



**ACTION SHEET**  
**CITY COUNCIL COMMITTEE MEETING OF 10/08/14**  
**ITEM FROM FINANCE COMMITTEE MEETING OF 09/29/14**

**ISSUE:**

15. Request for Approval of an Ordinance Relating to Sewer Service Charges – Amending Rule 8 of Exhibit A of Chapter 22 SFCC 1987 to Increase the Monthly Service Fee and Monthly Usage Fee for the Wholesale Rate; Relating to Extra-Strength Surcharges – Amending Rule 12 of Exhibit A of Chapter 22 SFCC 1987 to Increase the Mass Base Charge; and Making Such Other Changes as are Necessary. (Councilor Ives) (Bryan Romero)

**Committee Review:**

Public Utilities Committee (scheduled)	10/01/14
City Council (request to publish)	10/08/14
City Council (public hearing)	11/12/14

Fiscal Impact – Yes

**FINANCE COMMITTEE ACTION: APPROVED AS DISCUSSION ITEM**

**FUNDING SOURCE:**

**SPECIAL CONDITIONS OR AMENDMENTS**

**STAFF FOLLOW-UP:**

<b>VOTE</b>	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
COUNCILOR TRUJILLO	X		
COUNCILOR RIVERA	X		
COUNCILOR LINDELL	X		
COUNCILOR MAESTAS	Chair		
CHAIRPERSON DOMINGUEZ	Excused		

3-17-14

**ACTION SHEET**  
**PUBLIC UTILITES COMMITTEE MEETING OF 10/1/14**

**ISSUE NO. 15**

Request for approval of Bill No. 2014-\_\_\_\_. An ordinance relating to sewer service charges – amending rule 8 of Exhibit A of Chapter 22 SFCC 1987 to increase the monthly service fee and monthly usage fee for the wholesale rate; relating to extra-strength surcharges – amending rule 12 of Exhibit A of Chapter 22 SFCC 1987 to increase the mass base charge; and making such other changes as are necessary. (Bryan Romero) (Councilor Ives)

Public Utilities Committee – 10/1/14  
 Finance Committee – 9/29/14  
 City Council (Request to Publish) – 10/8/14  
 City Council (Public Hearing) – 11/12/14

**PUBLIC UTILITES COMMITTEE ACTION: Approved to forward to 10/8/14 City Council.**

**SPECIAL CONDITIONS OR AMENDMENTS:**

**STAFF FOLLOW UP:**

VOTE:	FOR	AGAINST	ABSTAIN
COUNCILOR RIVERA, CHAIR	X		
COUNCILOR MAESTAS	X		
COUNCILOR BUSHEE	Absent		
COUNCILOR DIMAS	X		
COUNCILOR IVES	Absent		

# City of Santa Fe, New Mexico

# memo

**DATE:** September 17, 2014

**TO:** Public Utilities Committee/Finance Committee/City Council

**FROM:** Bryan Romero, Acting Director, Wastewater Management Division *B/A*

**VIA:** Nick Schiavo, Public Utilities Department and Water Division Director *NSA*

**ITEM AND ISSUE:**

Review and approval for publication and public hearing of a Bill relating to sewer service charges – amending rule 8 of exhibit A of Chapter 22 SFCC 1987 to increase the monthly service fee and monthly usage fee for the wholesale rate; relating to extra-strength surcharges – amending Rule 12 of Exhibit A of Chapter 22 SFCC 1987 to increase the mass base charge; and making other such changes as are necessary.

**BACKGROUND AND SUMMARY:**

On April 2, 2014, a presentation was given to the Public Utilities Committee on the Financial Plan Update for the Wastewater Management Division. At this meeting, MWH, Inc, City's Utility Financial Consultant, presented the Financial Plan Update that demonstrated that a rate increase is needed for the next five (5) years. Below is an excerpt from the Financial Plan Update Report that summarizes some factors that have translated into the need for an increase to rates.

“In recent years, the Wastewater Division has seen a decrease in retail rate revenues. This loss in revenue has been from decreased billed usage and changes in retail customer structures. Since FY 2010-11, billed usage has decreased by 2.4% annually. In FY 2012-13, the Wastewater Division lost \$0.3 million in effluent revenues due to the loss of Las Campanas. In the same year, 700 retail customers were transferred to Santa Fe County and are no longer considered retail customers. All of these developments, along with the need to meet debt service coverage requirements and increasing CIP costs have created the need for five years of rate adjustments at 4.9%.” (MWH, Consultants, “Water, Wastewater, and Environmental Services Financial Plan Report”, June 2, 2014).

Attached is a Memorandum from MWH, Inc. summarizing the need for the increase, a power presentation and the Financial Plan Update Report presented at the April 2, 2014 meeting that provides detailed information related to the rate increase.

In conclusion, it is imperative that the wastewater rates be adjusted in order to continue operating the Wastewater Treatment Plant and the sanitary sewer system as well as meeting bonding obligations.

**ACTION REQUESTED:**

Review and approval of the attached bill for publication and public hearing.

Attachment – Financial Impact Report  
Sewer Rate Bill  
MWH Memorandum date 9-2-14  
Power Point Presentation  
Financial Plan Update

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**CITY OF SANTA FE, NEW MEXICO**

**BILL NO. 2014-29**

**INTRODUCED BY:**

Councilor Peter Ives

**AN ORDINANCE**

**RELATING TO SEWER SERVICE CHARGES – AMENDING RULE 8 OF EXHIBIT A OF CHAPTER 22 SFCC 1987 TO INCREASE THE MONTHLY SERVICE FEE AND MONTHLY USAGE FEE FOR THE WHOLESALE RATE; RELATING TO EXTRA-STRENGTH SURCHARGES – AMENDING RULE 12 OF EXHIBIT A OF CHAPTER 22 SFCC 1987 TO INCREASE THE MASS BASE CHARGE; AND MAKING SUCH OTHER CHANGES AS ARE NECESSARY.**

**BE IT ORDAINED BY THE GOVERNING BODY OF THE CITY OF SANTA FE:**

**Section 1. Rule 8 A. of Exhibit A of Chapter 22 SFCC 1987 (being Ord. #1997-3, Exhibit A, as amended) is amended to read:**

**8. Sewer Service Charges.**

**A. Connected to City Sewer**

**1. Single Family Residential Sewer Service Fees and Usage Fees.**

Single family residential sewer service fees and usage fees shall apply if a sewer customer is served by city water and meets the single family

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

service classification for water as set forth in Chapter 25 SFCC 1987. If not served by city water, single family residential sewer service fees and usage fees shall apply where the sewer connection serves only one unit\* for normal domestic sewage.

a. *In city limits:*

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.58 per 1000 gallons of water**
July 1, 2012	Not connected to city water	\$5.85/unit*	\$12.88/unit*

b. *Inside presumptive city limits:*

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.84 per 1000 gallons of water**
July 1, 2012	Not connected to city water	\$5.85/unit*	\$13.82/unit*

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

c. In city limits and presumptive city limits:

<u>Effective Date</u>		<u>Monthly Service Fee</u>	<u>Monthly Usage Fee</u>
<u>January 1, 2015</u>	<u>Connected to city water</u>	<u>\$6.22/unit*</u>	<u>\$3.82 per 1000 gallons of water**</u>
<u>January 1, 2015</u>	<u>Not connected to city water</u>	<u>\$6.22/unit*</u>	<u>\$13.75/unit*</u>
<u>January 1, 2016</u>	<u>Connected to city water</u>	<u>\$6.52/unit*</u>	<u>\$4.01 per 1000 gallons of water**</u>
<u>January 1, 2016</u>	<u>Not connected to city water</u>	<u>\$6.52/unit*</u>	<u>\$14.43/unit*</u>
<u>January 1, 2017</u>	<u>Connected to city water</u>	<u>\$6.84/unit*</u>	<u>\$4.21 per 1000 gallons of water**</u>
<u>January 1, 2017</u>	<u>Not connected to city water</u>	<u>\$6.84/unit*</u>	<u>\$15.16/unit*</u>
<u>January 1, 2018</u>	<u>Connected to city water</u>	<u>\$7.18/unit*</u>	<u>\$4.42 per 1000 gallons of water**</u>
<u>January 1, 2018</u>	<u>Not connected to city water</u>	<u>\$7.18/unit*</u>	<u>\$15.90/unit*</u>
<u>January 1, 2019</u>	<u>Connected to city water</u>	<u>\$7.53/unit*</u>	<u>\$4.64 per 1000 gallons of water**</u>
<u>January 1, 2019</u>	<u>Not connected to city water</u>	<u>\$7.53/unit*</u>	<u>\$16.70/unit*</u>

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

[e]d. *Outside presumptive city limits:*

<i>Customer Wholesale Rate for Santa Fe County</i>			
<b>Effective Date</b>		<b>Monthly Service Fee</b>	<b>Monthly Usage Fee</b>
January 1, 2014	Connected to county water	\$4.29/unit*	\$3.95 per 1000 gallons of water**
January 1, 2014			
<u>January 1, 2015</u>	<u>Connected to county water</u>	<u>\$4.48/unit*</u>	<u>\$3.95 per 1000 gallons of water**</u>
<u>January 1, 2015</u>	<u>Not connected to county water</u>	<u>\$4.48/unit*</u>	<u>\$14.22/unit*</u>
<u>January 1, 2016</u>	<u>Connected to county water</u>	<u>\$4.70/unit*</u>	<u>\$4.14 per 1000 gallons of water**</u>
<u>January 1, 2016</u>	<u>Not connected to county water</u>	<u>\$4.70/unit*</u>	<u>\$14.92/unit*</u>
<u>January 1, 2017</u>	<u>Connected to county water</u>	<u>\$4.93/unit*</u>	<u>\$4.34 per 1000 gallons of water**</u>
<u>January 1, 2017</u>	<u>Not connected to county water</u>	<u>\$4.93/unit*</u>	<u>\$15.62/unit*</u>
<u>January 1, 2018</u>	<u>Connected to county water</u>	<u>\$5.17/unit*</u>	<u>\$4.55 per 1000 gallons of water**</u>
<u>January 1, 2018</u>	<u>Not connected to county water</u>	<u>\$5.17/unit*</u>	<u>\$16.39/unit*</u>
<u>January 1, 2019</u>	<u>Connected to county water</u>	<u>\$5.42/unit*</u>	<u>\$4.77 per 1000 gallons of water**</u>
<u>January 1, 2019</u>	<u>Not connected to county water</u>	<u>\$5.42/unit*</u>	<u>\$17.17/unit*</u>

2. Multi-Family Residential Sewer Service:

The following sewer service fees and usage fees shall apply if a sewer customer is served by city water and meets the multi-family residential service classification for water as set forth in Chapter 25 SFCC 1987. If not served by city water, multi-family residential sewer service fees and usage fees shall apply where the sewer connection serves more than one

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

unit\* for normal domestic sewage.

a. *In city limits:*

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.58 per 1000 gallons of water**
July 1, 2012	Not connected to city water	\$5.85/unit*	\$12.88/unit*

b. *Inside presumptive city limits:*

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.84 per 1000 gallons of water**
July 1, 2012	Not connected to city water	\$5.85/unit*	\$13.82/unit*

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

c. In city limits and presumptive city limits:

