ACTION SHEET PUBLIC UTILITES COMMITTEE MEETING OF 4/2/14
ISSUE NO. 9 Water Division, Wastewater Management Division and Environmental Services Division Financial Plan Updates. (Nick Schiavo and Fernando Aranda)
PUBLIC UTILITES COMMITTEE ACTION: Approved to forward to 4/21/14 Finance Committee and 5/14/14 City Council meeting.
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	Excused		

City of Santa Fe, New Mexico

memo

Date: April 22, 2014

To: Finance Committee

From: Nicholas Schiavo, Public Utilities Department and Water Division Director/NS

RE: City of Santa Fe's 2014 Water, Wastewater, and Environmental Services Financial Plan Findings.

ITEM AND ISSUE:

Financial update for the Water, Wastewater, and Environmental Services Divisions by MWH Global

BACKGROUND AND SUMMARY:

The attached memorandum summarizes MWH's findings with respect to their update of the current and projected financial condition of the City of Santa Fe's water, wastewater, and environmental service utilities divisions.

MWH Global last updated the City's Utilities Divisions financial plans a year ago for FY 13/14. It appears that few things have changed since the last update and the all of the divisions have stayed in good financial health. The status of the three divisions is outlined below.

Water Division: MWH Global believes that no additional rate increases will be necessary through fiscal year 2018-19, as the division has a strong cash balance and sufficient debt service coverage. The Water Division implemented its last approved rate increase of 8.2% in FY 12/13.

Wastewater Management Division: MWH has projected that a rate increase of 4.9% for five years from FY14-15 through FY18-19 will be necessary 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 decrease in bill usage. These decreases in revenues along with increases in operating expenses negatively affected the debt service coverage requirement.

Environmental Services Division: MWH Global projects that an additional rate adjustment of 4.6% for a three year period starting in FY16/17 in addition to the already approved 3.2% increase which started in FY 12/13 will be necessary.

The additional projected increase is caused in part by a lower than projected influx of new customers associated with January 2014 annexation. Environmental Services plans to propose construction of a new Fleet Maintenance and Administration building to be located at Siler Road in FY16/17.

It is staff's intention to bring a draft Wastewater rate increase ordinance before PUC, Finance and City Council for approval in June 2014. The presentation at those meetings will identify how the rate increase will affect all rate payers.

RECOMMENDATION:

Please forward this presentation with any recommendations for review and approval at the May 14, 2014 City Council meeting.

MWH BUSINESS SOLUTIONS

MEMORANDUM

TO:	Nick Schiavo, City of Santa Fe	DATE:	March 24, 2014
FROM:	Jason Mumm	CC:	Fernando Aranda

SUBJECT: **City of Santa Fe's 2014 Water, Wastewater, and Environmental Services Financial Plan Findings**

This memorandum summarizes our findings with respect to our update of the current and projected financial condition of the City of Santa Fe's water, wastewater, and environmental service utilities divisions.

MWH Global last updated the City's Utilities Divisions financial plans a year ago for fiscal year 2013-2014. Few things changed in this latest update and the Utilities Divisions stayed in good financial health. The continuous monitoring and update of the long-term financial plans and assumptions have been important in maintaining the financial health for each utility, especially in light of flat revenues and low growth.

Table 1 below summarizes the proposed rate adjustment for the next five years for each utility division.

Table 1: Proposed Rate Adjustments

Year	Water Division	Wastewater Division	Environmental Services Division
2013-14	0.0%	0.0%	3.2%
2014-15	0.0%	4.9%	3.2%
2015-16	0.0%	4.9%	3.2%
2016-17	0.0%	4.9%	4.6%
2017-18	0.0%	4.9%	4.6%
2018-19	0.0%	4.9%	4.6%

The 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 fiscal year 2018-19.

For the wastewater division, we are projecting a rate adjustment of 4.9% for five years from FY2014-15 through FY2018-19 mainly 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 decrease in bill 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 FY2012-13. We are projecting additional rate adjustment of 4.6% for three years starting in FY2016-17. The additional projected increases were caused by a reduction in the new customers expected by annexation of 28%. A lower expected number of customers negatively affect the retail revenues of the Division. Environmental Services expects the construction of the Siler Road facility in 2016-17 which will be funded in part with a loan from the water division of $3.5M in FY2016-17.

Water Division

Our update shows that the water division has maintained good financial performance, with key ratios remaining strong helped by lower than projected capital costs in FY2012-13. MWH is projecting 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. Table 2 compares the projected rate revenue requirements from last year's update to this year's update.

Table 2: Water Division Rate Revenue Comparison (Millions)

Year	Last Year's Update	This Year's Update
2011-12	$33.3	$33.3
2012-13	$35.7	$37.5
2013-14	$37.3	$37.0
2014-15	$37.5	$37.1
2015-16	$37.7	$37.1
2016-17	$37.9	$37.1
2017-18	$38.1	$37.2

Fiscal year 2012-13 was the last year of the five years of approved annual 8.2% increases. We do not project the need for additional rate adjustments or the need for debt financing through fiscal year 2017-18.

Figure 1 shows the comparison of debt service coverage between last year's update and this year's update. Last year's plan showed lower debt coverage in fiscal year 2012-13, the actual coverage was higher due to the higher than estimated water sales and lower than estimated operating expenses. We are projecting the debt service coverage will remain over 2 times net revenues for the rest of the study period. Compared to last year's update the projected debt service coverage will be lower due to the reduction in retail revenues due to the loss of the 1,400 retail customers to Santa Fe County.

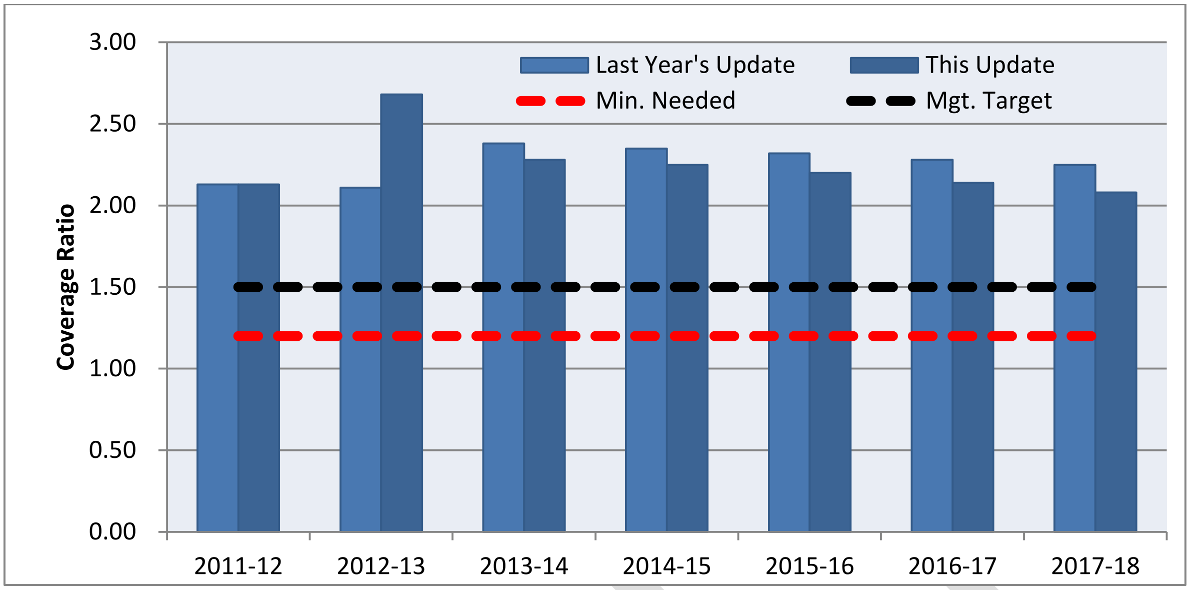


Figure 1: Water Division Debt Service Coverage Comparison

Figure 2 shows the comparison of cash balance reserves between last year's update and this year's update. Reserve targets include: 90 days of O&M cash on hand ($ varies), required debt reserves ($ varies), capital reserve ($3m), rate stabilization ($2m). Projected cash balance reflects higher than expected revenues for FY2012-13 and a lower than projected CIP spending for that same year. Cash balances are still projected to be above management targets throughout the study period.

Figure 3 shows the comparison of the capital improvement plan between last year's update and this year's update. Capital improvements are the main cause of the increase in cash balance in FY2012-13. As show in Figure 3 in FY2012-13, only $3.5 million of the projected $37.2 million was spent. The Water division will schedule some of the capital improvements not completed in FY2012-13 to later years. The total projected CIP is $32 million higher than what it was projected last year. These are some of the most important upcoming capital improvements to begin construction in the next 2 years:

- Reservoir Improvement Project - $8,900,000
- Hospital Tank Rehabilitation $3,000,000
- Pumping projects $3,340,000
- Buckman Parallel Trunk $6.000,000
- Priority Main line replacements $3,600,000
- Master plan line extensions $3,600,000

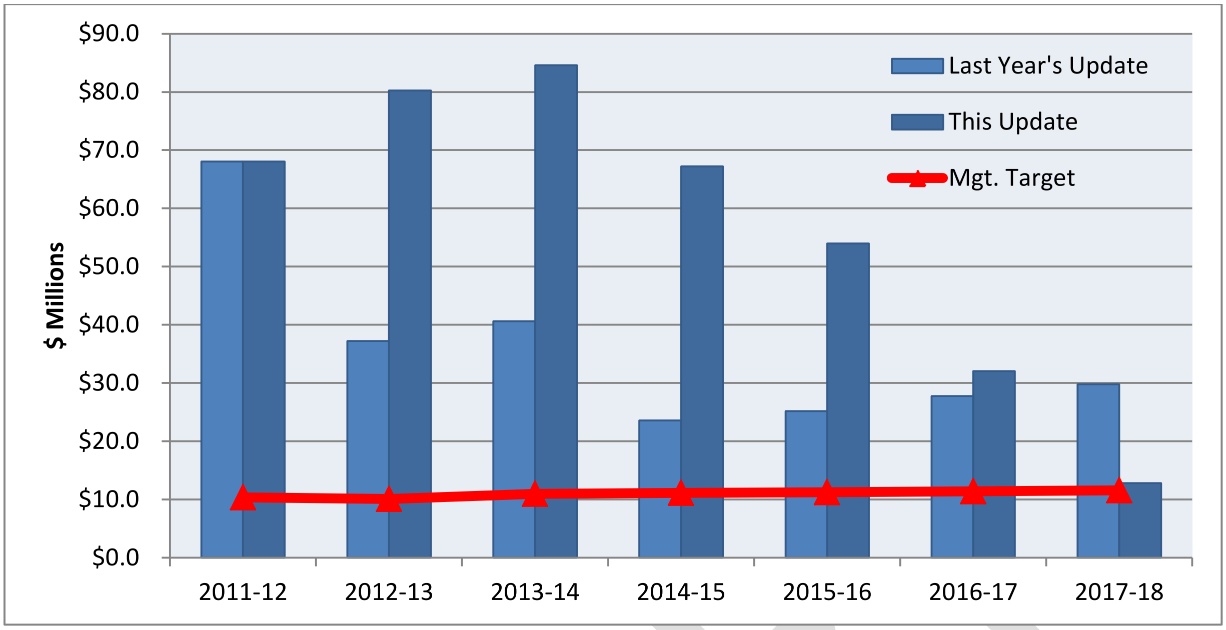


Figure 2: Water Division Cash Balance Reserves Comparison

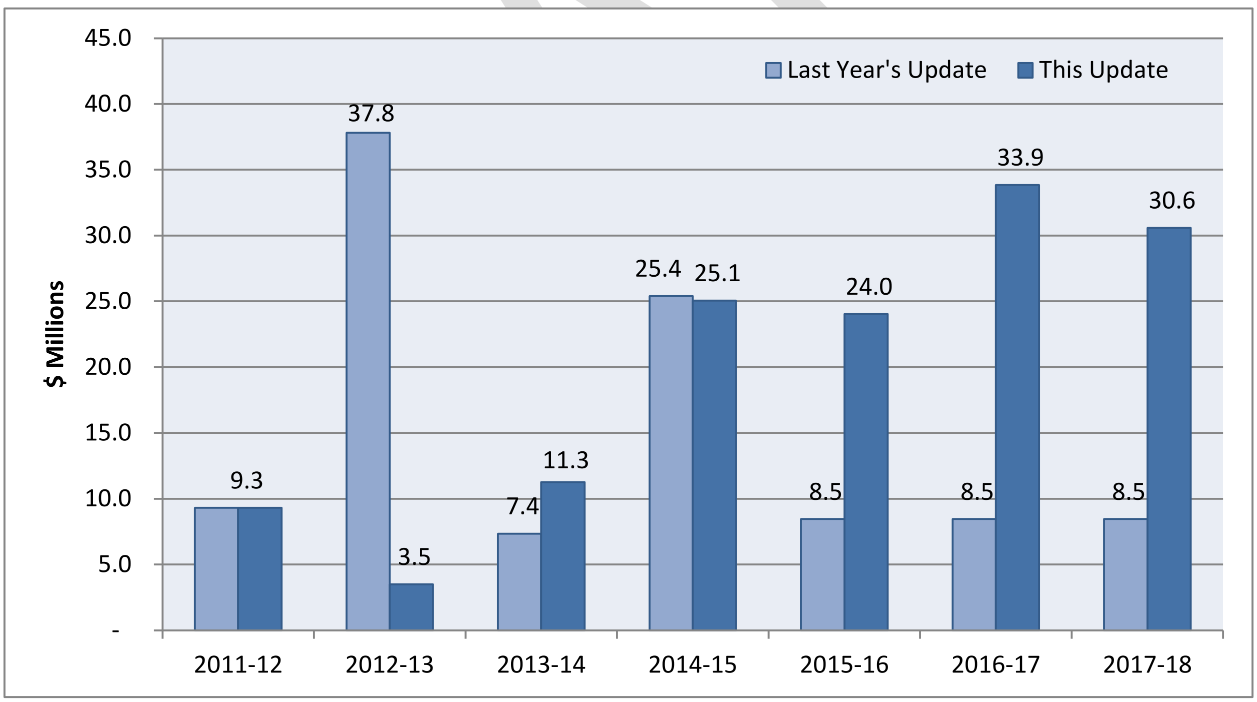


Figure 3: Water Division CIP Comparison

Wastewater Division

Our update shows that the Wastewater division needs rate adjustments in 2014-15 through 2018-19 to meet debt service coverage requirements and fund its capital improvement plan. Table 4 compares the projected rate revenue requirements from last year's update to this year's update.

