

Council Meeting Staff Report

January 19, 2022

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| Agenda No.: | 5.A. |
| Indexes (Council Goals): | DPU FY2022 - 2.0 Achieve and Maintain Excellence in Financial Performance |
| Presenters: | Philo Shelton; Heather Garcia |
| Legislative File: | CO0624-21-b |

Title

Incorporated County of Los Alamos Code Ordinance No. 02-325; 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 move that the Board of Public Utilities approve Incorporated County of Los Alamos Code Ordinance No. 02-325; 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 forward to Council for adoption.

Staff Recommendation

Staff recommends approval of the motion as presented.

Body

In 2016 with anticipation of needing to replace the White Rock Wastewater Treatment Plant, several alternative long-term rate scenarios were prepared by staff and presented for Board consideration. After discussion, scenarios were selected that represented 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. 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 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. The prior ten-year forecast for the sewer utility presented with the FY2022 budget did not include rate increases for years FY2023 through FY2031. However, in October 2021, DPU received two bids for Bid No. IFB 22-27 for the purpose of the White Rock Water Resource Reclamation Facility (WRRF) Construction Project, that well exceeded the engineer's estimate and budget authority for the project, which necessitated increasing the loan principal from \$17 million to \$30 million. BPU needs to consider a multi-year rate increase to cover the additional repayment of principal and interest on the 30-year loan. The anticipated increase in principal and interest payments is approximately \$611,000 annually over the term of the 30-year loan.

In the graph attached we show those adjusted long-range plans and highlight the rate trajectories included in DPU budgets, and the resulting cash position in relation to adopted cash targets. Four years at 2% per year projected rate increases are included in the proposed rate ordinance to maintain sufficient revenues to cover the anticipated principal and interest loan repayments. In future years, the graph shows a slightly higher rate trajectory at 2.5% per year that may be necessary. At completion of the WRRF in the next two years, DPU can seek to refinance the current loan if lower loan rates are available. Should lower loan repayments be available through refinancing, the rate increase trajectory should be revisited at that time.

The advantages to implementing the multi-year proposal are numerous. It allows our customers to plan and budget for future anticipated utilities costs in increments, rather than experience the “rate shock” of unanticipated rate increases on a more frequent basis. Forecasted revenues are also set in a multi-year plan, providing the utility with a known budget for the planned period. This can act as a catalyst for creative solutions for cost saving measures and stability with capital improvement plans. 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 four-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 with the staff report, Exhibit C, 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 topography, consumer costs for sewer services remain competitive and reasonable for our community.

The proposed rates should hold cash flow to an acceptable level in the sewer systems and provide adequate funding for financing the White Rock Water Resource Reclamation Facility, necessary repairs and replacements, continuing operations, and provide for movement toward our long-term cash reserve goals, provided that projected increases to capital and material costs stabilize. In the sewer utility, through the specific actions mentioned previously, projections are that we will maintain target cash reserves, while covering increased costs. With the previously implemented rate increases presented in FY2020, it is anticipated that incremental rate adjustments will continue to account for inflation for the foreseeable future.

Alternatives

As noted above, 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. Additionally, if progress is not made to bring the wastewater plant into compliance with the EPA discharge permit limits, there is a potential to incur fines from EPA.

Fiscal and Staff Impact

The budgeted increases are expected to generate additional revenues of \$131,508; \$263,439; \$398,702; and \$536,244 in FY23, 24, 25, and 26 respectively.

Attachments

- A - Code Ordinance 02-325 - Sewer Rates
- B - Wastewater Fund - Revenue Expense Cash Balance Graph
- C - Projected Bills and Rate Comparisons