<u>Effective Date</u>		<u>Monthly Service Fee</u>	<u>Monthly Usage Fee</u>
<u>January 1, 2015</u>	<u>Connected to city water</u>	<u>\$6.22/unit*</u>	<u>\$3.82 per 1000 gallons of water**</u>
<u>January 1, 2015</u>	<u>Not connected to city water</u>	<u>\$6.22/unit*</u>	<u>\$13.75/unit*</u>
<u>January 1, 2016</u>	<u>Connected to city water</u>	<u>\$6.52/unit*</u>	<u>\$4.01 per 1000 gallons of water**</u>
<u>January 1, 2016</u>	<u>Not connected to city water</u>	<u>\$6.52/unit*</u>	<u>\$14.43/unit*</u>
<u>January 1, 2017</u>	<u>Connected to city water</u>	<u>\$6.84/unit*</u>	<u>\$4.21 per 1000 gallons of water**</u>
<u>January 1, 2017</u>	<u>Not connected to city water</u>	<u>\$6.84/unit*</u>	<u>\$15.16/unit*</u>
<u>January 1, 2018</u>	<u>Connected to city water</u>	<u>\$7.18/unit*</u>	<u>\$4.42 per 1000 gallons of water**</u>
<u>January 1, 2018</u>	<u>Not connected to city water</u>	<u>\$7.18/unit*</u>	<u>\$15.90/unit*</u>
<u>January 1, 2019</u>	<u>Connected to city water</u>	<u>\$7.53/unit*</u>	<u>\$4.64 per 1000 gallons of water**</u>
<u>January 1, 2019</u>	<u>Not connected to city water</u>	<u>\$7.53/unit*</u>	<u>\$16.70/unit*</u>

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

[e]d. Outside presumptive city limits:

<i>Customer Wholesale Rate for Santa Fe County</i>			
<b>Effective Date</b>		<b>Monthly Service Fee</b>	<b>Monthly Usage Fee</b>
January 1, 2014	Connected to county water	\$4.29/unit*	\$3.95 per 1000 gallons of water**
January 1, 2014	Not connected to county water	\$4.29/unit*	\$14.22/unit*
<u>January 1, 2015</u>	<u>Connected to county water</u>	<u>\$4.48/unit*</u>	<u>\$3.95 per 1000 gallons of water**</u>
<u>January 1, 2015</u>	<u>Not connected to county water</u>	<u>\$4.48/unit*</u>	<u>\$14.22/unit*</u>
<u>January 1, 2016</u>	<u>Connected to county water</u>	<u>\$4.70/unit*</u>	<u>\$4.14 per 1000 gallons of water**</u>
<u>January 1, 2016</u>	<u>Not connected to county water</u>	<u>\$4.70/unit*</u>	<u>\$14.92/unit*</u>
<u>January 1, 2017</u>	<u>Connected to county water</u>	<u>\$4.93/unit*</u>	<u>\$4.34 per 1000 gallons of water**</u>
<u>January 1, 2017</u>	<u>Not connected to county water</u>	<u>\$4.93/unit*</u>	<u>\$15.62/unit*</u>
<u>January 1, 2018</u>	<u>Connected to county water</u>	<u>\$5.17/unit*</u>	<u>\$4.55 per 1000 gallons of water**</u>
<u>January 1, 2018</u>	<u>Not connected to county water</u>	<u>\$5.17/unit*</u>	<u>\$16.39/unit*</u>
<u>January 1, 2019</u>	<u>Connected to county water</u>	<u>\$5.42/unit*</u>	<u>\$4.77 per 1000 gallons of water**</u>
<u>January 1, 2019</u>	<u>Not connected to county water</u>	<u>\$5.42/unit*</u>	<u>\$17.17/unit*</u>

3. Commercial Sewer Service:

The following sewer service fees and usage fees shall apply where the water meter(s) serves a use not classified as single family residential or multi-family residential sewer service set forth above or where service is provided for a combination of residential and commercial services.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

a. *In city limits:*

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.58 per 1000 gallons of water***
July 1, 2012	Not connected to city water	\$5.85/unit*	\$12.88/unit*

b. *Inside presumptive city limits:*

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.84 per 1000 gallons of water***
July 1, 2012	Not connected to city water	\$5.85/unit*	\$13.82/unit*

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

c. In city limits and presumptive city limits:

Effective Date		Monthly Service Fee	Monthly Usage Fee
January 1, 2010	Connected to city water	\$5.85/unit*	\$3.58 per 1000 gallons of water***
July 1, 2012	Not connected to city water	\$5.85/unit*	\$12.88/unit*
<u>January 1, 2015</u>	<u>Connected to city water</u>	<u>\$6.22/unit*</u>	<u>\$3.82 per 1000 gallons of water***</u>
<u>January 1, 2015</u>	<u>Not connected to city water</u>	<u>\$6.22/unit*</u>	<u>\$13.75/unit*</u>
<u>January 1, 2016</u>	<u>Connected to city water</u>	<u>\$6.52/unit*</u>	<u>\$4.01 per 1000 gallons of water***</u>
<u>January 1, 2016</u>	<u>Not connected to city water</u>	<u>\$6.52/unit*</u>	<u>\$14.43/unit*</u>
<u>January 1, 2017</u>	<u>Connected to city water</u>	<u>\$6.84/unit*</u>	<u>\$4.21 per 1000 gallons of water***</u>
<u>January 1, 2017</u>	<u>Not connected to city water</u>	<u>\$6.84/unit*</u>	<u>\$15.16/unit*</u>
<u>January 1, 2018</u>	<u>Connected to city water</u>	<u>\$7.18/unit*</u>	<u>\$4.42 per 1000 gallons of water***</u>
<u>January 1, 2018</u>	<u>Not connected to city water</u>	<u>\$7.18/unit*</u>	<u>\$15.90/unit*</u>
<u>January 1, 2019</u>	<u>Connected to city water</u>	<u>\$7.53/unit*</u>	<u>\$4.64 per 1000 gallons of water***</u>
<u>January 1, 2019</u>	<u>Not connected to city water</u>	<u>\$7.53/unit*</u>	<u>\$16.70/unit*</u>

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

[e]d. *Outside presumptive city limits:*

<i>Customer Wholesale Rate for Santa Fe County</i>			
<b>Effective Date</b>		<b>Monthly Service Fee</b>	<b>Monthly Usage Fee</b>
January 1, 2014	Connected to county water	\$4.29/unit*	\$3.95 per 1000 gallons of water***
January 1, 2014	Not connected to county water	\$4.29/unit*	\$14.22/unit*
<u>January 1, 2015</u>	<u>Connected to county water</u>	<u>\$4.48/unit*</u>	<u>\$3.95 per 1000 gallons of water***</u>
<u>January 1, 2015</u>	<u>Not connected to county water</u>	<u>\$4.48/unit*</u>	<u>\$14.22/unit*</u>
<u>January 1, 2016</u>	<u>Connected to county water</u>	<u>\$4.70/unit*</u>	<u>\$4.14 per 1000 gallons of water***</u>
<u>January 1, 2016</u>	<u>Not connected to county water</u>	<u>\$4.70/unit*</u>	<u>\$14.92/unit*</u>
<u>January 1, 2017</u>	<u>Connected to county water</u>	<u>\$4.93/unit*</u>	<u>\$4.34 per 1000 gallons of water***</u>
<u>January 1, 2017</u>	<u>Not connected to county water</u>	<u>\$4.93/unit*</u>	<u>\$15.62/unit*</u>
<u>January 1, 2018</u>	<u>Connected to county water</u>	<u>\$5.17/unit*</u>	<u>\$4.55 per 1000 gallons of water***</u>
<u>January 1, 2018</u>	<u>Not connected to county water</u>	<u>\$5.17/unit*</u>	<u>\$16.39/unit*</u>
<u>January 1, 2019</u>	<u>Connected to county water</u>	<u>\$5.42/unit*</u>	<u>\$4.77 per 1000 gallons of water***</u>
<u>January 1, 2019</u>	<u>Not connected to county water</u>	<u>\$5.42/unit*</u>	<u>\$17.17/unit*</u>

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

1                   4.       Exceptions to Commercial Sewer Service.

2                   Mobile home parks; commercial greenhouses; churches; properties  
3                   owned by the U.S. government, the state of New Mexico, the city of  
4                   Santa Fe, the county of Santa Fe and the Santa Fe board of education;  
5                   and state accredited private elementary and secondary schools and  
6                   colleges shall not be considered commercial sewer services and shall be  
7                   considered residential sewer service.

8                   **Section 2.       Rule 8 B. of Exhibit A of Chapter 22 SFCC 1987 (being Ord. #1997-**  
9 **3, Exhibit A, as amended) is amended to read:**

10                   B.       Not Connected to City Sewer.

11                   1.       Accessible to city sewer system

12                   (as defined in subsection 22-2.1 SFCC 1987)

<b>Effective Date</b>	<b>Cost per unit*/lot</b>
January 1, 2010	\$5.85 per unit* or if no unit* \$5.85 per lot
<u>January 1, 2015</u>	<u>\$6.22 per unit* or if no unit* \$5.85 per lot</u>
<u>January 1, 2016</u>	<u>\$6.52 per unit* or if no unit* \$5.85 per lot</u>
<u>January 1, 2017</u>	<u>\$6.84 per unit* or if no unit* \$5.85 per lot</u>
<u>January 1, 2018</u>	<u>\$7.18 per unit* or if no unit* \$5.85 per lot</u>
<u>January 1, 2019</u>	<u>\$7.53 per unit* or if no unit* \$5.85 per lot</u>

13                   2.       Not accessible to city sewer system       No charge.

14                   **Section 3.       Rule 12. of Exhibit A of Chapter 22 SFCC 1987 (being Ord. #1997-3,**  
15 **Exhibit A, as amended) is amended to read:**

16                   **12.       Extra-Strength Surcharge. See the definition of COD in subsection 22-2.1 and**  
17 **Section 22-10 for information related to the extra-strength surcharge.**

18                   12.1. The Surcharge fee shall be equal to:

19                   0.9 x (C-D) x F x cf x L, for users whose discharge has been tested, and

1           0.9 x (M-D) x F x cf x L, for users whose discharge has not been tested.

2   Where:

3           C       =     COD concentration in the user's discharge stream in milligrams per liter  
4                               (mg/l)

5           D       =     Average domestic sewage COD concentration, established at 550  
6                               milligrams per liter (mg/l).

7           F       =     Average water use in million gallons per month as shown in the water  
8                               division records.

9           cf       =     8.34. A factor to convert the units of milligrams to pounds per million  
10                              gallons.

11          L       =     The mass based cost of providing air to remove the COD in wastewater.

12                              The cost has been established at the following costs:

Effective Date	Cost per pound
January 1, 2010	\$0.51
January 1, 2015	\$0.54
January 1, 2016	\$0.56
January 1, 2017	\$0.59
January 1, 2018	\$0.62
January 1, 2019	\$0.65

13  
14  
15  
16  
17  
18  
19          M       =     Mean COD concentration in the user's sewage disposal as tested.

20          0.9       =     Represents ninety percent of the water used through a water meter as  
21                              being discharged into the sanitary sewer.

22   Or:

23                              Monthly water usage x 0.00337\*L = Amount of monthly surcharge fee.

24          12.2     The resampling fee shall be equal to: \$75.00 and shall not be sampled more  
25                              than once per calendar year.

1 APPROVED AS TO FORM:

2   
3

4 KELLEY A. BRENNAN, CITY ATTORNEY

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25 *Melissa/Bills 2014/Sewer Rates Increase*

**City of Santa Fe  
Fiscal Impact Report (FIR)**

This Fiscal Impact Report (FIR) shall be completed for each proposed bill or resolution as to its direct impact upon the City's operating budget and is intended for use by any of the standing committees of and the Governing Body of the City of Santa Fe. Bills or resolutions with no fiscal impact still require a completed FIR. Bills or resolutions with a fiscal impact must be reviewed by the Finance Committee. Bills or resolutions without a fiscal impact generally do not require review by the Finance Committee unless the subject of the bill or resolution is financial in nature.