Table 3: Wastewater Division Rate Revenue Comparison (Millions)

Year	Last Year's Update	This Year's Update
2011-12	$10.6	$10.6
2012-13	$10.8	$10.5
2013-14	$10.9	$10.5
2014-15	$11.1	$10.8
2015-16	$11.5	$11.4
2016-17	$11.9	$12.1
2017-18	$12.3	$12.7

Wastewater retail revenues have decreased for two years in a row. Billed usage has decreased by 2.4% annually from compared to FY2010-11. In addition to decreases in the billed usage, fiscal year 2012-13 had developments that negatively impacted revenues. These developments were:

- The loss of Las Campanas' effluent revenues $0.3 million
- Loss of about 700 customers to Santa Fe County

These developments along with the need to meet debt service coverage requirements created the need for five years of rate adjustments at 4.9% from 2014-15 through 2018-19 (only through 2017-18 shown). As presented in Table 5 the projected rate adjustments in this year's update are higher than last year. The continuous decreases in billed revenues have caused the need for higher rate increases even though the total revenues generated by the 4.9% increase are actually lower throughout the study period.

Table 4: Wastewater Division Rate Adjustments Comparison

Year	Last Year's Update	This Year's Update
2012-13	0.0%	0.0%
2013-14	0.0%	0.0%
2014-15	3.1%	4.9%
2015-16	3.1%	4.9%
2016-17	3.1%	4.9%
2017-18	3.1%	4.9%

The rate increases are necessary to meet debt service coverage as well as to pay for higher CIP costs over the study period as compared to last year's projection.

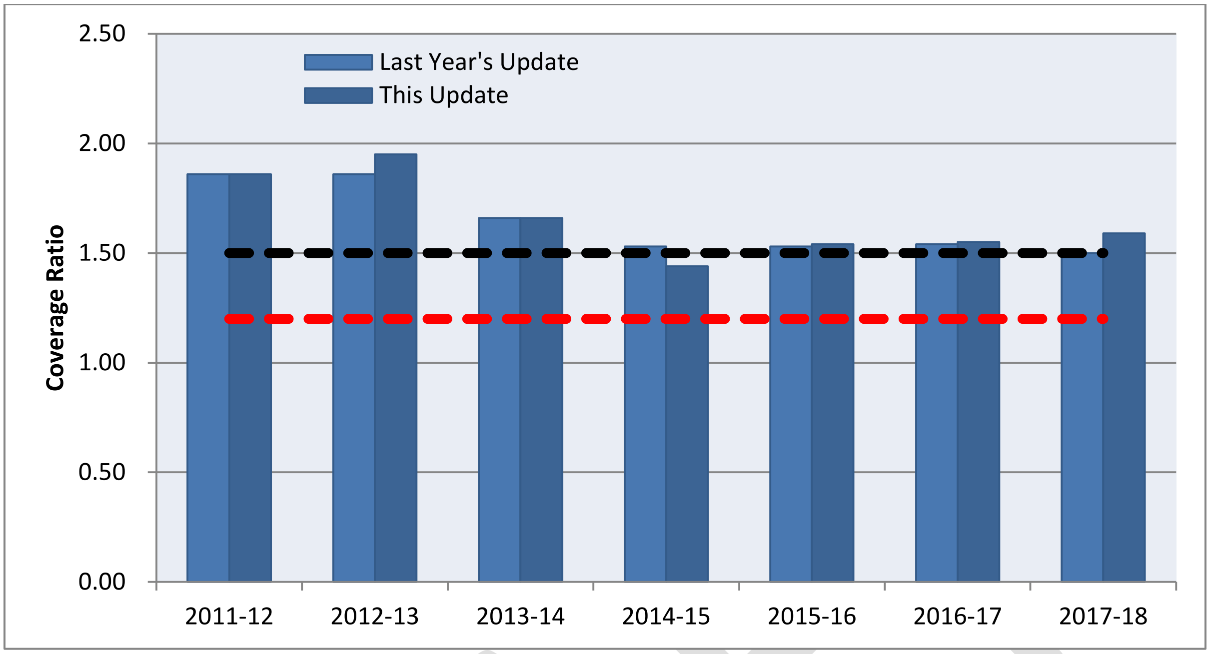


Figure 4: Wastewater Division Debt Service Coverage Comparison

As shown in Figure 4, debt service coverage for 2013-14 remains very close to what was previously projected in the last update. We project that the debt service coverage ratio will dip below the management target in FY2014-15 but above the minimum required. We project the debt service coverage to return above the management target in FY2015-16 and to remain above the target throughout the rest of the study period. The debt service coverage was allowed to dip below the management target in FY2014-15 to avoid a larger revenue adjustment of about 7.5% instead of the proposed 4.9%.

Figure 5 shows the comparison of cash balance reserves between last year's update and this year's update. Reserve targets include: 90 days O&M cash on hand ($varies); capital reserve ($3m); and rate stabilization ($2m). The difference in cash balance is mainly due to lower than projected capital costs.

The wastewater division cash balance is projected to be higher than last year's update for FY2013-14 the main reason is a lower than expected CIP spending for that year. Starting in FY2014-15 the projected cash balances are expected to be lower than last year's projections due to higher O&M and CIP expenditures in that period and lower revenues.

Figure 6 shows the comparison of the CIP projects between last year's update and this year's update. The total CIP for the study period increased by $2M in this year's update mainly due to the inclusion of a digester replacement in FY2016-17. It is important to note, that the wastewater division expects to initiate a treatment and collection master plan in FY2013-14 and have completed 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 requiring higher rate adjustments.

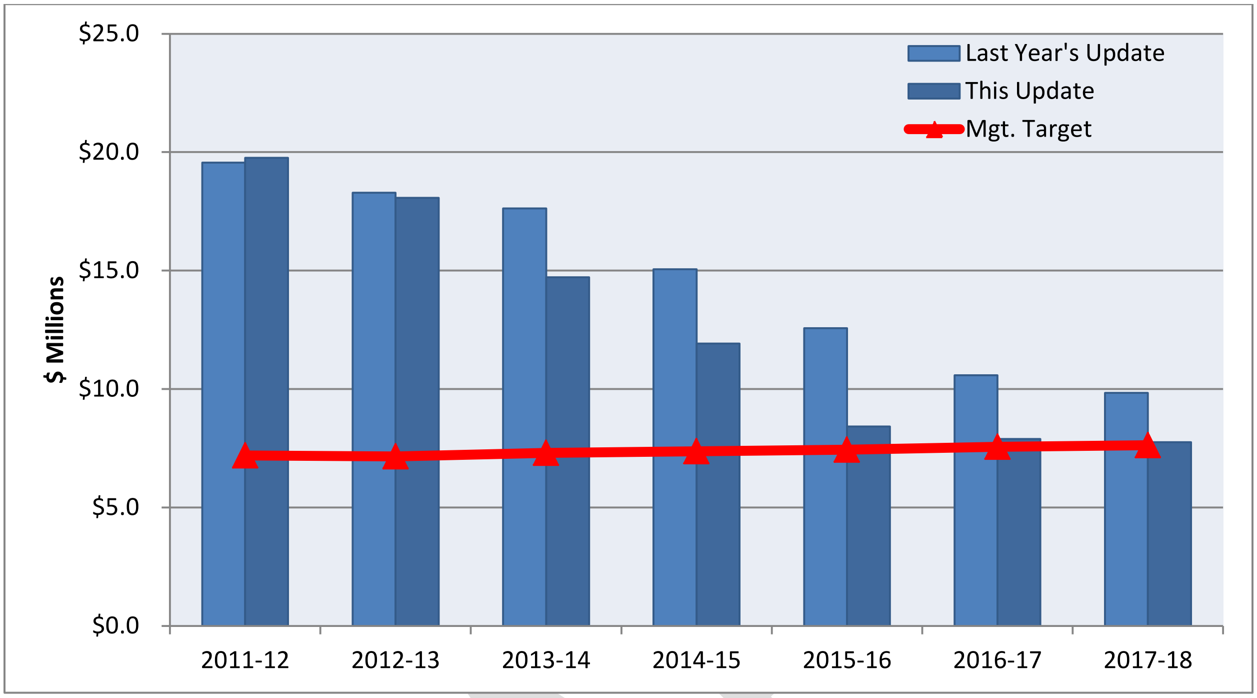


Figure 5: Wastewater Division Cash Balance Reserves Comparison

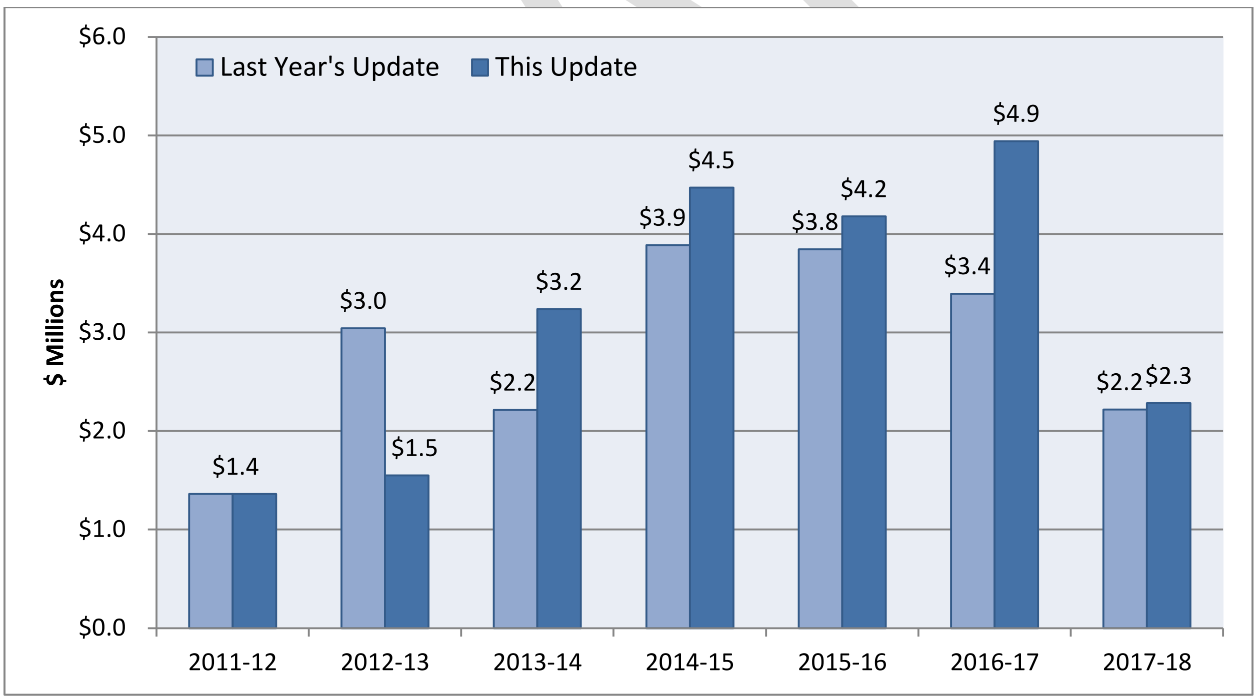


Figure 6: Wastewater Division CIP Comparison

The five years of 4.9% rate increases (only four shown) presented in this update are required to cover increased capital costs and to meet debt service coverage.

The 4.9% increase is required in FY2014-15 but higher increases might be necessary once the collection and treatment master plans are completed.

Environmental Services Division

Our Financial plan update of the environmental services division found that the previously recommended increases of 3.2% will maintain the utility in good financial health until FY2015-16 but an additional increase of 4.6% will be necessary in FY2016-17 through FY2018-19. The continuous monitoring and update of the long-term financial plans and assumptions have been important in maintaining the Division financial health, especially in light of flat revenues and low growth.

Since last year's update a few important items changed for the Environmental Services Division. The expected annexation of the County's customers started in FY2012-13 but is expected to be about 30% lower than previously expected this represents a loss of about 2,200 customers. This new annexation assumption has a negative impact on revenues and causes the need for higher increases after FY2016-17

Table 6 shows the rate revenue comparison between last year's update and this year's update. The projected revenues for this year's update are lower than last year's update mainly because of the new lower annexation assumption. Although the lower annexation affects the projected revenues it also reduces capital and operating costs which helps the Environmental Services Division maintain the fund balance and debt Service coverage targets.

Table 6: Environmental Services Division Rate Revenue Comparison (Millions)

Year	Last Year's Update	This Year's Update
2011-12	$9.2	$9.2
2012-13	$9.6	$9.6
2013-14	$10.1	$10.2
2014-15	$11.7	$10.9
2015-16	$12.3	$11.4
2016-17	$12.8	$12.1
2017-18	$13.1	$12.5

Table 7 presents rate adjustment comparisons between last year's update and this year's update. The City implemented the proposed rate increases from last year's update which will maintain the Environmental Services Division target balance and debt service coverage until FY2015-16. This year's update requires a 4.6% rate increase in FY2016-17 through FY2018-19. The reasons for the increases are the lower expected revenues due to the new annexation assumptions, the Siler Road facility, and to meet balance targets.

