



Council Meeting Staff Report

April 2, 2019

Agenda No.:	B.
Indexes (Council Goals):	* 2019 Council Goal - Investing in Infrastructure
Presenters:	Bob Westervelt
Legislative File:	CO0545-18b

Title

Incorporated County of Los Alamos Code Ordinance No. 02-294; An Ordinance Amending Chapter 40, Article III, Sections 40-171, 40-173 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Potable and Non-Potable Water Rates and Bulk Delivery Rates

Recommended Action

I move that Council adopt Incorporated County of Los Alamos Code Ordinance No. 02-294; An Ordinance Amending Chapter 40, Article III, Sections 40-171, 40-173 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Potable and Non-Potable Water Rates and Bulk Delivery Rates; and ask staff to assure that it is published in summary form.

Utilities Manager Recommendation

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

Board, Commission or Committee Recommendation

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

Body

This proposed water rate adjustment is in accordance with the long-range financial sustainability plan for the water utility that has been under discussion for the past two years. The rate adjustment was presented in detail and discussed by the Board of Public Utilities at its regular meeting in January 2019 and approved on February 20, 2019. The following staff report is a representation of the details presented at the preliminary discussion. As requested, the attachments have been updated to include affordability assessments for Los Alamos average household income, and New Mexico average household income as well.

The ten-year forecast for the water utility presented with the FY2019/20 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 with the Board of Public Utilities in the fall of 2016, several alternative scenarios were considered. After discussion, a rate scenario was selected that was determined to achieve the most reasonable balance between increased rates and necessary system expenditure. This scenario is the foundation upon which the ten-year budgetary projection is now based. A 6.25% increase in both retail and wholesale sales is proposed, plus an increase from \$2.50 to \$2.66 per 1000 gallons for non-potable water sales. The increase for water distribution was included in the FY2019 budget. Although presented to the Board as part of the long-term rate structure, the increases proposed for water production and non-potable were not initially included in the 2019 budget. It is proposed here to include increases for the Production and Non-Potable sub funds to maintain financial viability. The increases are proposed for implementation effective with our customer's first billing period beginning after April 1st, 2019. The ten-year projections for Water Distribution and Water Production are provided as attachments B and C, respectively.

The proposed ordinance is provided as Attachment A.

This and future proposed rate actions should establish a cash flow that covers operations and maintenance, with a modest amount of annual capital replacement spending. In the Water Utility overall this plan will also provide for movement toward our long-term cash reserve goals.

While we have seen some significant rate increases in recent years, and additional more modest increases are projected in the long-range plan, Los Alamos remains affordable and competitive. Attachment D 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 E 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 F shows the longer-term rate projections included in the first ten years and includes the dollar amount of the projected annual increase per household. Total utilities costs is another important measure, and is displayed for the same time frame in attachment G.

Alternatives

Several alternative financial scenarios were presented and discussed by the Board in 2016. In addition, staff has updated some of the information previously presented and will be presenting updated alternative financial scenarios at future BPU meetings. Any of those paths forward could be considered 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. If no action is taken, DPU would have to curtail some scheduled replacements and system reliability would eventually suffer.

Fiscal and Staff Impact/Planned Item

The budgeted 6.25% increase is expected to generate \$254,829 additional revenue in Water Distribution, \$79,233 additional revenue for wholesale sales to external parties, and \$14,464 additional Non-Potable revenue annually.

Attachments

- A - Code Ordinance 02-294: Water Rates
- B - FY19 10-Year Budget Projections - Water Distribution
- C - FY19 10-Year Budget Projections - Water Production and Non-Potable
- D - FY19 Comparisons to Similar Communities - Annual, using 6,000 gallons average monthly consumption
- E - FY19 Comparisons to Similar Communities - Monthly at various consumption quantities
- F - Annual impact on average residential customer for water only
- G - Projected average residential total utilities cost projections
- H - Public Hearing Notice