**Section A. General Information**

(Check) Bill:  X  Resolution: \_\_\_\_\_

(A single FIR may be used for related bills and/or resolutions)

Short Title(s): AN ORDINANCE RELATING TO SEWER SERVICE CHARGES – AMENDING RULE 8 OF EXHIBIT A OF CHAPTER 22 SFCC 1987 TO INCREASE THE MONTHLY SERVICE FEE AND MONTHLY USAGE FEE FOR THE WHOLESALE RATE; RELATING TO EXTRA-STRENGTH SURCHARGES – AMENDING RULE 12 OF EXHIBIT A OF CHAPTER 22 SFCC 1987 TO INCREASE THE MASS BASE CHARGE; AND MAKING SUCH OTHER CHANGES AS ARE NECESSARY.

Sponsor(s): Councilor Ives

Reviewing Department(s): Public Utilities Department / Wastewater Management

Persons Completing FIR: Bryan Romero / Fernando Aranda Date: 9/17/14 Phone: 955-4623

Reviewed by City Attorney: Kelley A. Brennan Date: 9/22/14  
(Signature)

Reviewed by Finance Director: [Signature] Date: 09/22/2014  
(Signature) FOR TERESA BARRON

**Section B. Summary**

The Bill amends Exhibit A in Chapter 22 to include an average rate increase of 5.6 % effective January 1, 2015, thereafter increasing rates 4.9 % per year for four (4) years starting January 1, 2016.

**Section C. Fiscal Impact**

Note: Financial information on this FIR does not directly translate into a City of Santa Fe budget increase. For a budget increase, the following are required:

- a. The item must be on the agenda at the Finance Committee and City Council as a "Request for Approval of a City of Santa Fe Budget Increase" with a definitive funding source (could be same item and same time as bill/resolution)
- b. Detailed budget information must be attached as to fund, business units, and line item, amounts, and explanations (similar to annual requests for budget)
- c. Detailed personnel forms must be attached as to range, salary, and benefit allocation and signed by Human Resource Department for each new position(s) requested (prorated for period to be employed by fiscal year)\*

**1. Projected Expenditures:**

- a. Indicate Fiscal Year(s) affected – usually current fiscal year and following fiscal year (i.e., FY 03/04 and FY 04/05)
- b. Indicate: "A" if current budget and level of staffing will absorb the costs  
"N" if new, additional, or increased budget or staffing will be required
- c. Indicate: "R" – if recurring annual costs  
"NR" if one-time, non-recurring costs, such as start-up, contract or equipment costs
- d. Attach additional projection schedules if two years does not adequately project revenue and cost patterns
- e. Costs may be netted or shown as an offset if some cost savings are projected (explain in Section 3 Narrative)

Finance Director: \_\_\_\_\_

\_\_\_\_\_ Check here if no fiscal impact

Column #:	1	2	3	4	5	6	7	8
	Expenditure Classification	FY _____	"A" Costs Absorbed or "N" New Budget Required	"R" Costs Recurring or "NR" Non-recurring	FY _____	"A" Costs Absorbed or "N" New Budget Required	"R" Costs - Recurring or "NR" Non-recurring	Fund Affected

Personnel*	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____
Fringe**	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____
Capital Outlay	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____
Land/ Building	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____
Professional Services	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____
All Other Operating Costs	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____
Total:	\$ _____	_____	_____	\$ _____	_____	_____	_____	_____

\* Any indication that additional staffing would be required must be reviewed and approved in advance by the City Manager by attached memo before release of FIR to committees. \*\*For fringe benefits contact the Finance Dept.

**2. Revenue Sources:**

- a. To indicate new revenues and/or
- b. Required for costs for which new expenditure budget is proposed above in item 1.

Column #:	1	2	3	4	5	6
	Type of Revenue	FY 14/15	"R" Costs Recurring or "NR" Non-recurring	FY 15/16	"R" Costs - Recurring or "NR" Non-recurring	Fund Affected

<u>Base Rate/Volume Charges</u>	\$10,836,486	_____	\$11,429,393	_____	51450
<u>COD Surcharge</u>	\$361,984	_____	\$379,721	_____	51450
_____	\$ _____	_____	\$ _____	_____	_____
Total:	\$ _____	_____	\$ _____	_____	_____

Column #:	1	2	3	4	5	6
	Type of Revenue	FY 16/17	"R" Costs Recurring or "NR" Non-recurring	FY 17/18	"R" Costs -- Recurring or "NR" Non-recurring	Fund Affected

<u>Base Rate/Volume Charges</u>	\$12,054,392	_____	\$12,713,225	_____	51450
<u>COD Surcharge</u>	\$398,327	_____	\$417,845	_____	51450
_____	\$ _____	_____	\$ _____	_____	_____
Total:	\$ _____	_____	\$ _____	_____	_____

Column #:	1	2	3	4	5	6
	Type of Revenue	FY 18/19	"R" Costs Recurring or "NR" Non-recurring	FY 19/20	"R" Costs -- Recurring or "NR" Non-recurring	Fund Affected

<u>Base Rate/Volume Charges</u>	\$13,407,726	_____	\$ _____	_____	51450
<u>COD Surcharge</u>	\$438,320	_____	\$ _____	_____	51450
_____	\$ _____	_____	\$ _____	_____	_____
Total:	\$ _____	_____	\$ _____	_____	_____

### 3. Expenditure/Revenue Narrative:

Explain revenue source(s). Include revenue calculations, grant(s) available, anticipated date of receipt of revenues/grants, etc. Explain expenditures, grant match(s), justify personnel increase(s), detail capital and operating uses, etc. (Attach supplemental page, if necessary.)

Additional base rate, volume, and chemical oxygen demand charges will be generated as a result of the average 5.6% increase beginning January 1, 2015, and the 4.9% percent increase per year for four (4) years starting January 1, 2016.

#### Section D. General Narrative

1. **Conflicts:** Does this proposed bill/resolution duplicate/conflict with/companion to/relate to any City code, approved ordinance or resolution, other adopted policies or proposed legislation? Include details of city adopted laws/ordinance/resolutions and dates. Summarize the relationships, conflicts or overlaps.

None that staff are aware of.

**2. Consequences of Not Enacting This Bill/Resolution:**

Are there consequences of not enacting this bill/resolution? If so, describe.

If the ordinance is not adopted, revenue requirements to meet the needs identified in the financial plan will not be met. Adverse effect to bond rating.

**3. Technical Issues:**

Are there incorrect citations of law, drafting errors or other problems? Are there any amendments that should be considered? Are there any other alternatives which should be considered? If so, describe.

There are no incorrect citations of law, drafting errors or other problems that staff are aware of. No other alternatives are being presented. To delay the increase beyond January 1, 2015 will result in the need for higher rate increases.

**4. Community Impact:**

Briefly describe the major positive or negative effects the Bill/Resolution might have on the community including, but not limited to, businesses, neighborhoods, families, children and youth, social service providers and other institutions such as schools, churches, etc.

The Ordinance will implement rate increases to all Wastewater Utility Customers. The Bill amends Exhibit A in Chapter 22 to include an average rate increase of 5.6 % effective January 1, 2015, thereafter increasing rates 4.9 % per year for four (4) years. The increase is needed to pay for increasing costs and capital improvements to serve all customers. The increase will allow for the utility to maintain a sufficient fund balance to meet the minimum debt service coverage required to meet bond obligations.

Form adopted: 01/12/05; revised 8/24/05; revised 4/17/08



## MEMORANDUM

TO: Bryan Romero, City of Santa Fe                      DATE: September 2, 2014  
FROM: Jason Mumm    CC: Fernando Aranda  
SUBJECT: **City of Santa Fe's 2014 Wastewater Rate Increases**

---

This memorandum summarizes our findings with respect to rate increases needed for the City of Santa Fe's Wastewater Division. Additional details with a summary of all findings can be found in the Water, Wastewater, and Environmental Services Financial Plan Report dated June 2, 2014. Our update of the financial plan and analysis shows that the Wastewater Division needs rate adjustments of 4.9% for five years from 2014-15 through 2018-19 to meet debt service coverage requirements and fund its capital improvement plan.

In recent years, the Wastewater Division has seen a decrease in retail rate revenues. This loss in revenue has been from decreased billed usage and changes in retail customer structures. Since FY 2010-11, billed usage has decreased by 2.4% annually. In FY 2012-13, the Wastewater Division lost \$0.3 million in effluent revenues due to the loss of Las Campanas. In the same year, 700 retail customers were transferred to Santa Fe County and are no longer considered retail customers. All of these developments, along with the need to meet debt service coverage requirements and increasing CIP costs have created the need for five years of rate adjustments at 4.9%.

One of the primary drivers for these rate increases is the need to meet debt service coverage. Debt Service Coverage (DSC) is an important indicator of a utility's indebtedness and ability to pay for debt. DSC is calculated by dividing net revenues by the annual debt service payments. Santa Fe's Wastewater Division has a management target of 1.50x and a required by bond covenant minimum of 1.25x. The Wastewater Division's cash reserves cannot be used to meet debt service coverage since the cash reserves do not factor in the calculation of net revenues (operating cost minus operating revenues).

As shown in Figure 1, we project that the DSC ratio will dip below the management target of 1.5x in FY 2014-15 but above the minimum needed. We project the debt service coverage to return above the management target in FY 2015-16 and remain above the target throughout the rest of the study period. The DSC was allowed to dip below the management goal in FY 2014-15 to avoid a larger revenue adjustment of about 7.5% instead of the proposed 4.9%. If the rate increases of 4.9% were not in 2014-15, debt service coverage would slip below the minimum required of 1.25x and the Division will be in technical default.

Figure 2 shows the projected cash balance reserves between FY 2014-15 and FY 2018-19. Management reserve targets include: 90 days O&M cash on hand (\$varies); capital reserve (\$3m); and rate stabilization (\$2m). In FY 2017-18 and FY 2018-19 balances will remain very close to management reserve targets. Increases lower the 4.9% would cause cash balance

reserves to dip below management reserve targets.