Table 7: Environmental Services Division Rate Adjustments Comparison

Year	Last Year's Update	This Year's Update
2011-12	0.0%	0.0%
2012-13	3.2%	3.2%
2013-14	3.2%	3.2%
2014-15	3.2%	3.2%
2015-16	3.2%	3.2%
2016-17	2.6%	4.6%
2017-18	2.6%	4.6%

The Environmental Services Division has delayed the construction of the Siler Road facility until FY2016-17. The Siler Road facility will merge the all the operations for Division in one place, as well as, it will provide sufficient space for the maintenance of the Division's fleet which the current facility can't. The new facility will be certified to service compacted natural gas (CNG) to the Division's new natural Gas Vehicles. This facility is expected to costs $2.7M and is one of the drivers requiring rate increases of 4.6% starting in 2016-17.

Figure 8 shows the debt service comparison between last year's and this year's update. The debt service coverage is projected to be higher than last year because in this year's update we are not projecting the issue of debt to pay for the Siler Road Facility instead the funding is expected to be from a loan from the water Division.

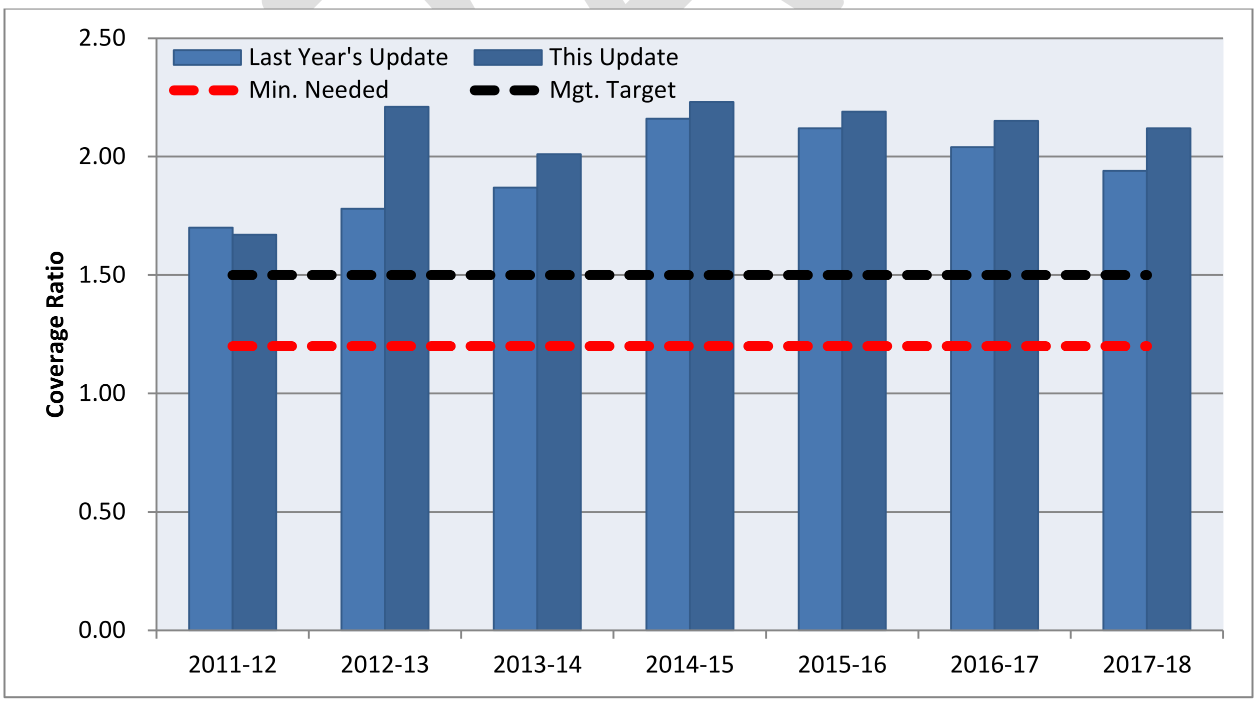


Figure 8: Environmental Service Division Debt Service Coverage Comparison

Figure 9 shows the fund balance reserve targets between last year's and this year's update. In FY2013-14 the fund balance is higher than what was projected in last year's update. This is because of the lower annexation assumptions which caused a re-scheduling of the capital expenses necessary to serve the new customers. The fund balance reserve targets are based on 90 days of O&M; capital reserve set at $800,000 in 2013-14 growing to $900k by 2014-15.

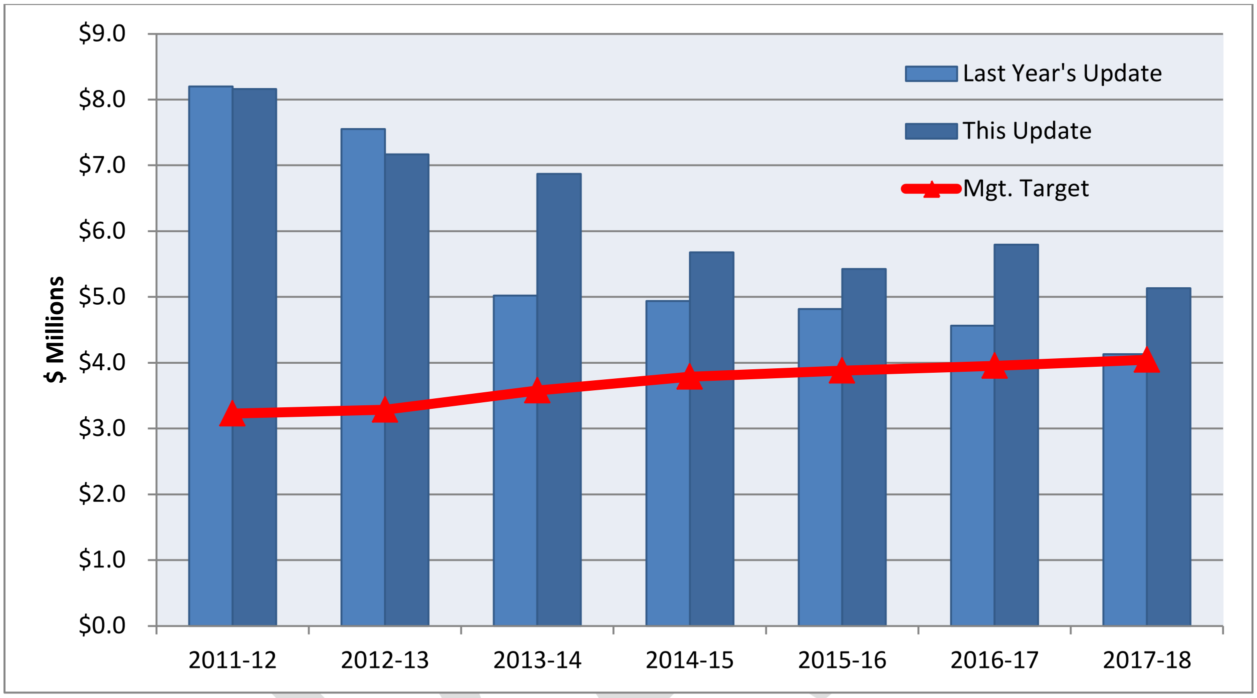


Figure 9: Environmental Service Division Fund Balance Reserves Comparison

Table 8 shows the comparison between last year's and this year's capital improvement plans. The difference in planned improvements was caused by the lower annexation assumptions which changed the capital improvements necessary to serve the new customers. Also the Siler Road facility was delayed to FY2016-17. The total CIP was $730,000 lower than last year's update.

Table 8: Environmental Services Division Capital Improvements Comparison (Millions)

Year	Last Year's Update	This Year's Update
2011-12	$0.0	$0.0
2012-13	$1.2	$1.2
2013-14	$3.2	$1.4
2014-15	$4.0	$2.3
2015-16	$1.3	$1.3
2016-17	$1.3	$3.9
2017-18	$1.3	$1.4

May 6, 2014

City of Santa Fe 2013-14 Financial Water, Wastewater, and Environmental Services Divisions

