that loan will run approximately \$1.1 million per year. The loan for the LA plant will be paid off in 2029, so between construction of the WR plant and final payment on the LA plant loan we will be facing double debt

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service payments. To put this into perspective, the total wastewater expenditure for FY18 is projected to be \$4.6 million dollars, which includes \$1.1 million in existing debt service. Considering an \$1.1 million in debt service added in, the expenditures would rise to \$5.7 million with \$2.2 million, or 39% of all expenses, going to debt service.

If the design and construction of the WR plant is delayed until FY20 and 21, and a rate increase of 8% for FY2018, followed by lesser increases in the following six years is pursued, then the fund will be allowed to grow and be in a condition to absorb the additional debt. The present WR plant just received a new NPDES permit that is good for another 5 years, so waiting another 3 years to begin design should not have any negative permit enforcement issues. Given the present state of wastewater fund, it is highly unlikely that a loan for construction of a new plant could be secured until significant rate increases are in place.

#### **Alternatives**

Institute one large 25% rate increase and proceed with design and construction of the WRWWTP in FY19, followed by additional outyear more moderate increases.

Replace failing equipment at the WRWWTP and continue with the trickling filter process until the LA plant note is paid off. (Note this will in all probability not be feasible due to expected NPDES permit actions).

Consider other scenarios for the sequence of rate increases.

#### **Fiscal and Staff Impact**

No staff impact.

#### **Attachments**

A - Graph of Wastewater Flows in the White Rock and LA Wastewater Treatment Plants

B - Wastewater Fund Financial Flow Spreadsheet