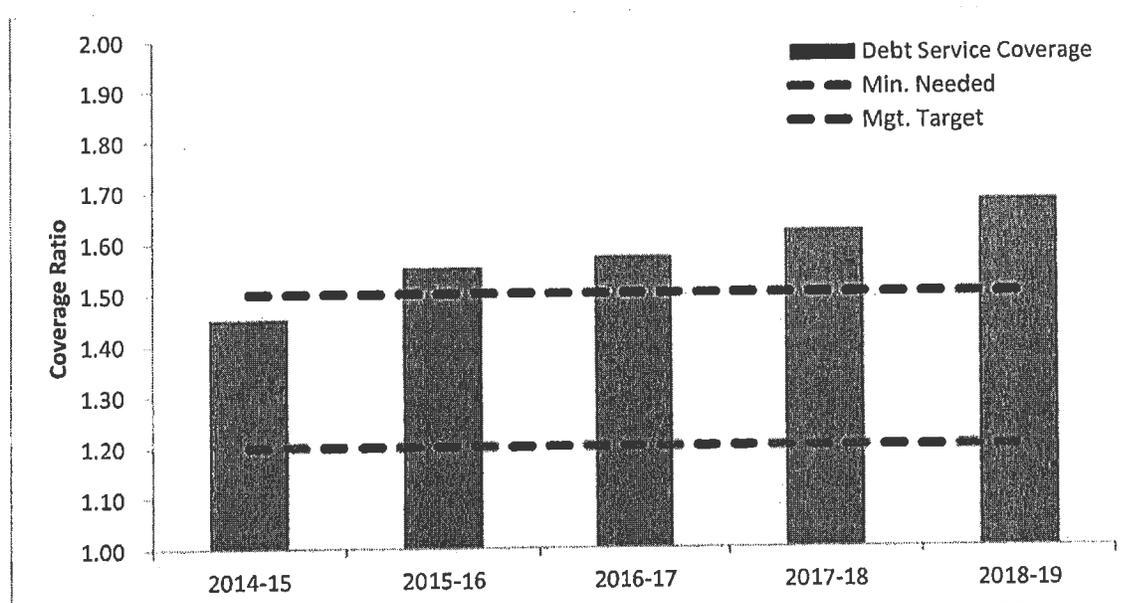


Figure 1: Wastewater Division Debt Service Coverage

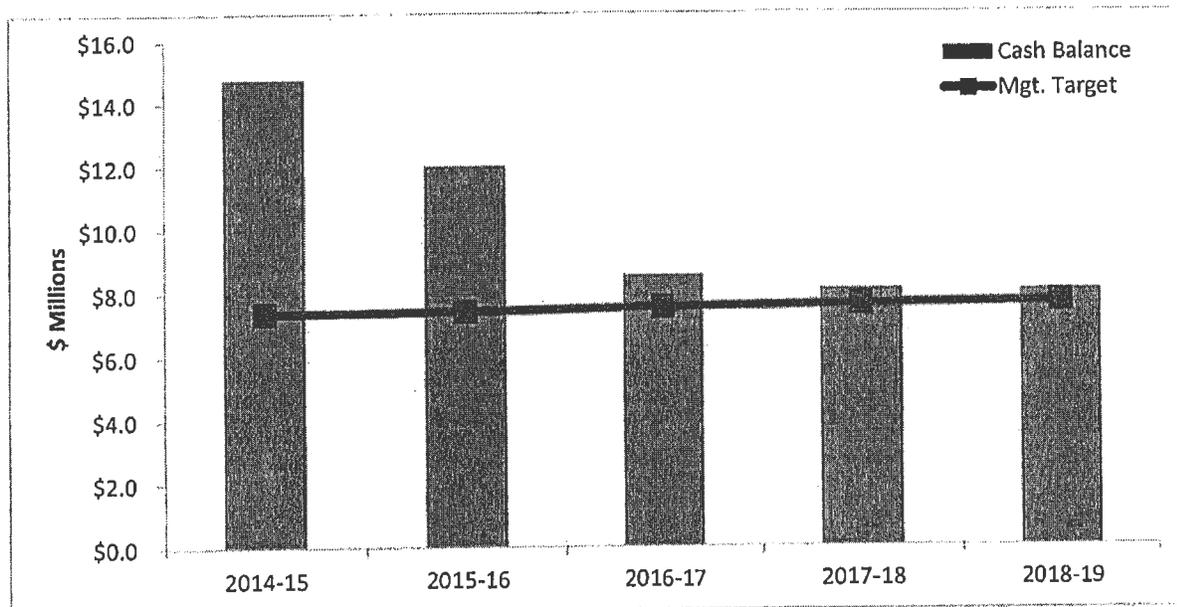


Figure 2: Wastewater Division Cash Balance Reserves

Increases in CIP could also have a negative impact on the cash balance reserves. When considering CIP it is important to note that the Wastewater Division expects complete a treatment and collection master plan in FY2014-15. These master plans will determine if new capital projects are necessary. The Wastewater Division also is aware of federal changes in nutrient criteria that could impact the City's discharge permit, resulting in required capital

improvements projects and ultimately requiring higher rate adjustments.

In summary, the recommended rate adjustments of 4.9% as well as the existing reserves are projected to be used to pay for capital improvements and meet DSC. Increases lower than 4.9% will cause debt service coverage to dip lower than management's target and cause cash balance reserves to slip below management's target.

# Financial Planning 101

Uses of Funds

Sources of Funds

- Policy Targets
- O&M
- CIP
- Debt Service



# Financial Planning 101

**Uses of Funds**

Policy Targets

O&M

CIP

Debt Service

**Sources of Funds**

GRT and Other Revenues

Debt and Loans Issued

User Charge Revenues

# Financial Plan

## Uses of Funds

Policy Target

O&M

CIP

Debt Service

## Sources of Funds

Fund Balance

GRT and Other Revenues

Debt and Loans Issued

User Charge Revenues

# Financial Plan

## Uses of Funds

Policy Target

O&M

CIP

Debt Service

## Sources of Funds

Fund Balance

GRT and Other Revenues

Debt and Loans Issued

User Charge Revenues

# Financial Planning Goals

- Maintain debt service coverage at target levels
- Maintain reserve requirements
- Minimize revenue increases
- Find the optimal combination of debt and rate increases to fund capital improvements

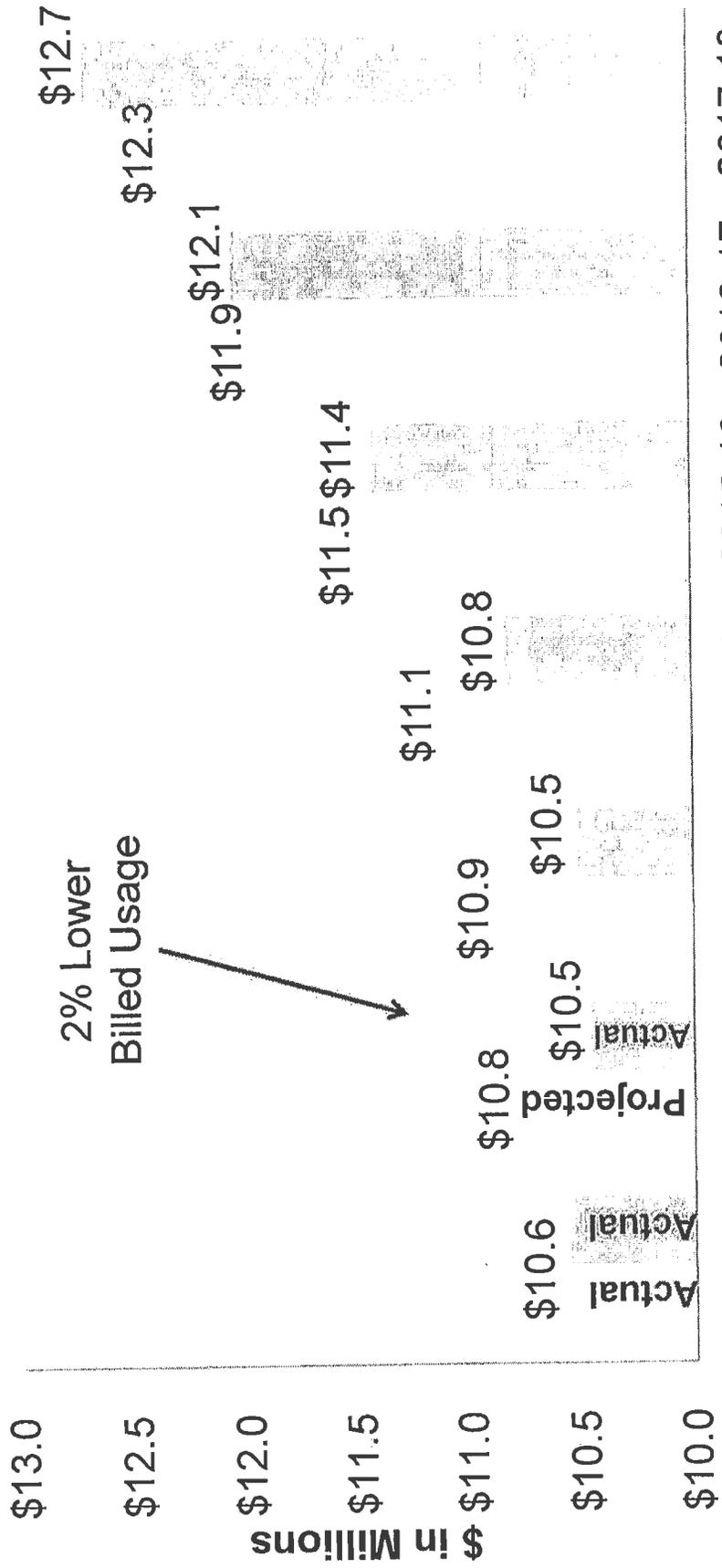
## Financial Plan Policy Decision Parameters

- Revenue increases
- Use of reserves
- Debt issuance
  - GO Bonds
  - Revenue Bonds
  - Internal Loans

## Wastewater Division

- Continued decreased in billed volumes along with increased capital and operating cost projections result in five years of 4.9% revenue adjustments starting in Fiscal Year 2014-15 to meet debt service coverage and fund projects.

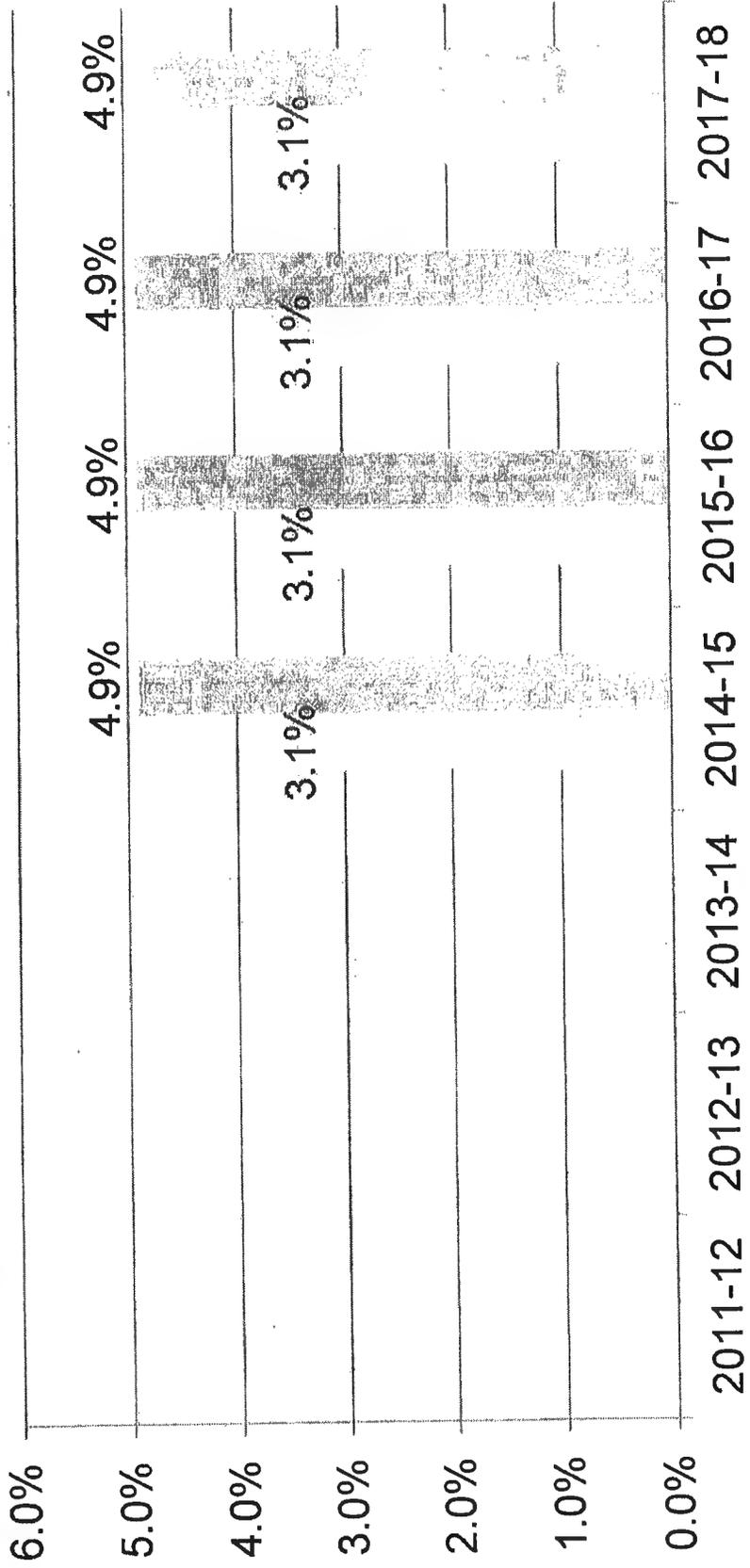
# Wastewater Division: Rate Requirements