Finance Committee

MWH®

BUILDING A BETTER WORLD

Agenda

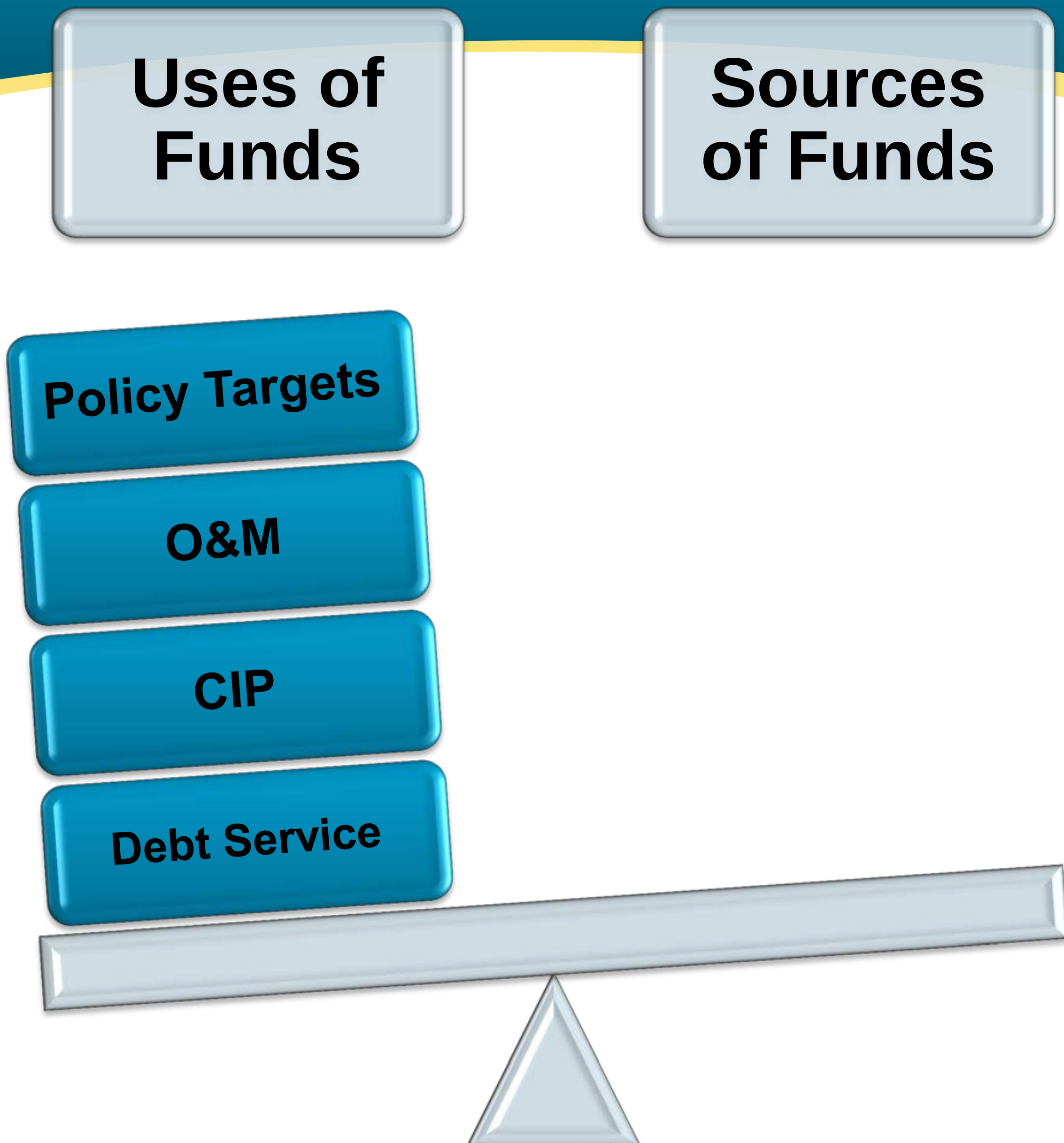
Last Update:
Feb. 2013

Start This Update:
Oct. 2013

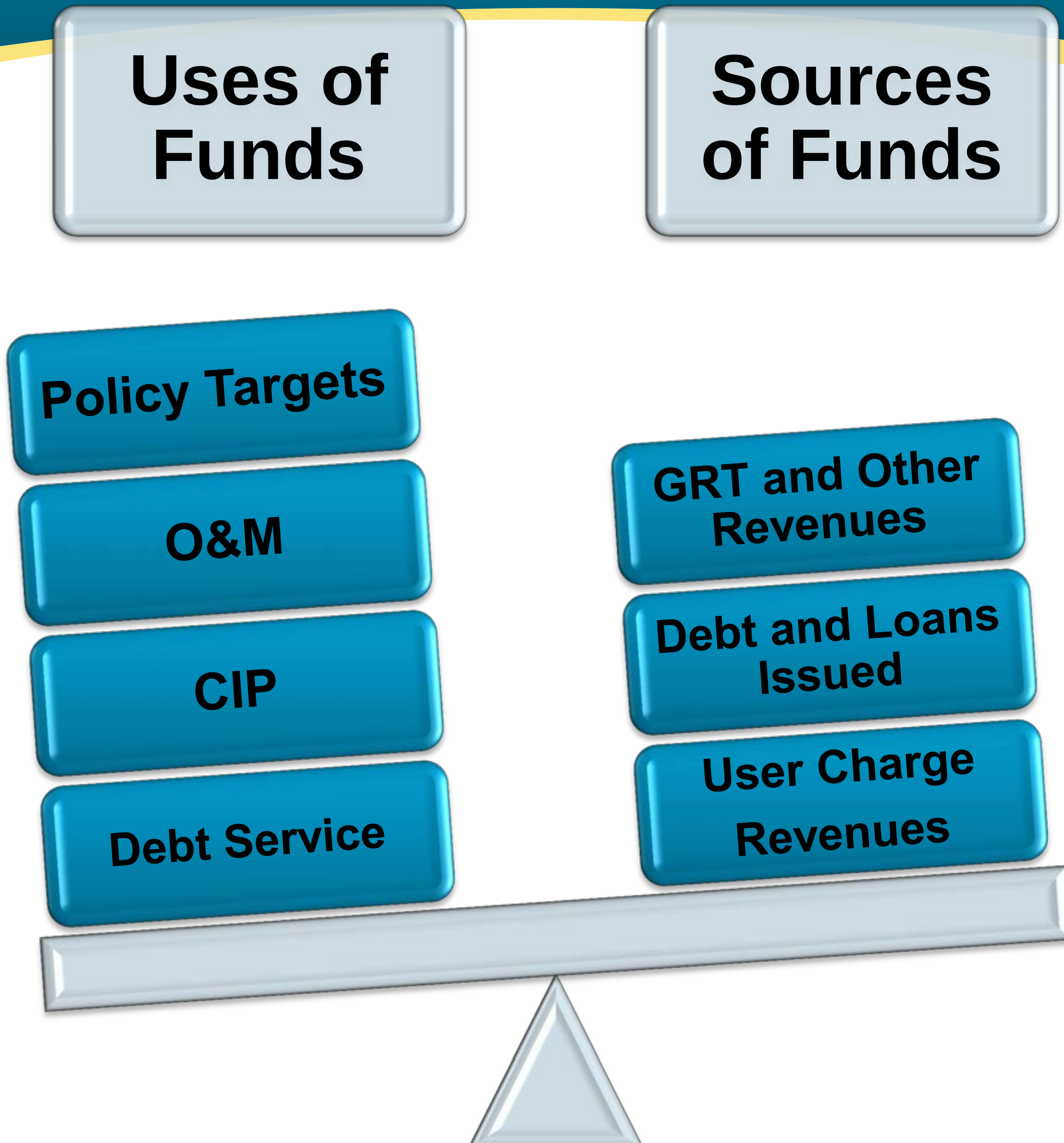
Start Next Update:
Aug. 2014

- Financial Panning 101
- Water Division
- Environmental Services Division
- Wastewater Division
- Wastewater COS Rates

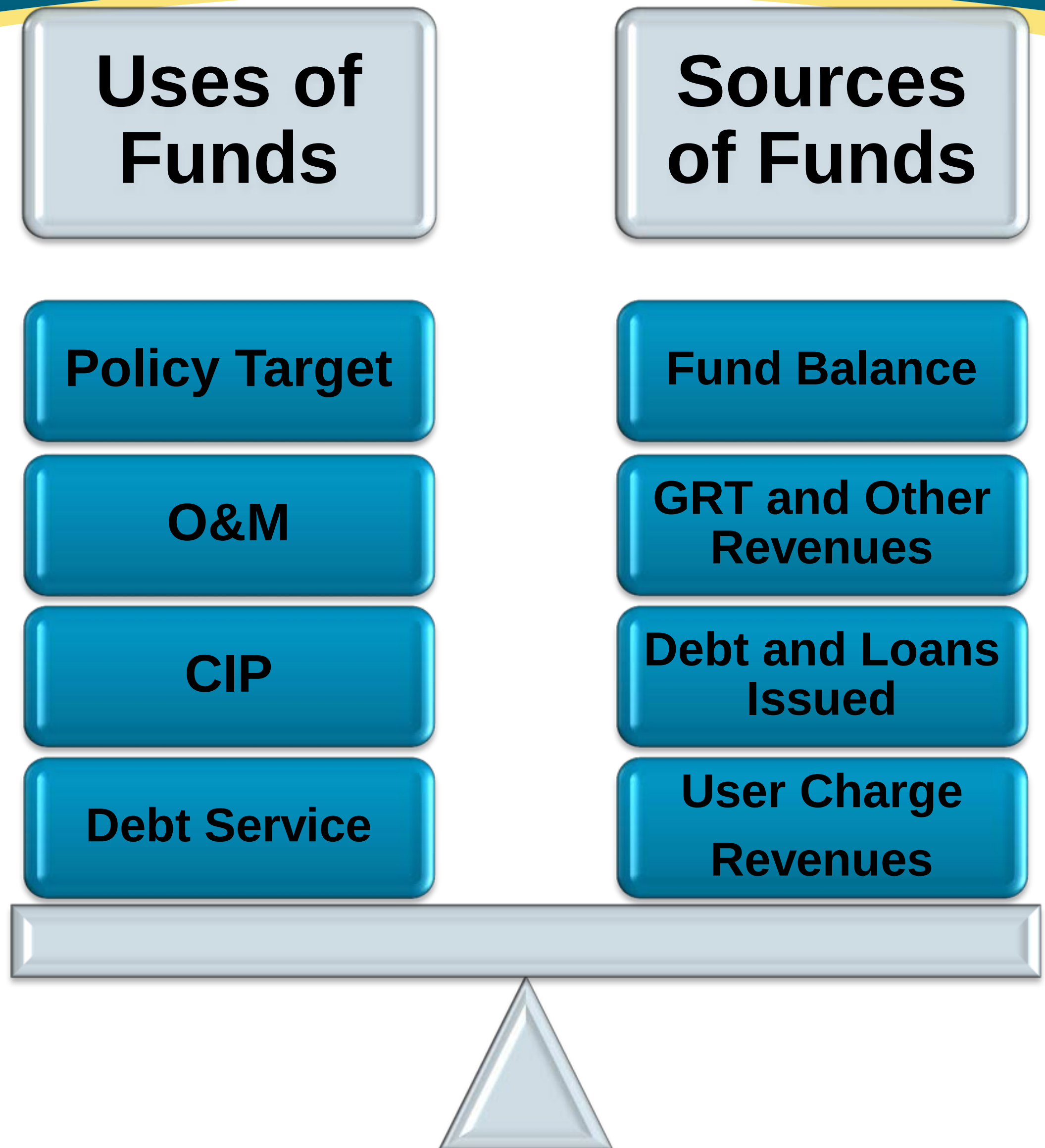
Financial Planning 101



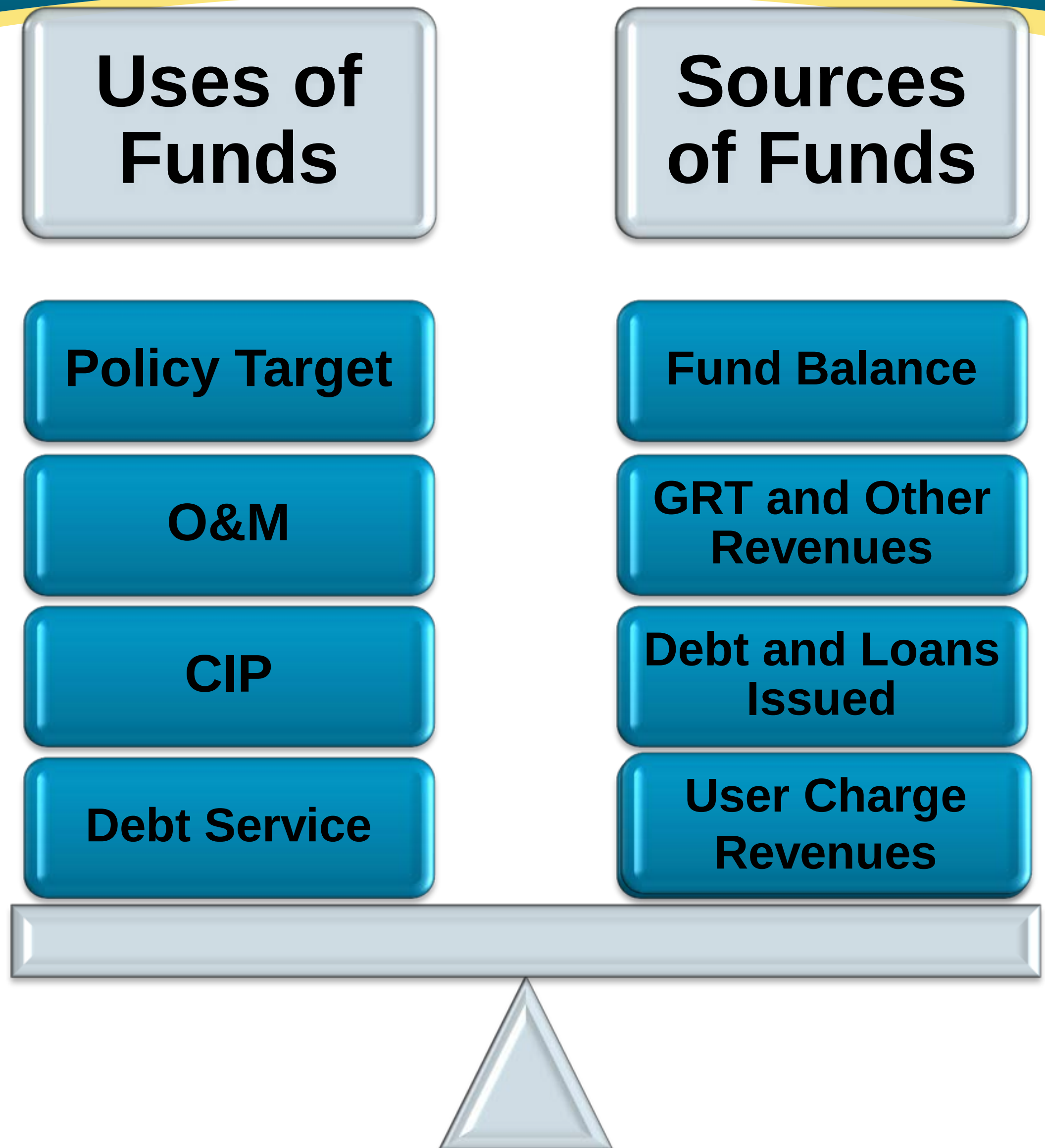
Financial Planning 101



Financial Plan



Financial Plan



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

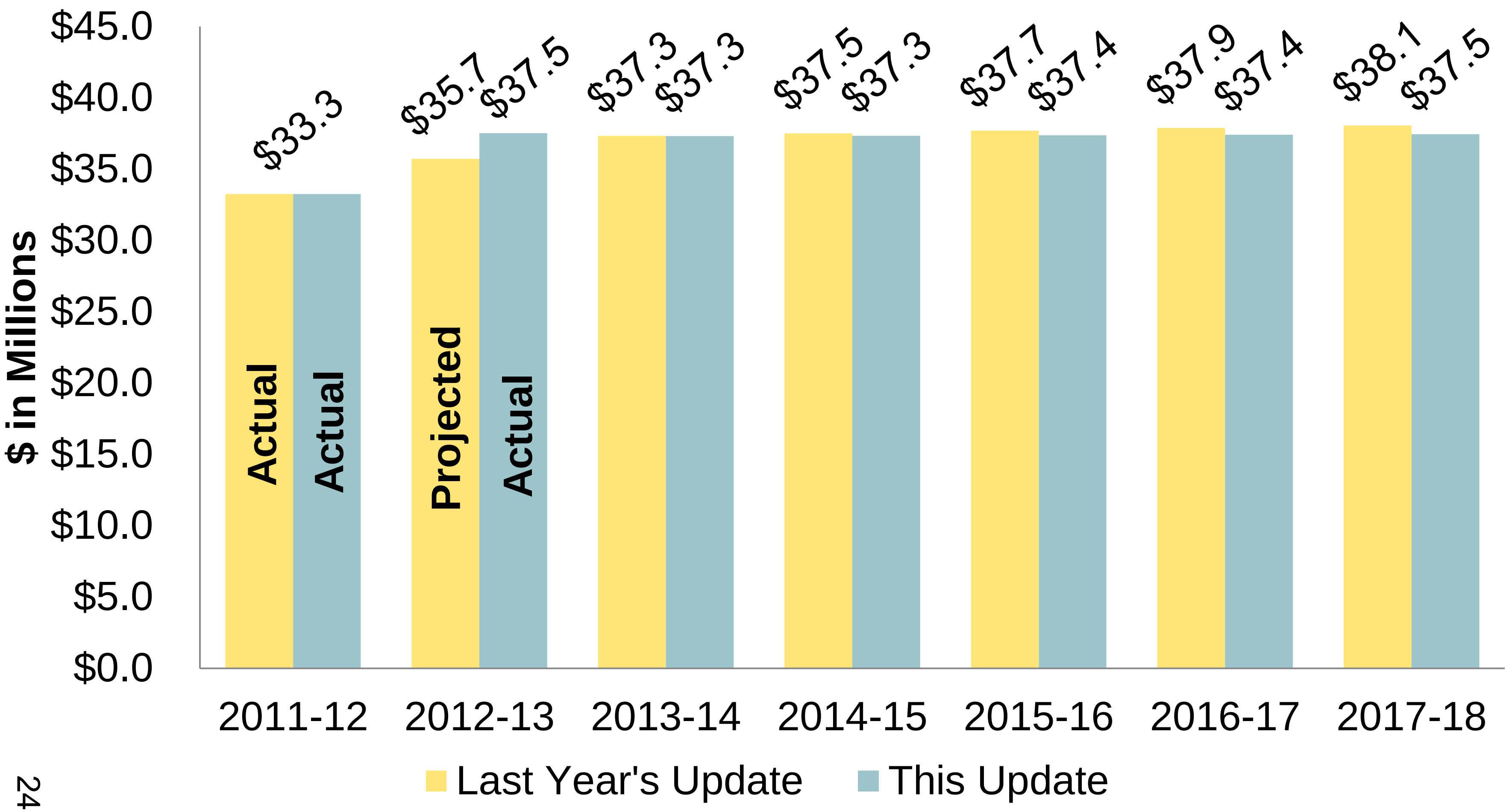
Financial Plan Policy Decision Parameters

