

## Council Meeting Staff Report

October 29, 2019

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<b>Agenda No.:</b>	B.
<b>Indexes (Council Goals):</b>	* 2019 Council Goal - Planning for Appropriate Levels of County Services
<b>Presenters:</b>	Bob Westervelt
<b>Legislative File:</b>	CO0566-19

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### Title

Incorporated County of Los Alamos Code Ordinance No. 02-298; An Ordinance Amending Chapter 40, Article III, Sections 40-201 and 40-202 of the Code of the Incorporated County of Los Alamos Pertaining to the Sewage Service Rate Schedule and Determination of Charges

### Recommended Action

**I introduce, without prejudice, Incorporated County of Los Alamos Code Ordinance No. 02-298; An Ordinance Amending Chapter 40, Article III, Sections 40-201 and 40-202 of the Code of the Incorporated County of Los Alamos Pertaining to the Sewage Service Rate Schedule and Determination of Charges, and ask staff to assure that it is published as provided in the County Charter.**

### Utilities Manager Recommendation

The Utilities Manager recommends introduction of the ordinance as presented.

### Board, Commission or Committee Recommendation

The Board of Public Utilities recommends introduction of the ordinance as presented.

### Body

The ten-year forecast for the sewer utility 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 several alternative long-term scenarios 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. That 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 has been reviewed and adjusted each year since. There have been some opportunities taken advantage of, such as the refinancing of existing debt for the Los Alamos Treatment Facility 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 at least and is thus proposing a multi-year rate adjustment at this time. Three years projected rate increases are included in the rate ordinances proposed.

The advantages to implementing the multi-year proposal are numerous. Importantly, it provides for the rate adjustments to be programmed into the two-year county budget cycle. With the current rate adjustment process, that is difficult to accomplish, and rates typically have been enacted several 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

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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. Enacting a multi-year ordinance in no way limits the Board from later proposing another ordinance to change rates, either up or down, during that three-year period if operational experience necessitates such action. 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. This multi-year proposal simply provides for seamless and timely implementation of the rate projections should future results tie within reasonable variation to budget projections.

Included in the presentation attached as Exhibit A 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 sewer services remain competitive and reasonable for our community.

The proposed rates should restore cash flow to an acceptable level in the sewer systems and 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 simply to account for inflation will suffice for the foreseeable future.

In the weeks since the initial Board discussion, staff has conducted considerable public outreach. In addition to the public notices required for consideration of an ordinance, a 90-minute documentary produced by Penn State Public Broadcasting, “Liquid Assets - The Story of our Water Infrastructure” was advertised and aired six times on PAC-8. This documentary highlights the critical role water, sewer and storm water infrastructure plays in safeguarding quality of life nationwide. While the documentary doesn’t specifically address Los Alamos, it is relevant to our community. In addition, staff hosted two public meetings, one in White Rock and one in Los Alamos, at which an abbreviated, sixteen minute version of the documentary was presented, as well as numerous “story boards” showing our condition assessment, historical system maintenance and upgrade expenditures, and the status of our financial position in relation to targets, and how and why those targets were determined. We also covered “frequently asked questions” and took notes of other questions that came up for further discussion. The materials presented at those meetings, as well as the “FAQ” are attached herewith as Exhibits B and C. Also, the FAQ’s has information about the Utility Assistance Program that qualified customers may apply for assistance with aid.

The Proposed ordinance is attached as Exhibit D.

### **Alternatives**

Several alternative financial scenarios were presented and discussed by the Board in previous discussions. In addition, Jack Richardson, Deputy Manager of Gas, Water and Sewer, has updated some of the 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**

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The budgeted increases are expected to generate additional revenues of \$279,939; \$158,004; and \$118,502 in FY20, 21, and 22 respectively.

**Attachments**

- A. Staff presentation - FY2020 Proposed Sewer Rate Adjustments
- B. Story Boards from Public Meetings
- C. Frequently Asked Questions and Answers
- D. Code Ordinance 02-298 - Sewer Rates