2011-12 2012-13 2013-14 2014-15 2015-16 2016-17 2017-18

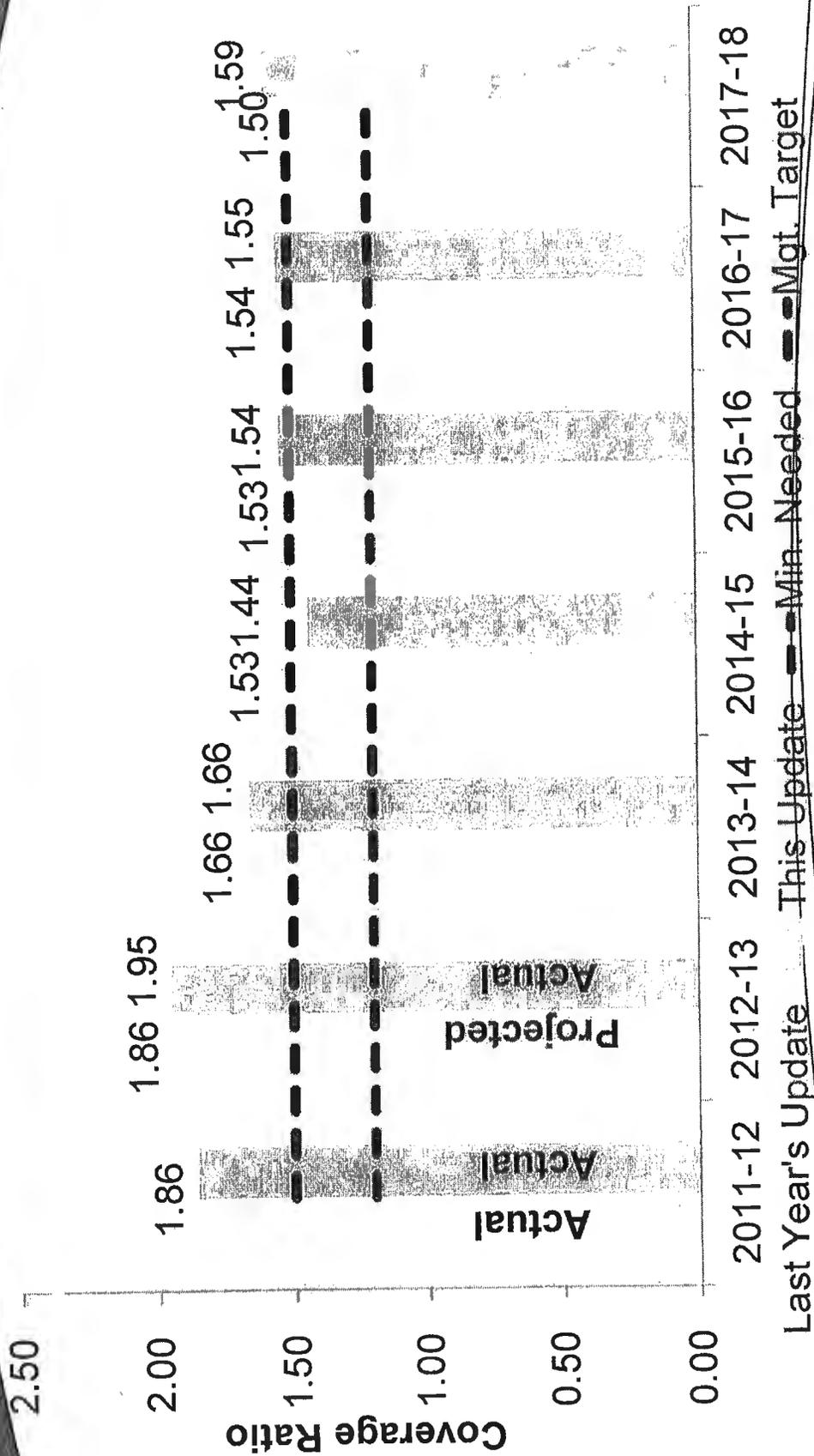
Last Year's Update      This Update

# Wastewater Division: Rate Increases



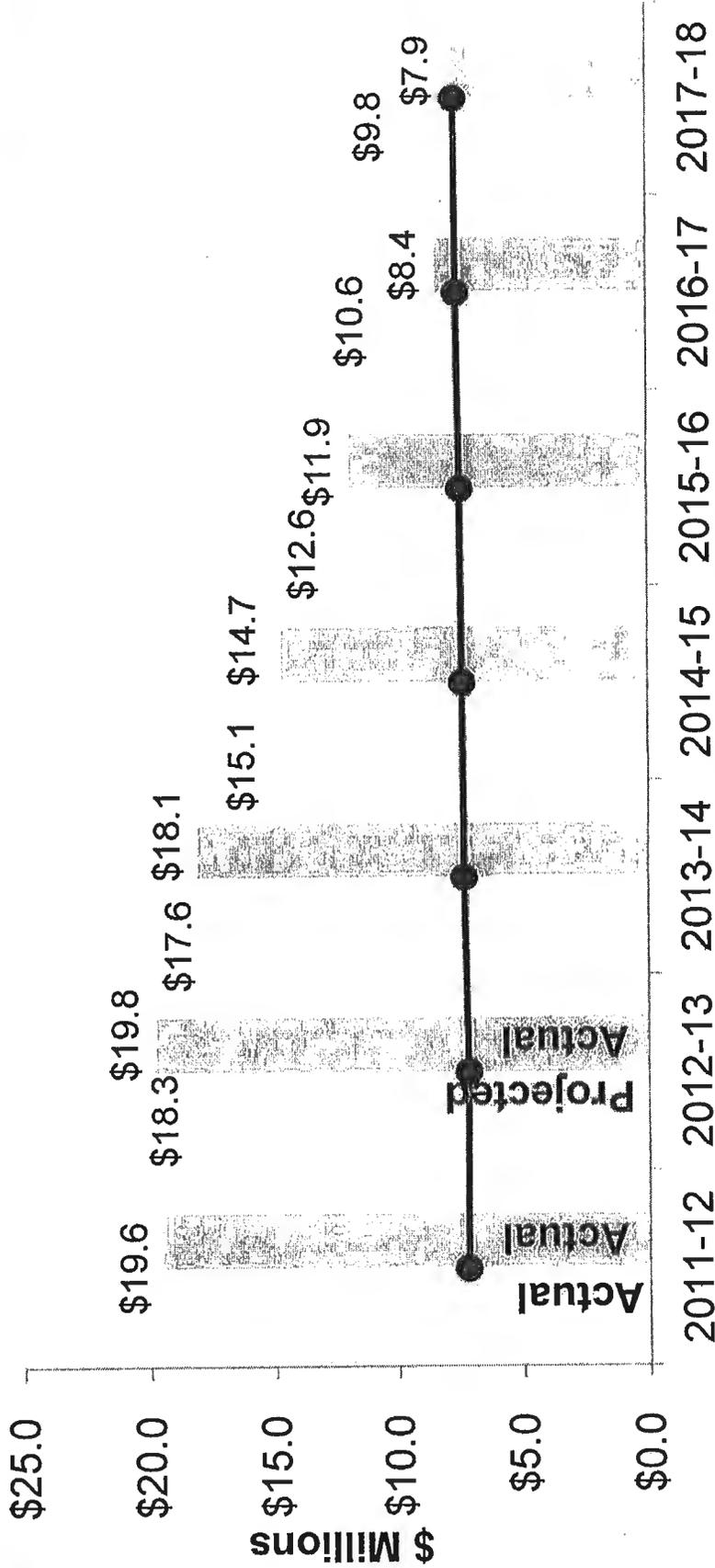
Last Year's Update - This Update

# Wastewater Division: Debt Coverage



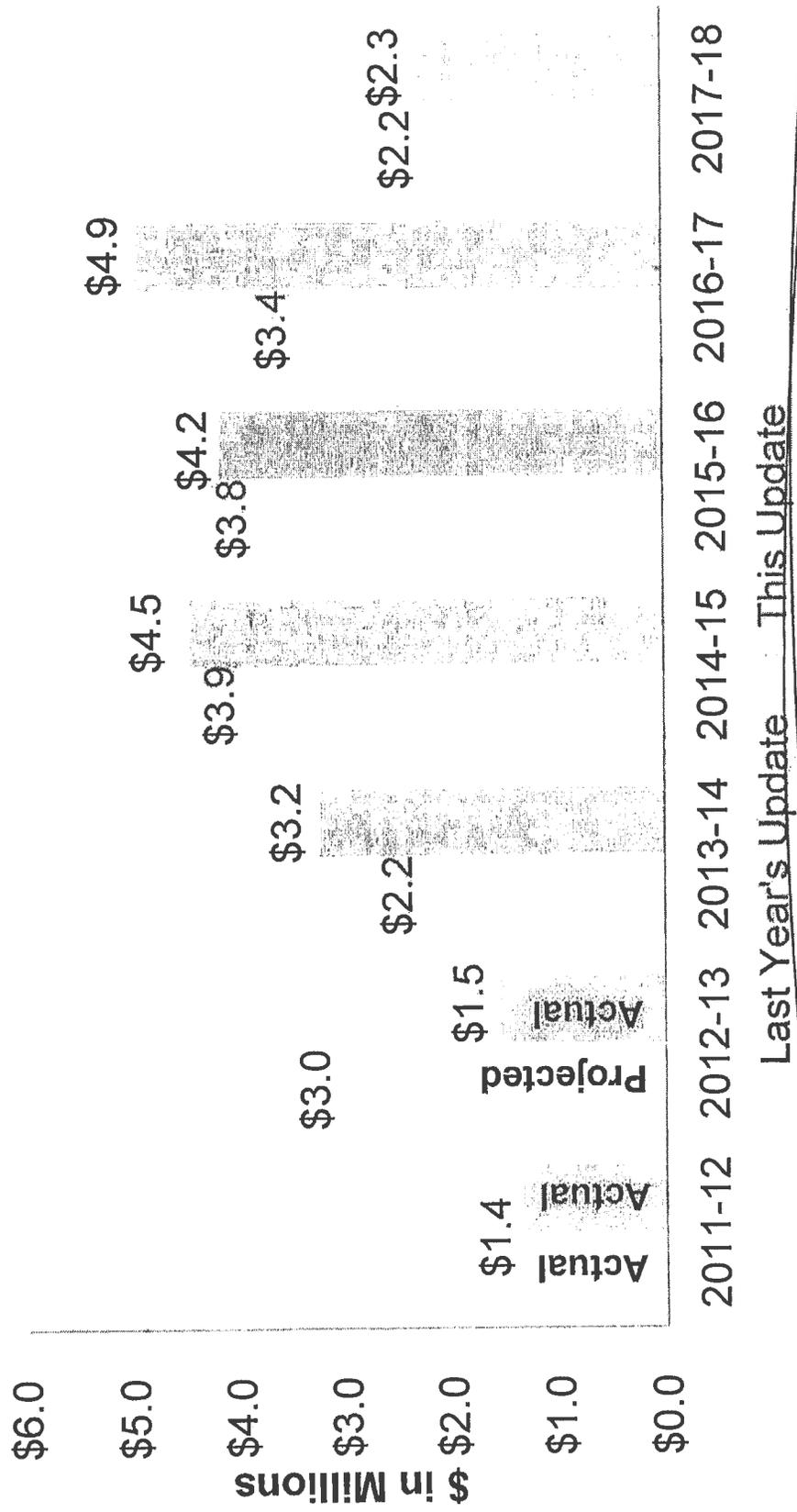
# Wastewater Division: Fund Balance

Last Year's Update      This Update      ● Mgt. Target



~~Targets: 90-days O&M (\$2.2M), Capital Reserve (\$3M) Rate Stabilization (\$2M)~~