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

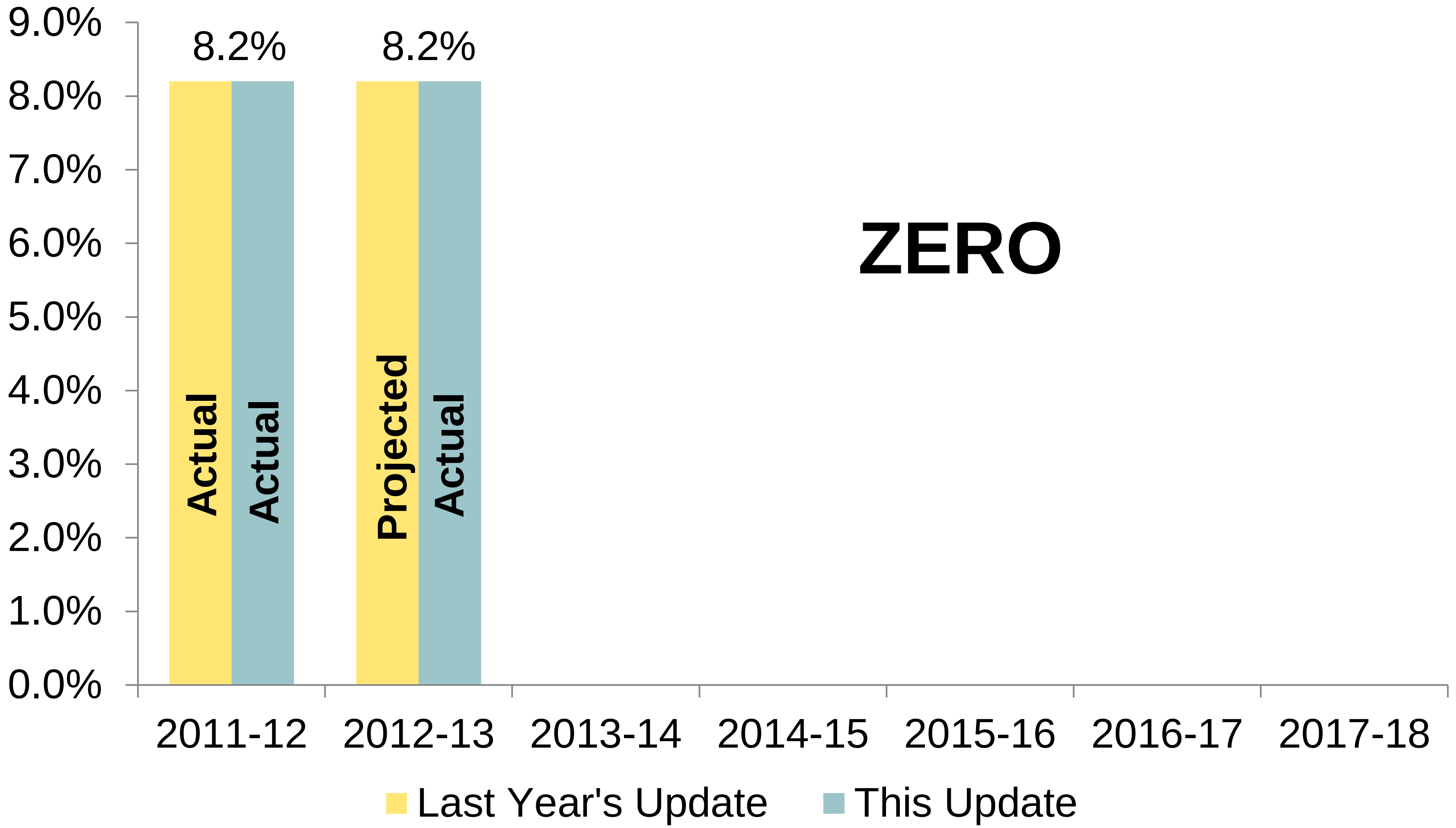
Water Division

- The 2013-14 financial update shows strong overall projected performance with key ratios declining slightly due to decrease in sales produced by the loss of 1,400 customers to the County.

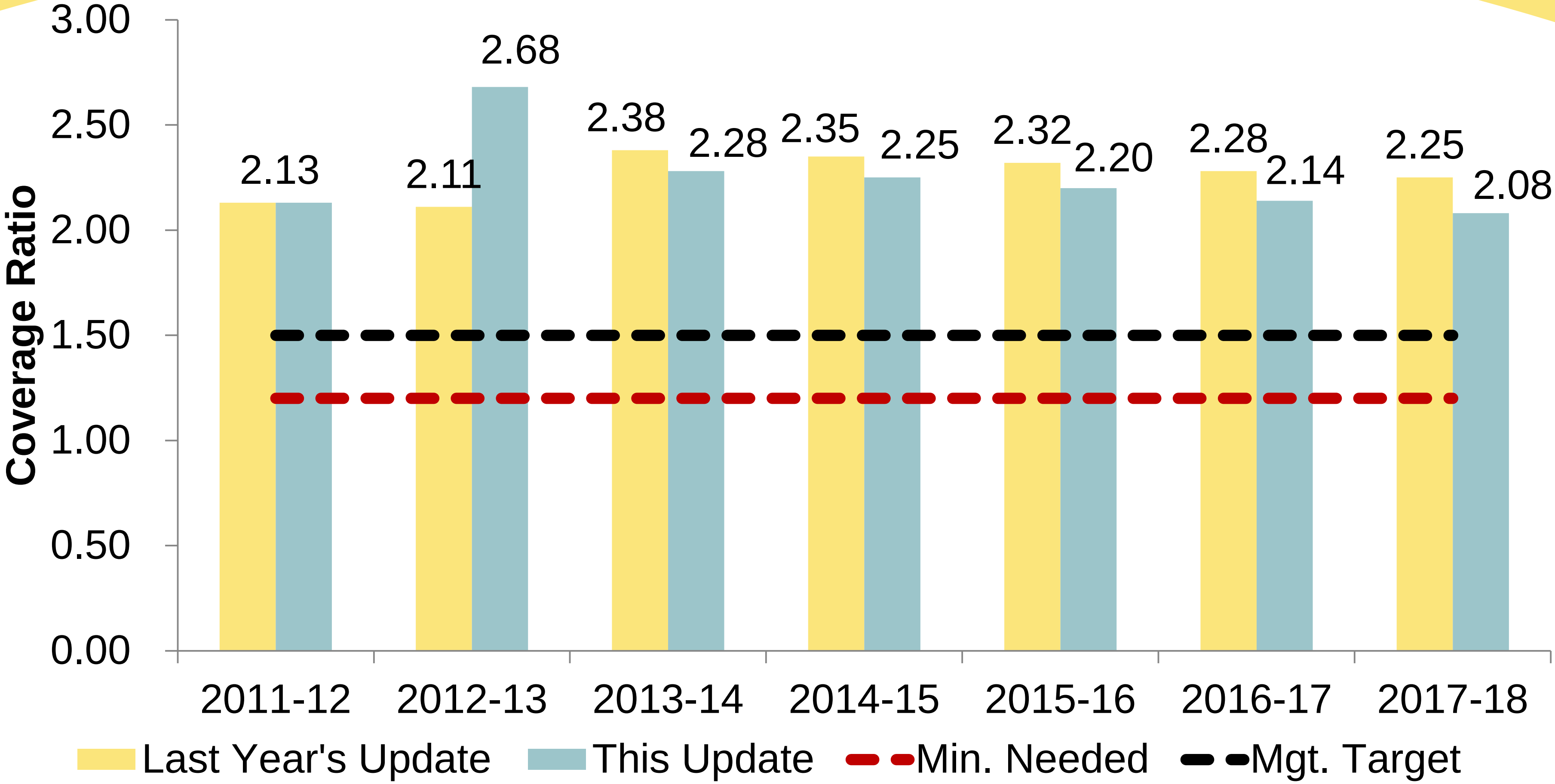
Water Division: Rate Requirements



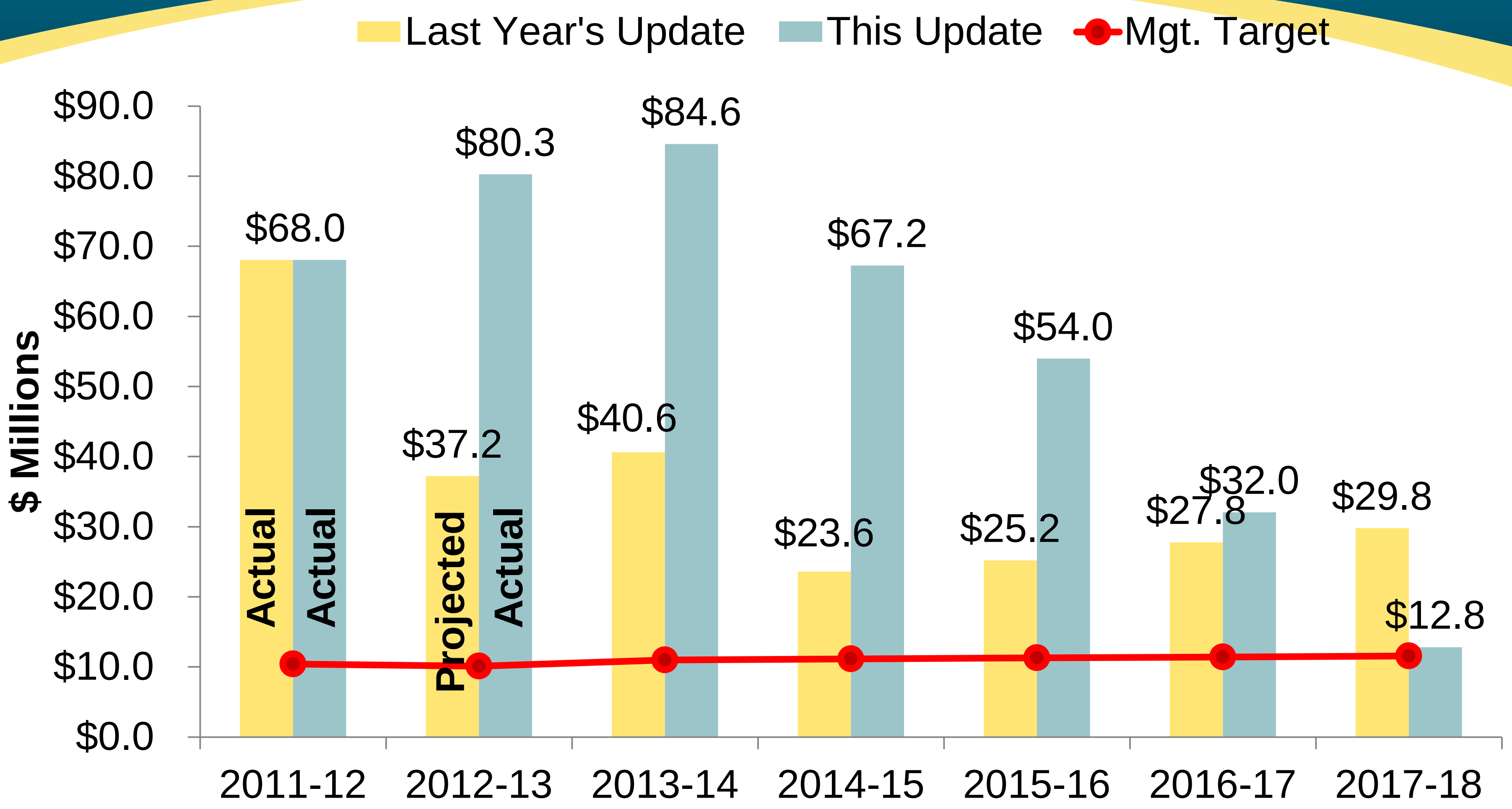
Water Division: Rate Increases



Water Division: Debt Coverage

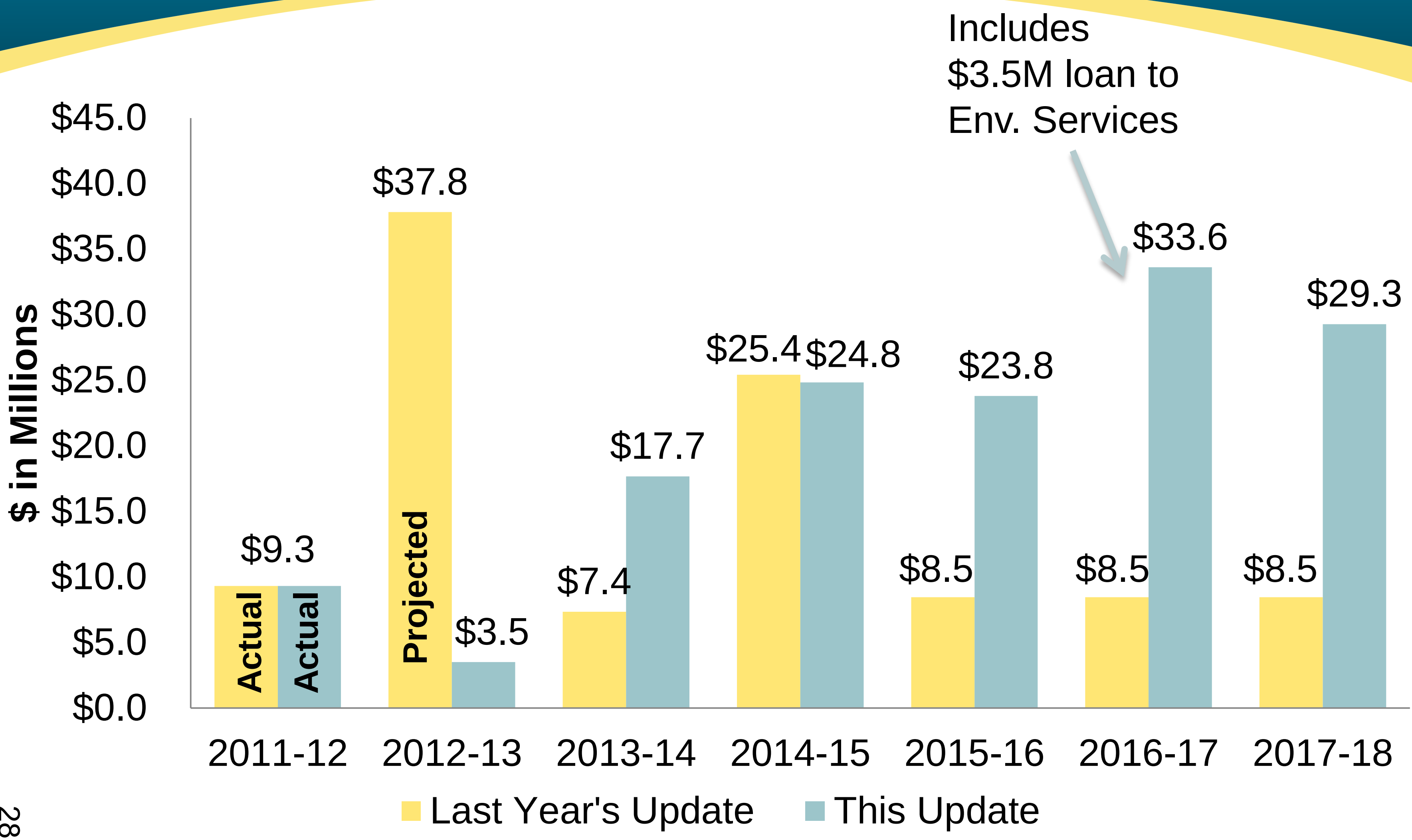


Water Division: Fund Balance



Targets: 90-days O&M ($6M), Capital Reserve ($3M) Rate Stabilization ($2M)

