

Council Meeting Staff Report

June 27, 2017

Agenda No.:	B.
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:	CO0490-17

Title

Incorporated County of Los Alamos Code Ordinance No. 02-275, An Ordinance Amending Chapter 40, Article III, Sections 40-171 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Potable Water Rates and Bulk Delivery Rates

Recommended Action

I introduce, without prejudice, Incorporated County of Los Alamos Code Ordinance No. 02-275, An Ordinance Amending Chapter 40, Article III, Sections 40-171 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Potable Water Rates and Bulk Delivery Rates, and ask the staff to assure that it is published as provided in the County Charter.

Utilities Manager Recommendation

The Utilities Manager recommends that Council introduce the ordinance as presented.

Board, Commission or Committee Recommendation

The Board of Public Utilities recommends that Council introduce the ordinance presented.

Body

The ten-year forecast for the water utility presented with the FY2018 budget includes a series of incremental rate increases to generate revenues needed for current operations and to build cash reserves necessary for future infrastructure needs. Over the course of several meetings of the Board of Public Utilities in the fall of 2016 several alternative scenarios were considered. After discussion, “scenario 40” was selected as the most reasonable balance between increased rates and necessary system expenditures, and was the foundation upon which the ten-year budgetary projection was based. An 8% increase in both retail and wholesale sales is proposed. These rate increases were included in the FY2018 budget, and are proposed for implementation effective with our customer’s first billing period beginning after August 1st, 2017.

The proposed water rate ordinance is attached as Attachment A.

Water Distribution and Water Production are separate “sub funds” of the Water Utility. Starting when the water system was transferred from the DOE in 1998, wholesale water rates have been designed to provide for future well replacements, so the Water Production sub-fund has always maintained a significant cash balance. As has been discussed previously, over the past several years the DPU overestimated anticipated distribution system sales, resulting in revenues in DW less than budgeted. Capital replacement projects meanwhile were budgeted and executed based on those higher sales projections. The result is that cash reserve balances in the DW sub-fund are now significantly less than needed to satisfy policy targets and to fund upcoming capital replacement work.

In the last two years, we have adjusted downward the projected sales quantities and curtailed those projects that were not essential. This and future proposed rate actions should restore cash flow to an acceptable level. While it may take some time to reach our target levels in the Water Utility overall,

this plan will provide adequate funding for necessary repairs and replacements and continuing operations. Cash reserves will also increase to our target levels within a reasonable time frame, as shown on the charts attached.

Attachments B1, B2, and B3 show the cash flow projections for the scenario endorsed by the BPU. These charts show several important financial data points, most notably revenues compared to O&M plus capital expenditures, a running total of the estimated cash balance, and a representation of the required cash balance per our financial targets in each year. Note, the ideal is where the actual cash balance equals the required cash balance, and this comparison can readily be discerned on each graph. B1 is for WP by itself, B2 is for DW by itself, and B3 is for the water system overall.

Attachment C1 shows a comparison of Los Alamos' projected annual residential water bill with those of nearby communities, using 6,000 gallons as a representative consumption quantity. Attachment C2 shows a comparison of monthly bills with the same communities, but at various consumption quantities. Both show that after the proposed increase Los Alamos remains competitive with its neighboring communities.

Attachment D shows the longer-term rate projections included in the first ten years of "scenario 40", and includes the amount of the projected annual increase per household.

Alternatives

Several alternative financial scenarios were presented and discussed by the BPU last fall. Council could choose to remand this back to the BPU to reconsider any of those scenarios as an alternative to the proposal presented here. As noted above, in all the scenarios discussed a series of rate increases are going to be needed to fund necessary operations and replacement of facilities through rates. Other scenarios could be considered with more significant rate increases being implemented to fund more rapid system upgrades. If no action is taken, we would have to continue to curtail maintenance and replacements and system reliability would eventually suffer.

Fiscal and Staff Impact/Planned Item

The budgeted 8% increase is expected to generate \$771,183 additional revenue annually.

Attachments

A - Incorporated County of Los Alamos Code Ordinance No. 02-275

B - Cash Flow Projections for twenty year period

1. Water Production
2. Water Distribution
3. Water Utility Total

C - FY2018 Comparison to similar neighboring communities

1. Annual, using 6,000 gallons average monthly consumption
2. Monthly at various consumption quantities

D - Ten-year rate projections under "Scenario 40" and annual impact on average residential customer.

E - Water rate history