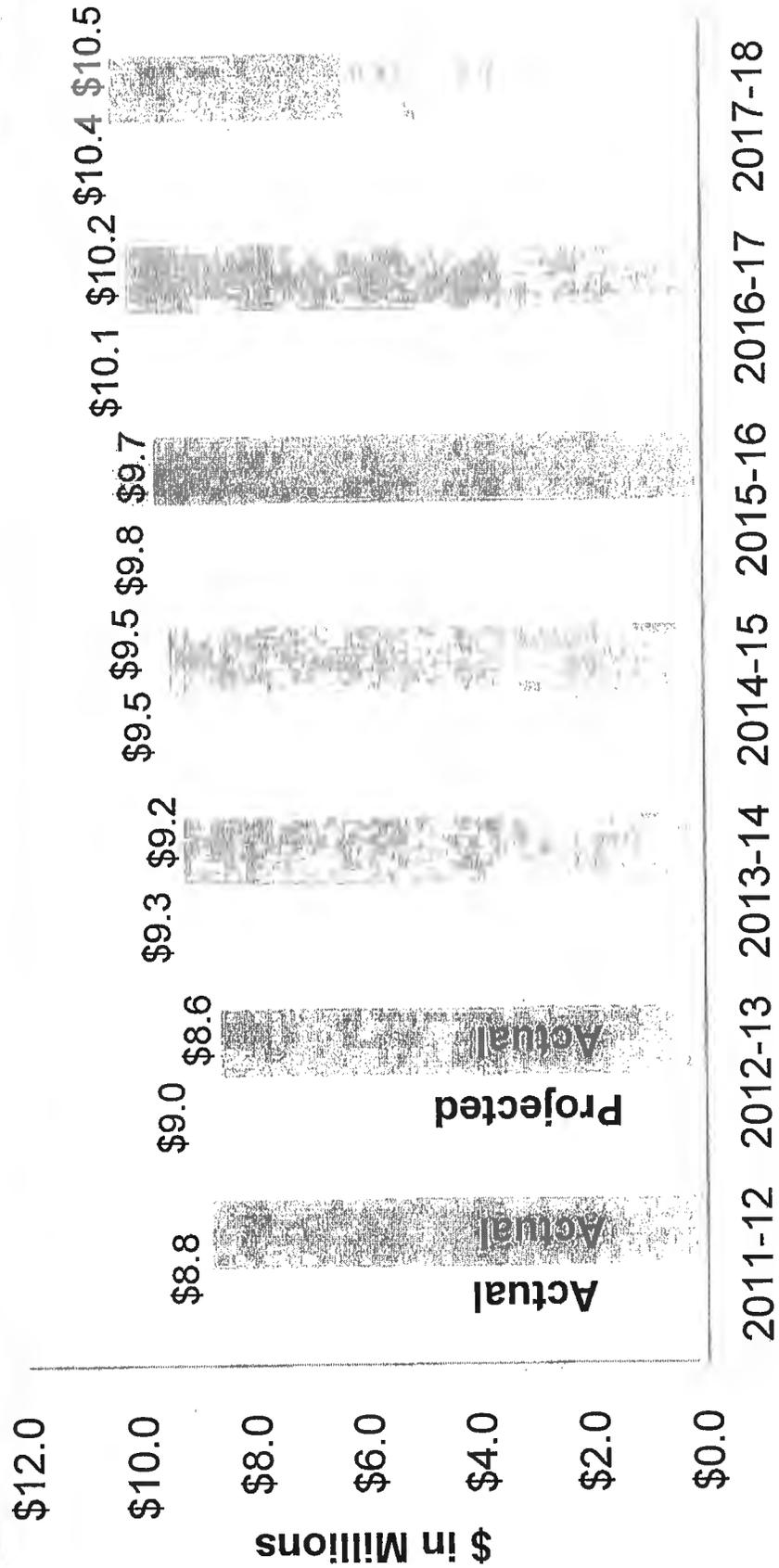
# Wastewater Division: CIP



## Wastewater Division Upcoming Improvements

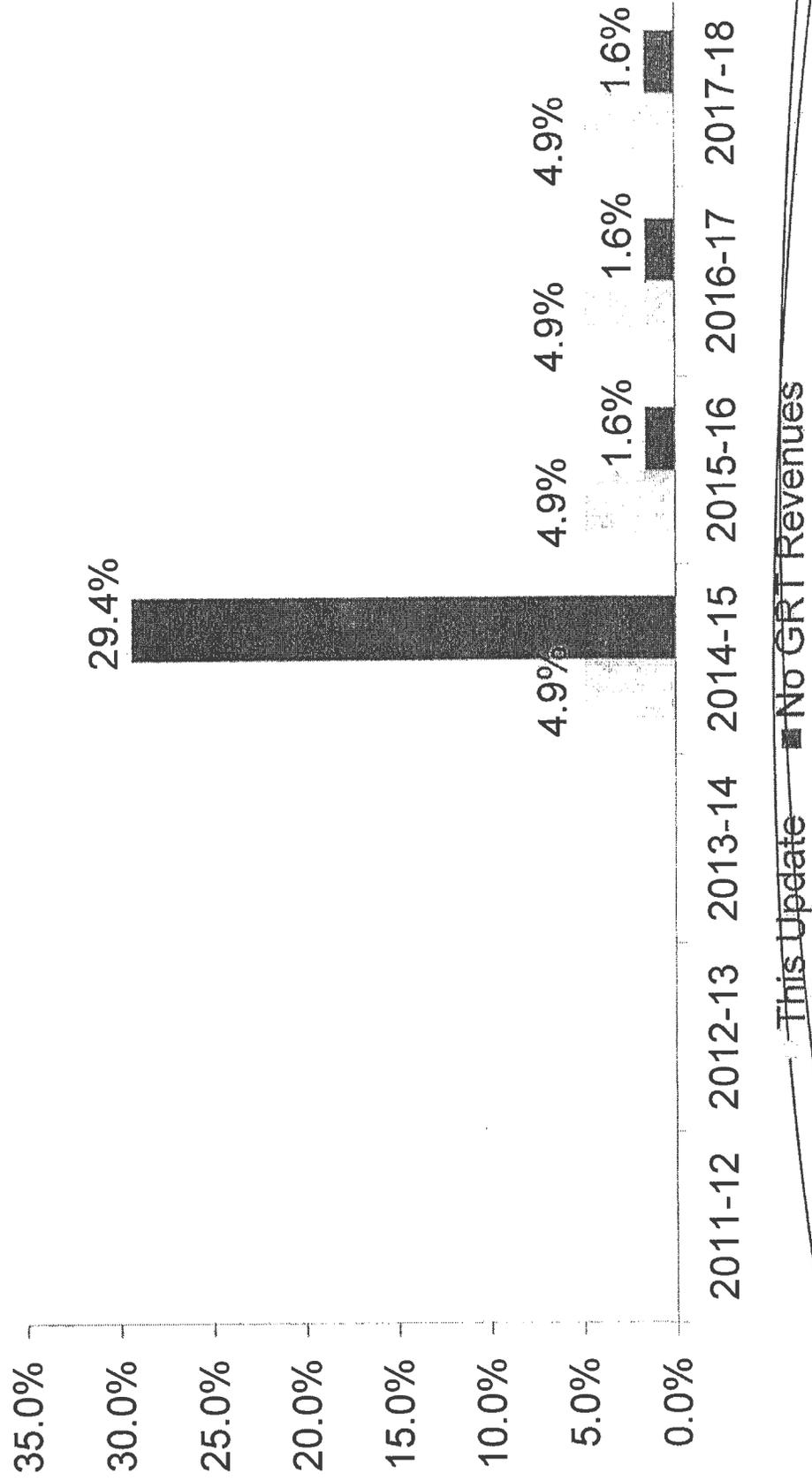
- Sewer Line Rehab (Rufina) - \$2,500,000
- New Digester - \$4,000,000
- Digester Rehab - \$1,000,000
- Dewatering Equipment - \$700,000
- Replace Tublex Blowers - \$600,000
- Aeration Basin Dewatering Fac. - \$1,000,000

# Wastewater Division: O&M



Last Year's Update      This Update

# Wastewater Division GRT Revenue Impact



# Proposed Wastewater Rates

## Service Charge (per Unit)

Class	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Inside City	\$6.22	\$6.52	\$6.84	\$7.18	\$7.53
Outside City	\$4.48	\$4.70	\$4.93	\$5.17	\$5.42

## Volume Charge (1,000 gallons)

Class	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19
Inside City	\$3.82	\$4.01	\$4.21	\$4.42	\$4.64
Outside City	\$3.95	\$4.14	\$4.34	\$4.55	\$4.77
Extra strength (pe Lb.)	\$0.54	\$0.56	\$0.59	\$0.62	\$0.65



# FINANCIAL PLAN

## Table of Contents

<b>Executive Summary</b> .....	<b>4</b>
Recommended Rates .....	4
Table A: Proposed Rate Adjustments .....	4
<b>Introduction</b> .....	<b>5</b>
System Overview .....	5
Purpose of the Report.....	5
Project Approach .....	5
Report Date .....	5
Intended Use and Users of This Report .....	5
Sources of Information Used in the Report .....	6
How to Read This Report .....	6
<b>Water Financial Plan</b> .....	<b>7</b>
Financial Overview of the Water Division.....	7
Water Division Revenue Requirements .....	7
Cash-Needs Revenue Requirement .....	7
Cost Components of the Water Division Financial Plan.....	8
Operating and Maintenance Expenses .....	8
Debt Service.....	9
Capital Improvement Plan.....	9
Other Revenue Components of the Water Division Financial Plan .....	10
Wholesale Revenues.....	10
Non-Rate Revenues.....	10
Utility Expansion Charges.....	11
Interest Income.....	11
Targets and Requirements of the Water Division .....	11
Debt Service Coverage .....	11
Reserve Requirements .....	11
Projected Cash Balance .....	11
<b>Wastewater Financial Plan</b> .....	<b>13</b>
Financial Overview of the Wastewater Division.....	13
Wastewater Division Revenue Requirements .....	13



Cash-Needs Revenue Requirement .....	13
<b>Cost Components of the Wastewater Division Financial Plan .....</b>	<b>15</b>
Operating and Maintenance Expenses .....	15
Debt Service.....	15
Capital Improvement Plan.....	15
<b>Other Revenue Components of the Wastewater Division Financial Plan.....</b>	<b>16</b>
Non-Rate Revenues.....	16
Utility Expansion Charges.....	16
Interest Income.....	16
<b>Targets and Requirements of the Wastewater Division .....</b>	<b>17</b>
Debt Service Coverage .....	17
Reserve Requirements.....	17
Projected Cash Balance .....	17
<b>Environmental Services Financial Plan .....</b>	<b>19</b>
Financial Overview of the Environmental Services Division .....	19
Environmental Services Division Revenue Requirements.....	19
Cash-Needs Revenue Requirement .....	19
<b>Cost Components of the Environmental Services Division Financial Plan.....</b>	<b>20</b>
Operating and Maintenance Expenses .....	21
Debt Service.....	21
Capital Improvement Plan.....	21
<b>Other Revenue Components of the Environmental Services Division Financial Plan.....</b>	<b>22</b>
Non-Rate Revenues.....	22
Interest Income.....	22
<b>Targets and Requirements of the Environmental Services Division.....</b>	<b>23</b>
Debt Service Coverage .....	23
Reserve Requirements.....	23
Projected Cash Balance .....	23
<b>Appendix A – Water Financial Plan .....</b>	<b>25</b>
<b>Appendix B – Wastewater Financial Plan.....</b>	<b>26</b>
<b>Appendix C – Environmental Services Financial Plan .....</b>	<b>27</b>