Water Division: CIP



Water Division Upcoming Improvements

- Reservoir Improvement Project - $8,900,000
- Hospital Tank Rehabilitation $3,000,000
- Pumping Projects $3,340,000
- Buckman Parallel Trunk $6,000,000
- Master plan line extensions $3,600,000

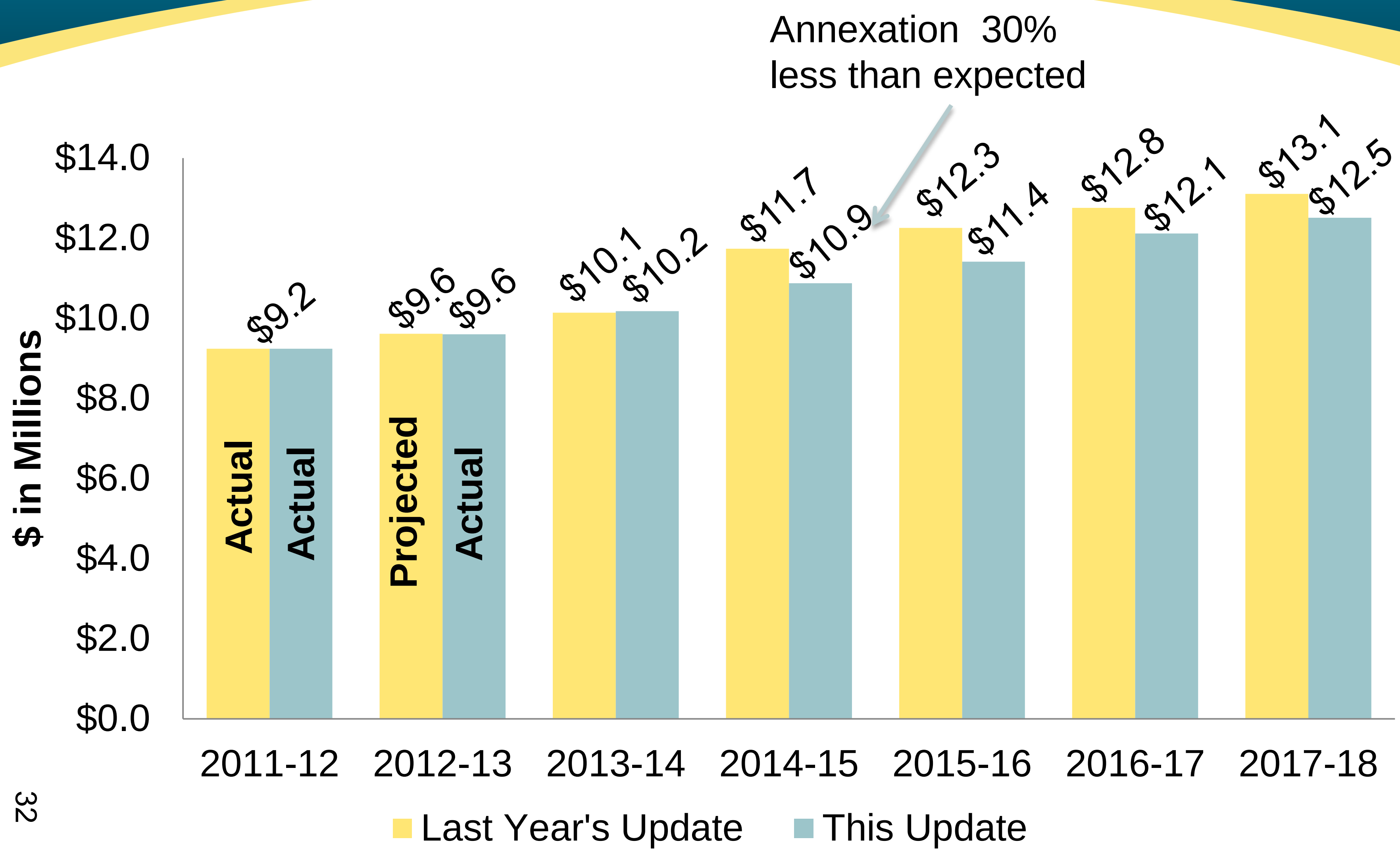
Water Division

- The accuracy of the projections is tied to the completion of the planned CIP projects
- If projects are not completed can lead to higher fund balances

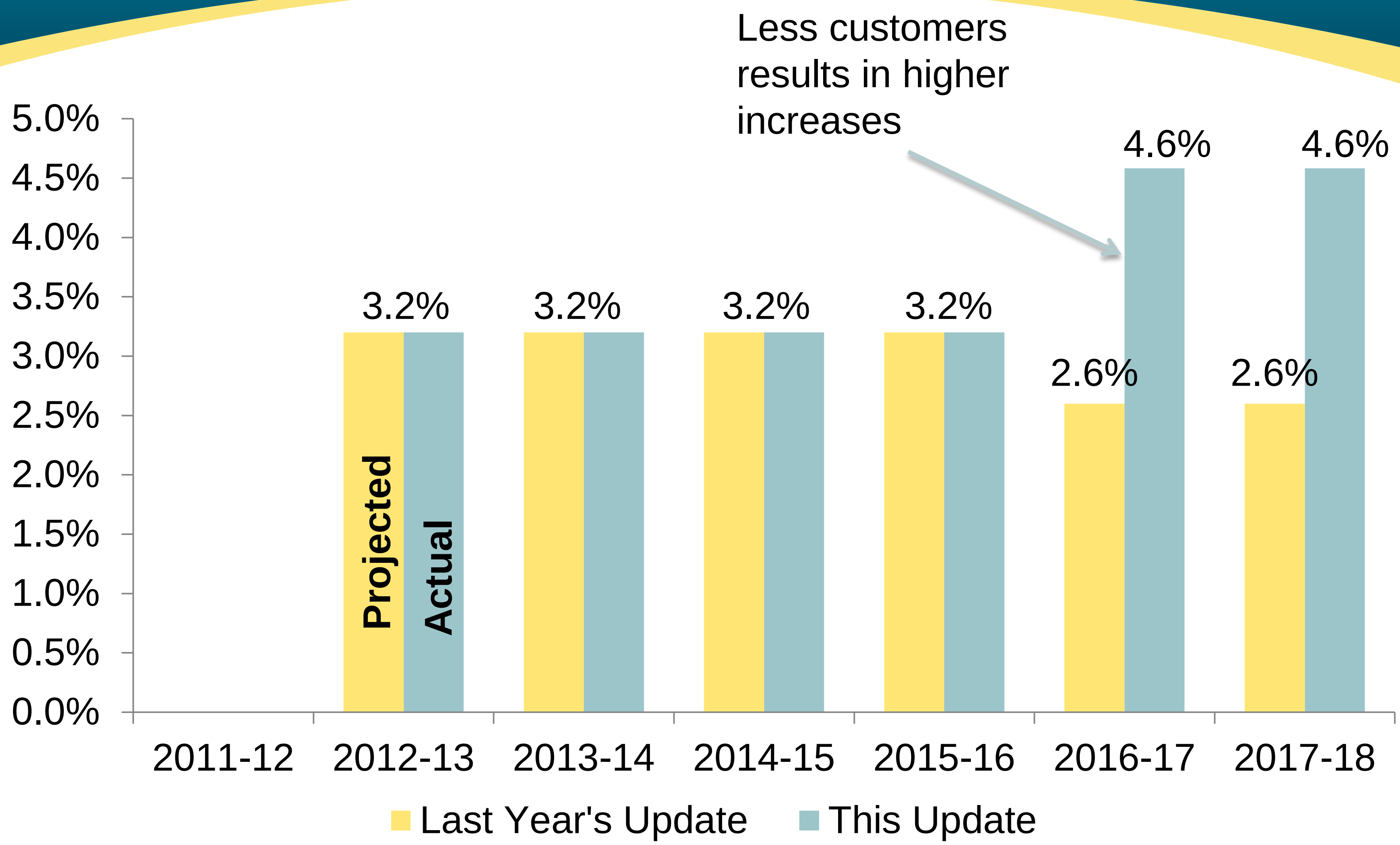
Environmental Services Division

- The 2013-14 financial update shows that the adopted rate increases of 3.2% will maintain the Division's key ratios until FY2015-16.
- Lower annexation assumptions caused decrease in projected revenues.
- A rate increase of 4.6% is necessary starting in FY2016-17 in order to continue to meet key ratios.

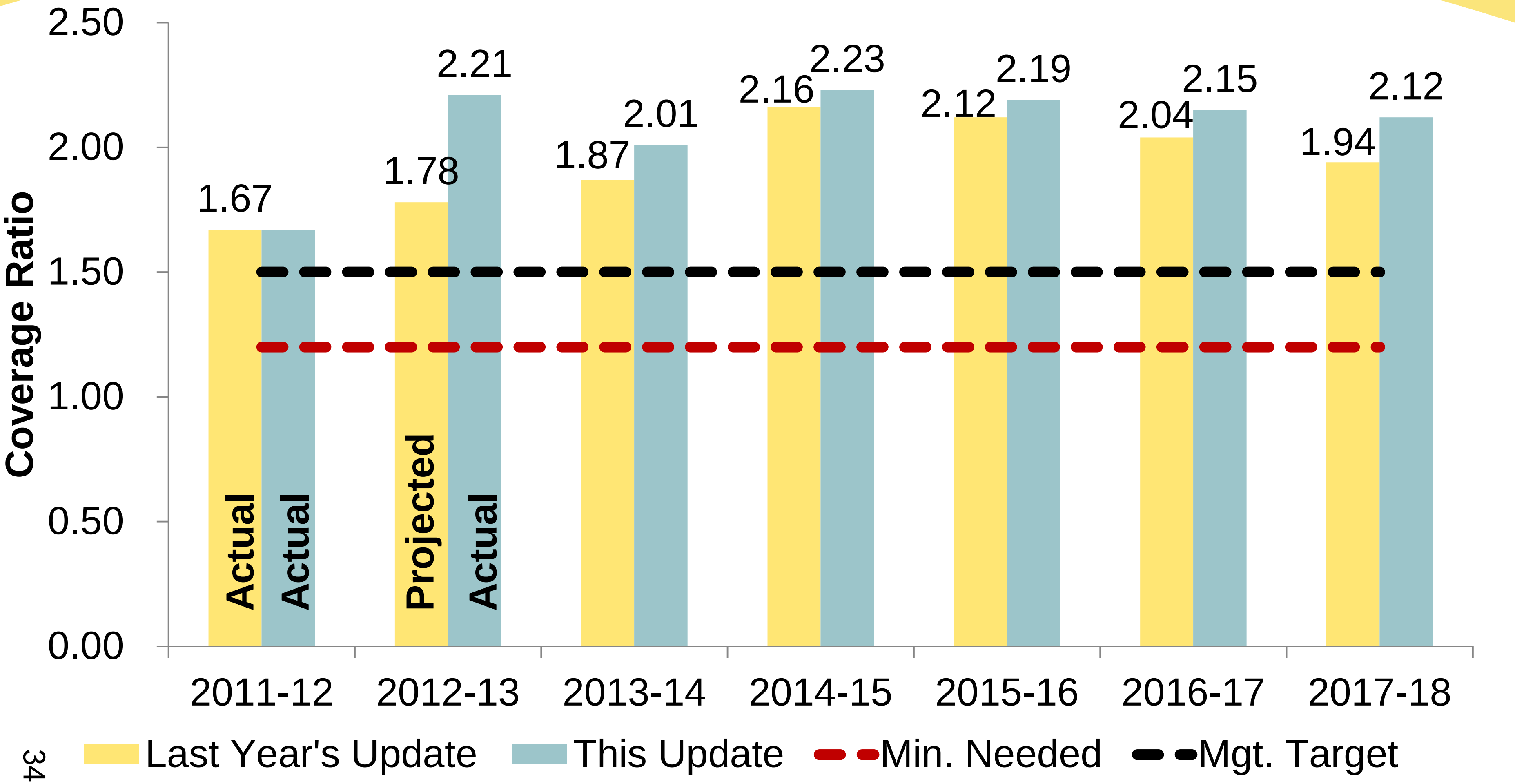
Environmental Services: Rate Requirements



