



# County of Los Alamos

Los Alamos, NM 87544  
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## Council Meeting Staff Report

September 18, 2019

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<b>Agenda No.:</b>	7.B
<b>Indexes (Council Goals):</b>	* 2019 Council Goal - Investing in Infrastructure, * 2019 Council Goal - Planning for Appropriate Levels of County Services
<b>Presenters:</b>	Jack Richardson
<b>Legislative File:</b>	12223-19

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### Title

Preliminary Discussion - Water and Sewer Rate Adjustments

### Recommended Action

N/A - Discussion item only

### Staff Recommendation

N/A - Discussion item only

### Body

The ten-year forecast for the water and sewer utilities presented with the FY2020 budget included a series of incremental rate increases to generate revenues needed for current operations and to build cash reserves necessary for future infrastructure needs. In 2016 (sewer) and 2018 (water) several alternative long-term scenarios for both systems were prepared by staff and presented for Board consideration. After discussion, scenarios were selected that represent the most reasonable balance between increased rates and necessary system expenditures and have been the foundation upon which the ten-year budgetary projections have been based.

For this preliminary discussion of proposed FY20 rate ordinances, both sewer and water rate adjustments are being presented together. When considered for adoption, the ordinances will be presented separately. Both proposed ordinances are attached herewith for discussion.

As noted previously, the long-range plan for both systems incorporates a series of modest rate increases over several fiscal years. This approach helps consumers adjust to increasing costs over time but provides adequate funding for planned initiatives in each year. The rate trajectory was considered in the long-range proposals discussed in 2016 and 2018, and has been reviewed each year since. There have been some opportunities taken advantage of, such as the refinancing of existing debt in the sewer utility and the one-time transfer of excess funds from the gas utility to the sewer utility. The long-range projections have been adjusted as appropriate to account for these actions, and to reflect actual operational experience since first implemented. In the presentation attached and presented this evening we show those adjusted long-range plans and highlight the rate trajectories included in our budgets, and the resulting cash position in relation to adopted cash targets. Staff now feels confident the short to mid-term rate trajectory proposed in the FY2020 budget are appropriate for the three-year horizon and is thus proposing a multi-year rate adjustment at this time. Three years projected rate increases are included in both rate ordinances proposed.

The advantages to implementing the multi-year proposal are numerous. Most importantly, it provides for the rate adjustments to become effective with the beginning of each fiscal year. With the current rate adjustment process, that is difficult to accomplish, and rates typically have been enacted several

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months after the beginning of a fiscal year, which means that projected revenues for those first several months are not realized. Doing a multi-year incremental rate adjustment also allows planned revenues to match the timing of planned expenditures, rather than accumulating excess cash early on for expenditure in a later period. Further, it allows our customers to plan and budget for future anticipated utilities costs, rather than experience the “rate shock” of unanticipated rate increases on a more frequent basis. It also allows for adjustment, if operational experience necessitates that. Should it become apparent that the rates proposed are either not achieving the revenue requirements of the systems, or are exceeding them, there is no reason why they could not be adjusted in the interim, but this multi-year proposal provides for seamless and timely implementation of the rate projections should future actuals tie within reasonable variation to budget projections.

Included in the presentation are the rate comparisons with neighboring and similar communities, costs as a percentage of median household income, and long-term utilities costs projections normally presented with proposed rate adjustments. These continue to demonstrate that even with the challenges of our complicated system and mountainous terrain, consumer costs for these services remain competitive and reasonable for our community.

This and future proposed rate actions should restore cash flow to an acceptable level in both systems. 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 and provide for movement toward our long-term cash reserve goals. In the sewer utility, through the specific actions mentioned previously, projections are that we will achieve target cash reserves by 2023, much earlier than previously anticipated. Once achieved, it is anticipated that rate adjustments simple to account for inflation will suffice for the foreseeable future.

## **Alternatives**

Several alternative financial scenarios were presented and discussed by the Board in previous discussions. In addition, Jack Richardson, Deputy Manager of Water Production and Distribution, has updated some of that information previously presented for presentation to the Board here this evening. 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. Other scenarios could be considered with more significant rate increases being implemented to fund more rapid system upgrades, or funding sources other than rates could be considered. If no action is taken, we would have to continue to curtail maintenance and replacements and system reliability will suffer.

## **Fiscal and Staff Impact/Planned Item**

The budgeted increases are expected to generate \$258,029 additional revenue in Water Distribution in FY20, \$230,291 additional revenue in FY21, and \$225,956 additional revenue in FY22. In Water Production additional revenue for wholesale sales to external parties is projected at \$67,500; \$60,000; and \$60,000 for FYs 20, 21, and 22 respectively, and approximately \$14,000 additional Non-Potable revenue annually. In the sewer utility, additional revenues of \$279,939; \$158,004; and \$118,502 are projected in FY20, 21, and 22 respectively.

## **Attachments**

- A - Staff presentation - FY2020 Water and Wastewater Proposed rate Adjustments
- B - Code Ordinance 02-298 - Sewer Rates
- C - Code Ordinance 02-299 - Water Rates