## List of Tables

<del>Table 1: Water Division Cash-Needs Revenue Requirements.....</del>	<del>8</del>
<del>Table 2: Water Division O&amp;M Expenses .....</del>	<del>9</del>
<del>Table 3: Water Division CIP .....</del>	<del>10</del>
<del>Table 4: Water Division Non-Rate Revenues .....</del>	<del>10</del>
<del>Table 5: Water Division Debt Service Coverage .....</del>	<del>11</del>
<del>Table 6: Water Division Cash Reserve Summary.....</del>	<del>12</del>
<del>Table 7: Wastewater Division Cash-Needs Revenue Requirements .....</del>	<del>14</del>
<del>Table 8: Proposed Wastewater Division Rate Adjustments.....</del>	<del>14</del>
<del>Table 9: Wastewater Division O&amp;M Expenses .....</del>	<del>15</del>
<del>Table 10: Wastewater Division CIP .....</del>	<del>16</del>
<del>Table 11: Wastewater Division Non-Rate Revenues .....</del>	<del>16</del>
<del>Table 12: Wastewater Division Debt Service Coverage.....</del>	<del>17</del>
<del>Table 13: Wastewater Division Cash Reserves Summary .....</del>	<del>18</del>
<del>Table 14: Environmental Services Division Cash-Needs Revenue Requirements .....</del>	<del>20</del>
<del>Table 15: Proposed Environmental Services Division Rate Adjustments .....</del>	<del>20</del>
<del>Table 16: Environmental Services Division O&amp;M Expenses .....</del>	<del>21</del>
<del>Table 17: Environmental Services Division CIP.....</del>	<del>22</del>
<del>Table 18: Environmental Services Division Non-Rate Revenues .....</del>	<del>22</del>
<del>Table 19: Environmental Services Division Debt Service Coverage.....</del>	<del>23</del>
<del>Table 20: Environmental Services Division Fund Summary .....</del>	<del>24</del>



## Executive Summary

In October 2013, the City of Santa Fe (City) engaged MWH Global to study and project the financial condition of the City's Water, Wastewater, and Environmental Services utility divisions. MWH updated the financial plans of each of the divisions and made recommendations for adjusting the rates. The continuous monitoring and updating of the long-term financial plans and assumptions has been important in maintaining the financial health for each Division, especially in light of flat revenues and low growth.

## Recommended Rates

The recommended Water, Wastewater, and Environmental Services rates were determined using the division financial plans. A summary of the proposed rate adjustments are provided in Table A.

The Water Division has maintained good financial performance in recent years, with key ratios remaining strong helped by lower than projected capital costs in FY2012-13. We project lower retail revenues in the future due to the loss of 1,400 customers to the county. The financial impact of losing those customers will result in a net loss of about \$500,000 a year starting in FY2013-14. Fiscal year 2012-13 was the last year of the City's approved five years annual 8.2% rate increases for the Water Division. The Water Division currently has strong cash balance and debt service coverage that will allow the implementation of its planned capital improvement program. We estimate no additional increases will be necessary through FY 2018-19.

For the Wastewater Division, we are projecting a rate adjustment of 4.9% for five years from FY 2014-15 through FY 2018-19. This rate increase is primarily needed to meet debt service coverage requirements. The Wastewater Division faced lower-than-projected retail revenues; caused in part by the loss of wholesale revenues, transfer of customers to Santa Fe County, and decreased billed usage. These decreases in revenues along with increases in operating expenses negatively affected the debt service coverage requirement.

For the Environmental Services Division, the City approved four years of 3.2% rate increases starting in FY 2012-13. We are projecting an additional rate adjustment of 4.6% for three years starting in FY 2016-17 will be needed. The additional projected increases were caused by a lower than expected number of customers. The Environmental Services Division expects the construction of the Siler Road facility in FY 2016-17 which will be funded in part with a loan from the water division of \$3.5 million in FY 2016-17.

**Table A: Proposed Rate Adjustments**

Year	Water Division	Wastewater Division	Environmental Services Division
2013-14	0%	0%	3.2%
2014-15	0%	4.9%	3.2%
2015-16	0%	4.9%	3.2%
2016-17	0%	4.9%	4.6%
2017-18	0%	4.9%	4.6%
2018-19	0%	4.9%	4.6%



## Introduction

### System Overview

The City of Santa Fe, New Mexico is located in Santa Fe County with a population of approximately 69,200 people. The City of Santa Fe is the capital of New Mexico and covers an area of 46.3 square miles. The City's Water, Wastewater, and Environmental Services Divisions provide water, wastewater, and solid waste services to the citizens of Santa Fe. The water utility serves about 36,000 customers, the wastewater utility serves about 32,700 customers, and the solid waste utility serves about 31,000 customers.

The water utility system has the following characteristics:

- 23.0 MGD Treatment Capacity
- 575 Miles of water lines
- 2747 fire hydrants
- 10 Pump Stations
- 34.6 MG water storage

The wastewater utility system has the following characteristics:

- 32,662 customers
- 6.5 MGD average treatment
- 13 MGD of designed treatment capacity
- 348 miles of sewer lines
- 8,811 manholes
- 3 pump stations

### Purpose of the Report

The City of Santa Fe engaged MWH Global to prepare financial plans of the City's utility services. The purpose for the study, as published in the City of Santa Fe's request for proposals, is to provide a comprehensive update to the Water, Wastewater and Environmental Service Division financial plans.

### Project Approach

MWH Global used standard water and wastewater ratemaking practices to calculate the proposed rates as described by the American Water Works Association (AWWA) and the Water Environment Federation (WEF), respectively.

### Report Date

The date of this report is June 2, 2014.

### Intended Use and Users of This Report

This report is intended to provide a summarized discussion of the analysis developed by MWH Global in completing the objectives shown in the Purpose of the Report. As such, this report explains our methodologies, materials considered, key assumptions, findings and recommendations. No other use is intended or implied.

The report has been completed for the City of Santa Fe under a Professional Services Agreement between the City and MWH Global. The report and its contents are the property of the City of Santa Fe and the City is the only intended user of the report. The City of Santa Fe may choose to distribute this report to others. However, the report itself was prepared solely for the use of the City of Santa Fe.



## Sources of Information Used in the Report

We have reviewed a number of documents provided by the City of Santa Fe during the course of our study. Where applicable, we have made a works cited notation indicating the source and date of the documents within the body of this report.

A summary of the key information reviewed for our report is as follows:

- Detailed line-item budgets for the City
- Customer billing data by customer class from the City's customer billing database
- Comprehensive Annual Financial Reports (CAFR) for the City
- Trial balance exported from the City's accounting system
- Detailed asset registers from the City's files
- Debt schedule from the City's files
- Capital improvement plans for the City

## How to Read This Report

The body of the report is meant to be a summarized narrative of the technical analysis completed by MWH during the scope of our study. It is not meant to provide extremely detailed figures, calculations, or discuss every aspect of our work.

For the interested reader, we have provided at the Appendix a complete tabulation of our study work papers, calculations, significant correspondence with the City of Santa Fe, and other materials. We reference these materials at various times in the body of the report. The Appendix is a comprehensive but not an exhaustive representation of our entire efforts.



# Wastewater Financial Plan

## Financial Overview of the Wastewater Division

The City of Santa Fe operates the wastewater utility as a separate division (referred to as "Wastewater Division" at times in this report), independent from the water and environmental services utilities. The Wastewater Division's primary revenue source comes from the rates and charges assessed to wastewater customers. These rates include both service charges and volume charges. The Wastewater Division receives a portion of the tax revenues collected by the City. In FY 2013-14, revenue from Gross Receipt Taxes (or GRT) accounted for approximately 14% of the Division's total revenues. Additional cash contributions to the Division come from expansion fees for new construction inside the Wastewater Division's service area and other miscellaneous fees.

The Wastewater Division's normal expenditures include operating and capital expenditures. The annual operating expenditures are budgeted annually and approved by the City Council. Capital expenditures include cash-financing of system improvements, and increases, if any, to the Division's cash reserves.

## Wastewater Division Revenue Requirements

Revenue requirements are the total operating and capital costs the Wastewater Division must recuperate from its rates to properly operate, maintain, and develop the infrastructure for the wastewater system.

Under existing industry standards, there are two generally accepted approaches to calculating revenue requirements: the cash-needs approach and the utility approach. Under the cash-needs approach, total revenue requirements are the annual expenditures necessary to meet operating and maintenance costs, debt service requirements, and any cash-funded capital expenditures. Government-owned utilities, such as Santa Fe's Wastewater Division, typically use the cash-needs approach to calculate revenue requirements since the approach lends itself to actual requirements for expenditures, which in turn supports the governmental budgeting process. The Wastewater Division operates the wastewater utility as an enterprise for the City and sets its revenue structure based on the cost of operating the system. It has historically used the cash-needs approach to determine its revenue requirements.

The utility approach is typically used by investor-owned/private utilities and in cases where municipal utilities serve customers who are outside of its jurisdictional boundary. The utility approach differs from the cash-needs approach in that debt service and cash-funded capital expenditures are removed from the total and replaced with depreciation expense as well as a component that allows the utility owners to earn a return on investment in the rate base. Under the utility approach, the "rate base" is essentially the used and useful utility plant-in-service net of accumulated depreciation, less allowances for contributed assets and other adjustments, and includes allowances for working capital.

The Wastewater provides wastewater services within and outside its corporate boundaries. Given the City's history and objectives for this study, MWH Global recommends using the cash-needs approach to calculate revenue requirements for customers within the City limits and the utility approach for the customers that will be annexed by Santa Fe County which will be outside the City limits.

### Cash-Needs Revenue Requirement

The overall cash-needs revenue requirement for the Wastewater Division was determined based on a 5-year financial planning projection developed jointly by MWH and the City of Santa Fe's Wastewater Division. The financial plan provides a projection of revenue requirements, among other things.

The entire financial plan is provided in Appendix B. A summary of the Wastewater Division's revenue requirements over the entire study period is provided in Table 7.