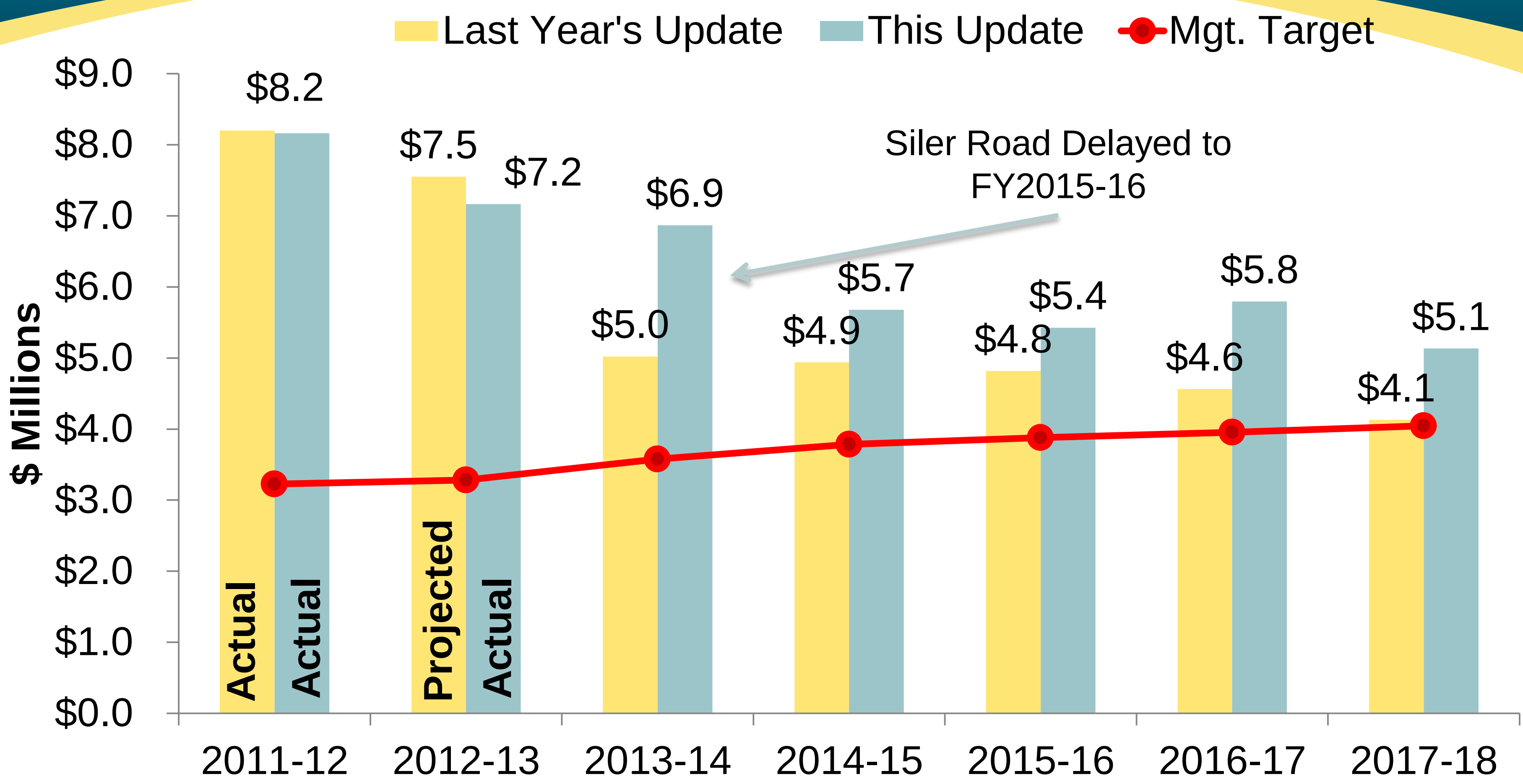
Environmental Services: Rate Increases



Environmental Services: Debt Coverage

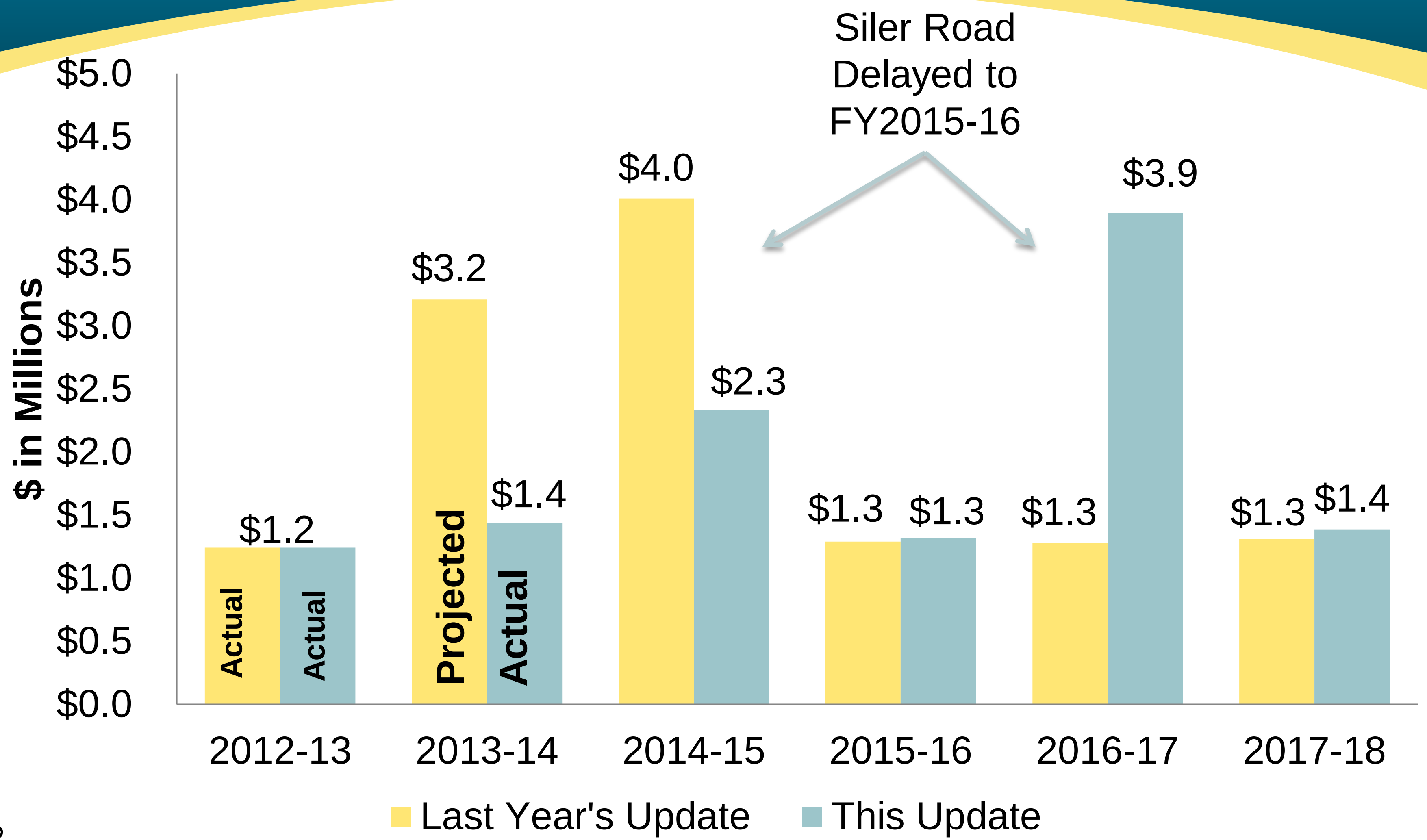


Environmental Services: Fund Balance



Targets: 90-days O&M ($2.6M), Capital Reserve ($1M)

Environmental Services: CIP



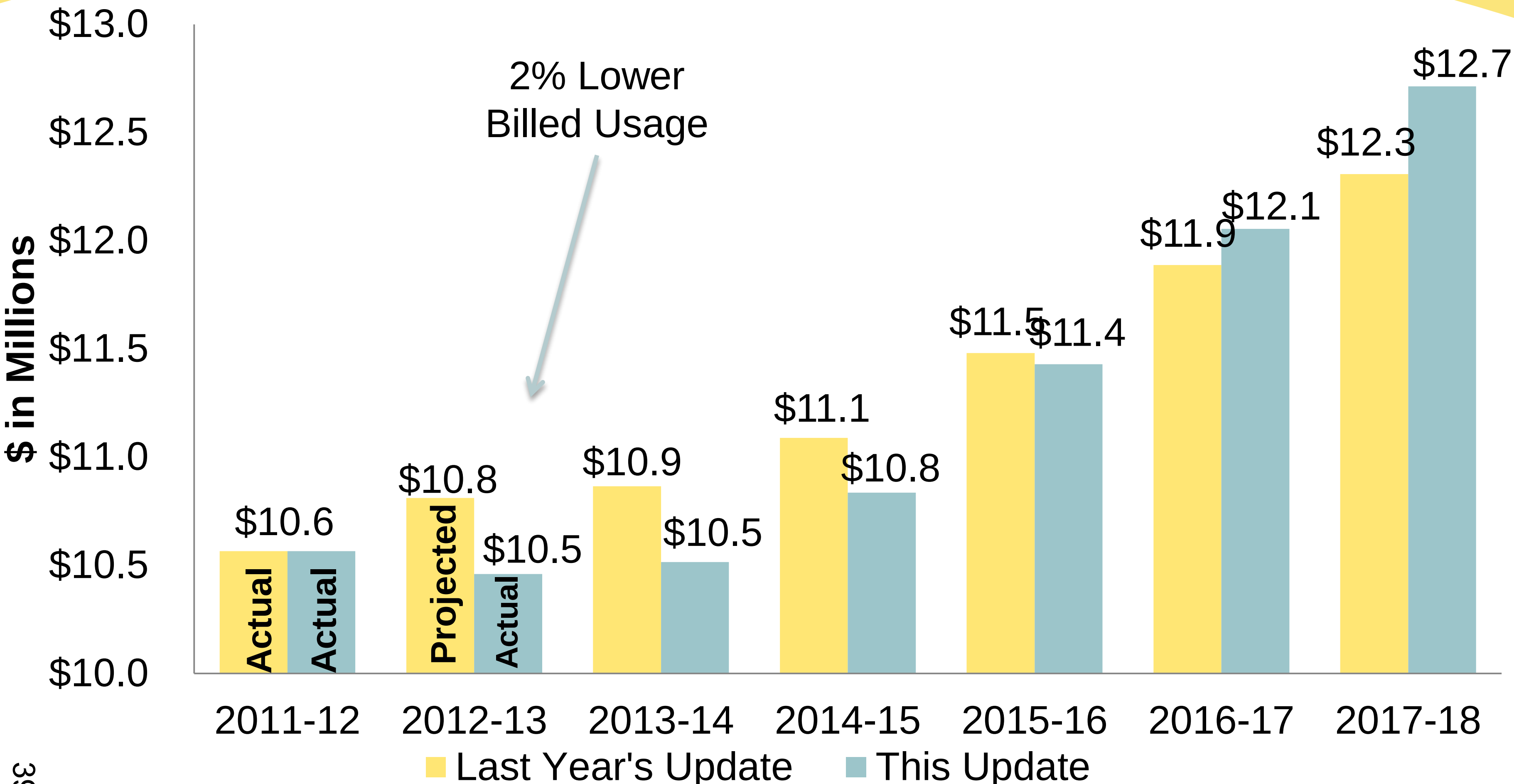
Recommendations

- Keep monitoring the financial plan for the next two years to evaluate the real need of rate increases in FY2016-17
- Approve the loan of $3.5m to Environmental Service from the Water Fund