Table 7: Wastewater Division Cash-Needs Revenue Requirements

Project Description	Budget			Projected		
	2014	2015	2016	2017	2018	2019
Operating and Maintenance Expenses	\$9,235,474	\$9,479,316	\$9,730,472	\$10,239,163	\$10,613,115	\$10,795,285
Annual Debt Service - Outstanding Debt	2,309,750	2,475,050	2,535,600	2,585,000	2,643,550	2,783,500
Annual Debt-Service - Projected Issues	0	0	0	0	0	0
Capital Projects	3,237,000	4,470,000	4,176,900	4,941,900	2,281,597	2,164,864
Bond Issuance Costs	0	0	0	0	0	0
Change in Fund Balance	(1,686,517)	(3,356,741)	(2,795,284)	(3,506,555)	(527,407)	(137,339)
<b>Total Revenue Requirement</b>	<b>\$13,095,708</b>	<b>\$13,087,625</b>	<b>\$13,647,688</b>	<b>\$14,259,508</b>	<b>\$14,910,855</b>	<b>\$15,606,311</b>
Wholesale/Contract Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Other Revenues	2,321,607	1,982,813	1,982,813	1,982,813	1,982,813	1,982,813
Projected Debt Proceeds	0	0	0	0	0	0
Total Other Capital Inflows	0	0	0	0	0	0
Total Development Fees	164,086	166,547	169,045	171,581	174,155	176,767
Interest/Investment Earnings	94,356	81,779	66,437	50,722	40,662	39,004
<b>Total Non-Rate Related Revenue/Income</b>	<b>\$2,580,049</b>	<b>\$2,231,139</b>	<b>\$2,218,296</b>	<b>\$2,205,116</b>	<b>\$2,197,630</b>	<b>\$2,198,585</b>
<b>Required User Charge Revenue</b>	<b>\$10,515,659</b>	<b>\$10,836,486</b>	<b>\$11,429,393</b>	<b>\$12,054,392</b>	<b>\$12,713,225</b>	<b>\$13,407,726</b>

Revenue requirements consist of two important components: a Total Revenue Requirement, and a User Charge Revenue Requirement. The Total Revenue Requirement is the total amount of revenue/income that the Wastewater Division must produce to pay for the annual operating and capital costs of the Division. The User-Charge Requirement is that portion of the total that has to be raised directly from the rates charged to customers, and is shown net of other non-rate-related sources of income.

The User-Charge Revenue Requirements are the relevant cash-needs for the purposes of determining customers' rates. In recent years, the Wastewater Division has seen a decrease in retail rate revenues. This loss in revenue has been from decreased billed usage and changes in retail customer structures. Since FY 2010-11, billed usage has decreased by 2.4% annually. In FY 2012-13, the Wastewater Division lost \$0.3 million in effluent revenues due to the loss of Las Campanas. In the same year, 700 retail customers were transferred to Santa Fe County and are no longer considered retail customers. All of these developments, along with the need to meet debt service coverage requirements and increasing CIP costs have created the need for five years of rate adjustments at 4.9%.

Table 8: Proposed Wastewater Division Rate Adjustments

Year	Rate Adjustment
2013-14	0%
2014-15	4.9%
2015-16	4.9%
2016-17	4.9%
2017-18	4.9%
2018-19	4.9%



## Cost Components of the Wastewater Division Financial Plan

This section will provide a general overview of the cost components included in the financial plan. For additional details, a copy of the detailed financial plan can be found in Appendix B.

### Operating and Maintenance Expenses

Operating and Maintenance (O&M) expenses include all costs essential for running the utility's operations. These costs account for a large portion of the utility's total cost and can have a significant impact on rates. We project O&M expenses based on a combination of actual historical spending, system growth, and expected inflation. The majority of the Wastewater Division's O&M expenses are driven by employee salaries, energy costs, and minor system repair and replacement expenses.

Table 9: Wastewater Division O&M Expenses

	2014	2015	2016	2017	2018	2019
52251 – Management	\$2,691,676	\$2,739,203	\$2,788,156	\$3,088,578	\$3,148,012	\$3,209,229
52452 – Treatment	3,343,633	3,443,942	3,547,260	3,653,678	3,763,288	3,876,187
52254 – Laboratory	356,261	366,949	377,958	389,296	400,975	413,004
52455 - Collection	1,462,345	1,506,215	1,551,402	1,597,944	1,645,882	1,695,258
52456 - Engineering & Environmental	564,762	581,705	599,156	617,131	635,645	654,714
52458 - Pretreatment	245,126	252,480	260,054	267,856	275,891	284,168
52460 - Compost	571,672	588,822	606,486	624,681	643,421	662,724
<b>Total</b>	<b>\$9,235,474</b>	<b>\$9,479,316</b>	<b>\$9,730,472</b>	<b>\$10,239,163</b>	<b>\$10,513,115</b>	<b>\$10,795,285</b>

### Debt Service

Santa Fe's Wastewater Division has a debt portfolio comprised of two revenue bonds, a Series 2006 and Series 2012 bond. The projected annual debt service payments on outstanding debt in FY 2013-14 amount to \$2,309,750.

Based on the current capital plan, MWH does not project a need for any additional debt to be issued over the study period. The amount, structure, and timing of any bond issues for debt are, of course, at the discretion of The City of Santa Fe. These are estimates provided by MWH Global for planning purposes and do not represent any decisions made by The City of Santa Fe.

### Capital Improvement Plan

Starting in FY 2013-14 the Wastewater Division expect to initiate a treatment and collection master plan that will be completed in FY 2014-15. This master plan will determine if new capital projects are necessary. The Wastewater Division is also aware of federal changes in nutrient criteria that could impact the City's discharge permit, resulting in required capital improvements projects and requiring higher rate adjustments.

Although it's subject to change, the current Capital Improvement Plan (CIP) provided by the Division was included in our projection through 2019. Large projects for the Division include the New Digester project and the Sewer Line Rehabilitation (Rufina) project. Historically, the Wastewater Division has spent an average of \$3.5 million per year on capital improvement costs. Between FY 2010-11 and FY 2012-13, the Division spent \$3.2 million on capital projects and estimate to spend \$3,237,000 in FY 2013-14. The Wastewater Division projects to spend \$20,702,000 on capital projects over the entire study period, an average of \$3.5 million per year. A summary of the current CIP by project category is shown in Table 10.



Table 10: Wastewater Division CIP

	2014	2015	2016	2017	2018	2019
Treatment	\$172,000	\$0	\$2,876,400	\$520,200	\$0	\$0
Lifts	0	0	102,000	0	0	0
Collection	2,365,000	2,500,000	1,020,000	0	2,122,416	2,164,864
General	700,000	200,000	0	4,265,640	0	0
Equipment	0	1,350,000	102,000	156,060	159,181	0
Vehicles	0	420,000	76,500	0	0	0
<b>Total</b>	<b>\$3,237,000</b>	<b>\$4,470,000</b>	<b>\$4,176,900</b>	<b>\$4,941,900</b>	<b>\$2,281,597</b>	<b>\$2,164,864</b>

## Other Revenue Components of the Wastewater Division Financial Plan

Revenue requirements can be met from a variety of sources including operating, miscellaneous and non-operating revenues. The focus of our analysis is to provide the Wastewater Division with recommendations relative to the schedule of rates and charges for wastewater service. In order to do so, we isolate the portion of total revenue requirements that must come from the user charges alone, and determine whether the current level of revenue from that source is adequate or requires adjustment. This section will provide a general overview of the other revenue components that are not associated with user charges.

### Non-Rate Revenues

The Wastewater District receives additional non-rate revenues from Gross Receipts Tax, or GRT. Revenues received from GRT are projected to be \$1,800,000 in FY 2013-14 and make up the majority of the Division's non-rate revenues. Since GRT is vulnerable to reductions in consumer spending, these revenues can drift in a favorable or unfavorable direction from year to year. However, as the US economy continues to improve, these revenues are projected to remain stable for the entire study period. The Wastewater Division also has various miscellaneous fees and charges that generate other non-rate revenues. These fees include Septic Fees, Extra Strength Surcharges, and Sewage Effluents Fees.

Table 11: Wastewater Division Non-Rate Revenues

	2014	2015	2016	2017	2018	2019
GRT	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000	\$1,800,000
Other Non-Rate Revenues	521,607	182,813	182,813	182,813	182,813	182,813
<b>Total</b>	<b>\$2,321,607</b>	<b>\$1,982,813</b>	<b>\$1,982,813</b>	<b>\$1,982,813</b>	<b>\$1,982,813</b>	<b>\$1,982,813</b>

### Utility Expansion Charges

Utility Expansion Fees, sometimes known as system development fees, are one-time fees designed to cover the cost of expanding capacity to meet the needs of new development. The primary purpose of these expansion fees are to ensure that "growth pays for growth". Revenue generated from these fees is estimated based on the expected growth of Customers. Since growth is expected to be minimal over the next 5 years, we project the Wastewater Division to generate around \$170,000 per year from these fees.

### Interest Income

The Wastewater Division has had a consistent stream of funding from interest income in the past. The Division is projected to generate an average of \$62,160 from interest and investment earnings over the study period. In FY 2013-



14, the Wastewater Division is projected to generate \$94,356 in interest income. In future years of the study period, interest income earnings are projected to gradually decrease as the fund balance decreases.

## Targets and Requirements of the Wastewater Division

In addition to the cost and revenue components, there are certain requirements the utility must meet. Some of these requirements are legally mandated and others are decided by management of the City. This section will provide a general overview of the mandatory and management enforced requirements of the Wastewater Division.

### Debt Service Coverage

Debt Service Coverage (DSC) is an important indicator of a utility's indebtedness and ability to pay for debt. DSC is calculated by dividing net revenues by the annual debt service payments. Santa Fe's Wastewater Division has a management target of 1.50x and a required by bond covenant minimum of 1.25x. We project that the DSC ratio will dip below the management target of 1.5x in FY 2014-15 but above the minimum needed. We project the debt service coverage to return above the management target in FY 2015-16 and remain above the target throughout the rest of the study period. The DSC was allowed to dip below the management goal in FY 2014-15 to avoid a larger revenue adjustment of about 7.5% instead of the proposed 4.9%.

Table 12: Wastewater Division Debt Service Coverage

	2014	2015	2016	2017	2018	2019
<b>Debt Service Coverage</b>	1.66	1.44	1.54	1.55	1.59	1.65
<b>Management Goal</b>	1.50	1.50	1.50	1.50	1.50	1.50
<b>Minimum Needed</b>	1.25	1.25	1.25	1.25	1.25	1.25

### Reserve Requirements

Reserve requirements are cash savings and investments that are set aside by the Wastewater Division either by legal requirement, or by management directive. Reserves for the Wastewater Division include a debt reserve, an operating reserve, a capital reserve, and a rate stabilization reserve. The debt reserve is legally required when issuing new debt. Since the Wastewater Division is not proposing any new debt during the study period, no money is projected to be needed in the debt service reserve. The operating reserve is designed to help the utility maintain enough cash to fund its day-to-day operation the operating reserve is set at 90 days of the Division's O&M costs, or 25% of annual operating expenses. As O&M costs are projected to increase in future years, the operating reserve will increase proportionally. The capital and the rate stabilization reserves are two separate reserves established by management directive in case of emergency. \$3 million is set aside for the capital reserve and \$2 million is set aside for the rate stabilization reserve.

### Projected Cash Balance

We evaluated Wastewater Division's projected cash balances and its annual free cash flow. The Division started FY 2013-14 with a cash and investment balance of \$19.8 million, including the reserve requirements. Based on the financing plan used in our analysis, the projection of revenue (including required increases), and our projection of all other expenditures, we estimate that Wastewater Division will have \$7.8 million as the ending cash reserves in FY 2018-19. Cash reserves decrease over the life of the study period due to increased capital project costs, but will remain above the Division's reserve requirements in all years. A summary of Wastewater Division's projected cash balance, reserve requirements (minimum cash balance), and fund variance is shown in Table 13.



Table 13: Wastewater Division Cash Reserves Summary

	2014	2015	2016	2017	2018	2019
<b>Projected Cash Balance</b>	\$18,075,046	\$14,718,305	\$11,923,022	\$8,416,467	\$7,889,060	\$7,751,722
<b>Reserve Requirements (Minimum Fund Balance)</b>	7,309,000	7,370,000	7,433,000	7,560,000	7,628,000	7,699,000
<b>Fund Variance</b>	<b>\$10,766,046</b>	<b>\$7,348,305</b>	<b>\$4,490,022</b>	<b>\$856,467</b>	<b>\$261,060</b>	<b>\$52,722</b>