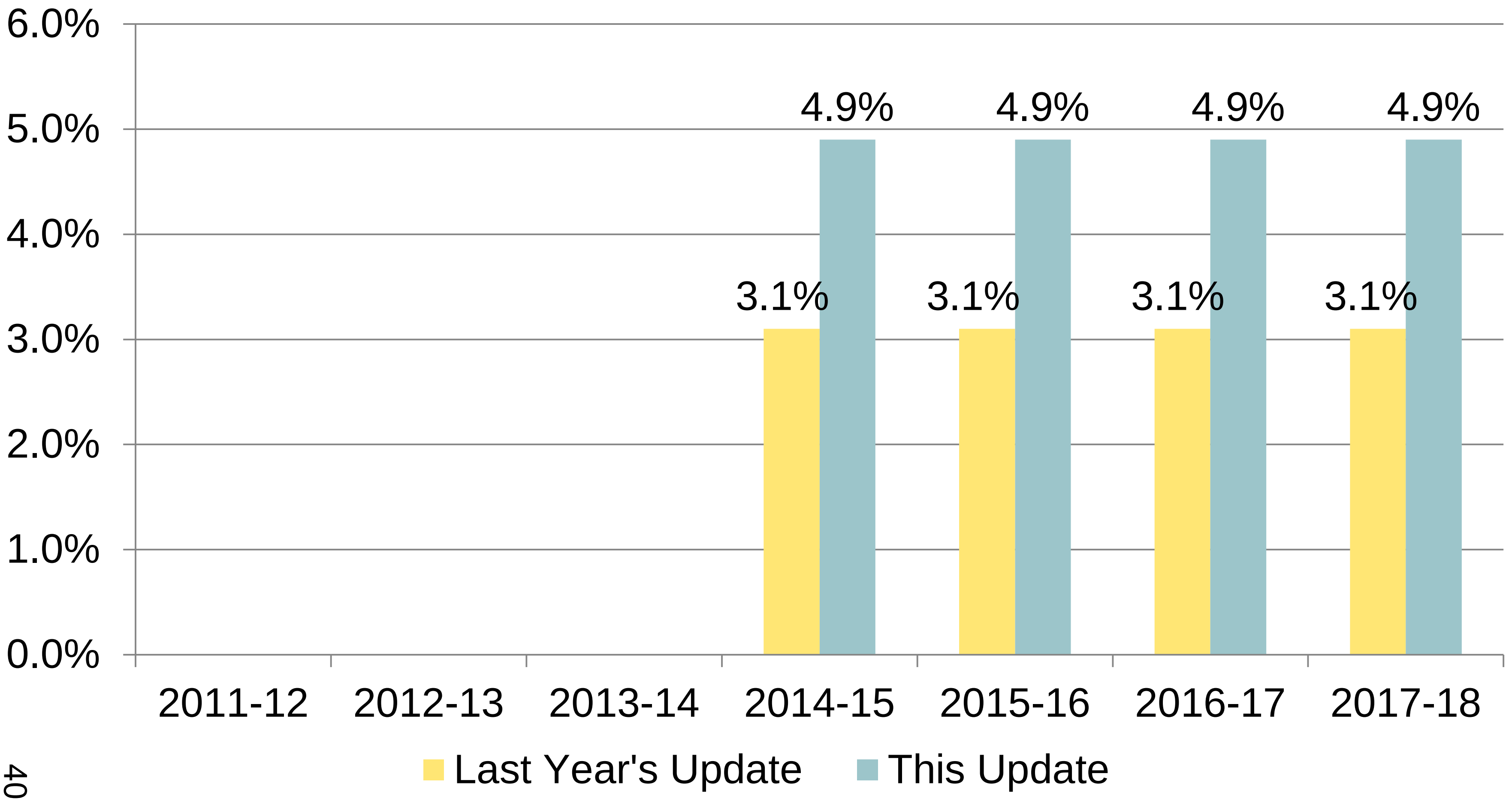
Wastewater Division

- 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.

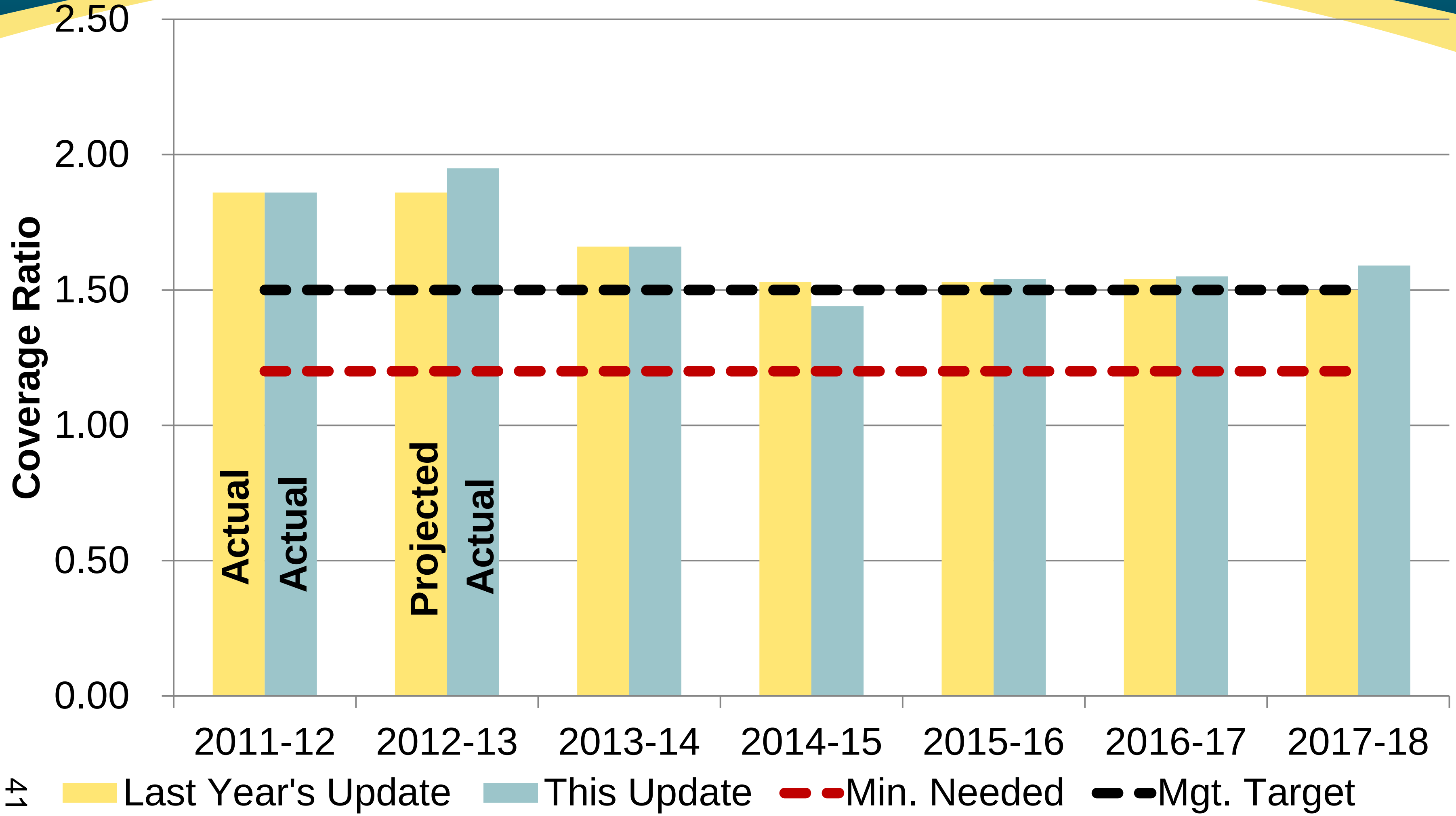
Wastewater Division: Rate Requirements



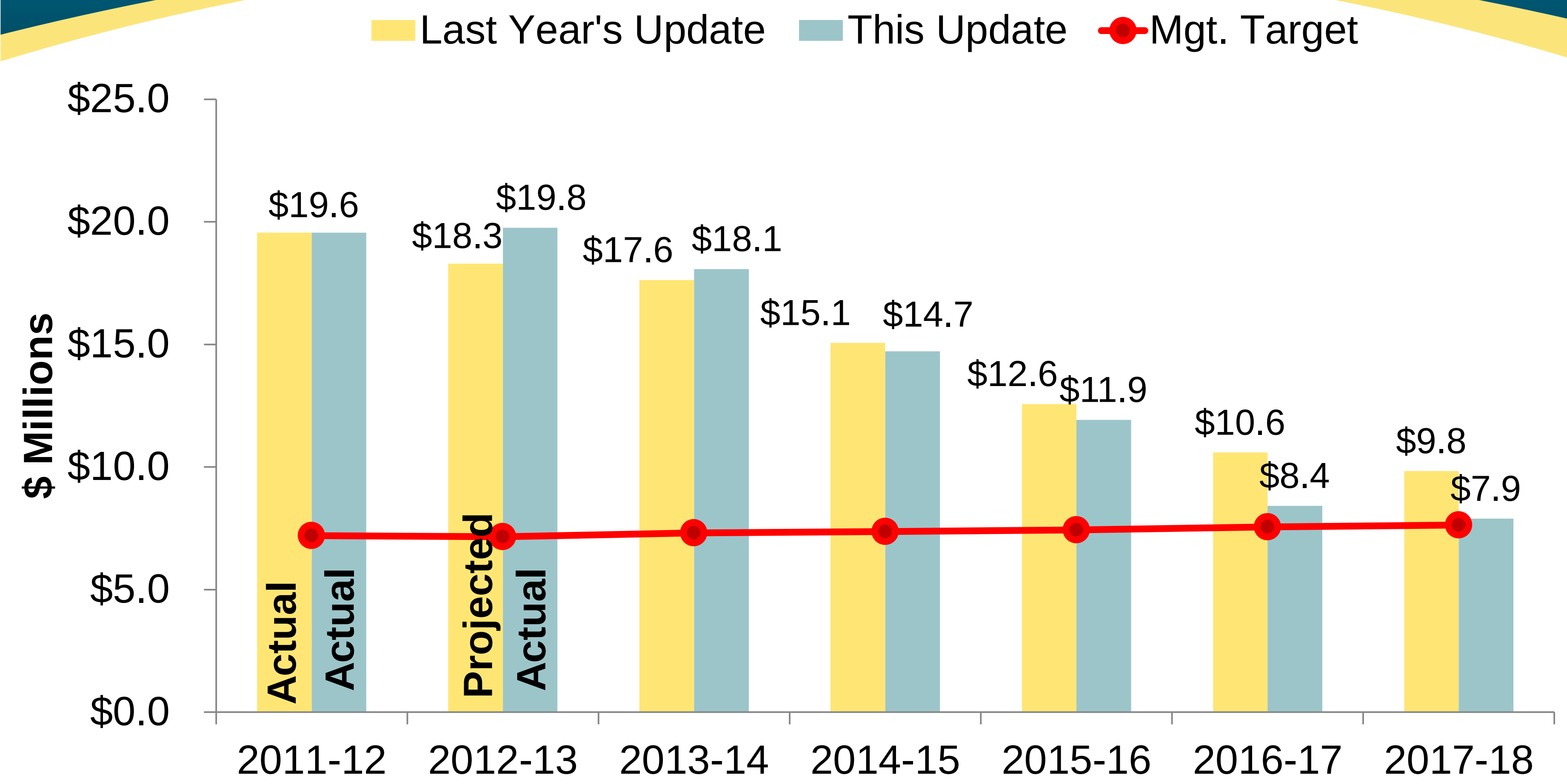
Wastewater Division: Rate Increases



Wastewater Division: Debt Coverage

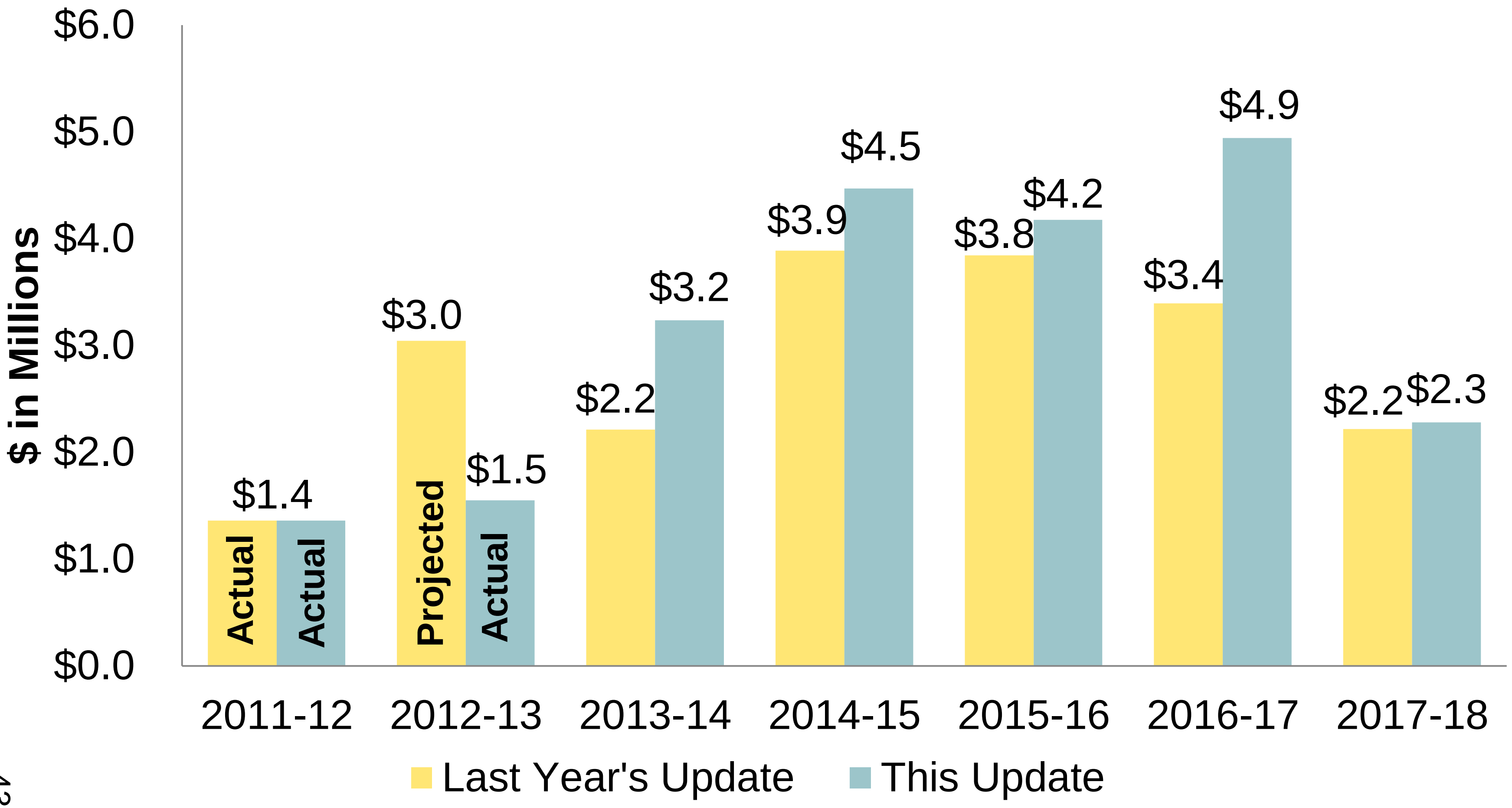


Wastewater Division: Fund Balance



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

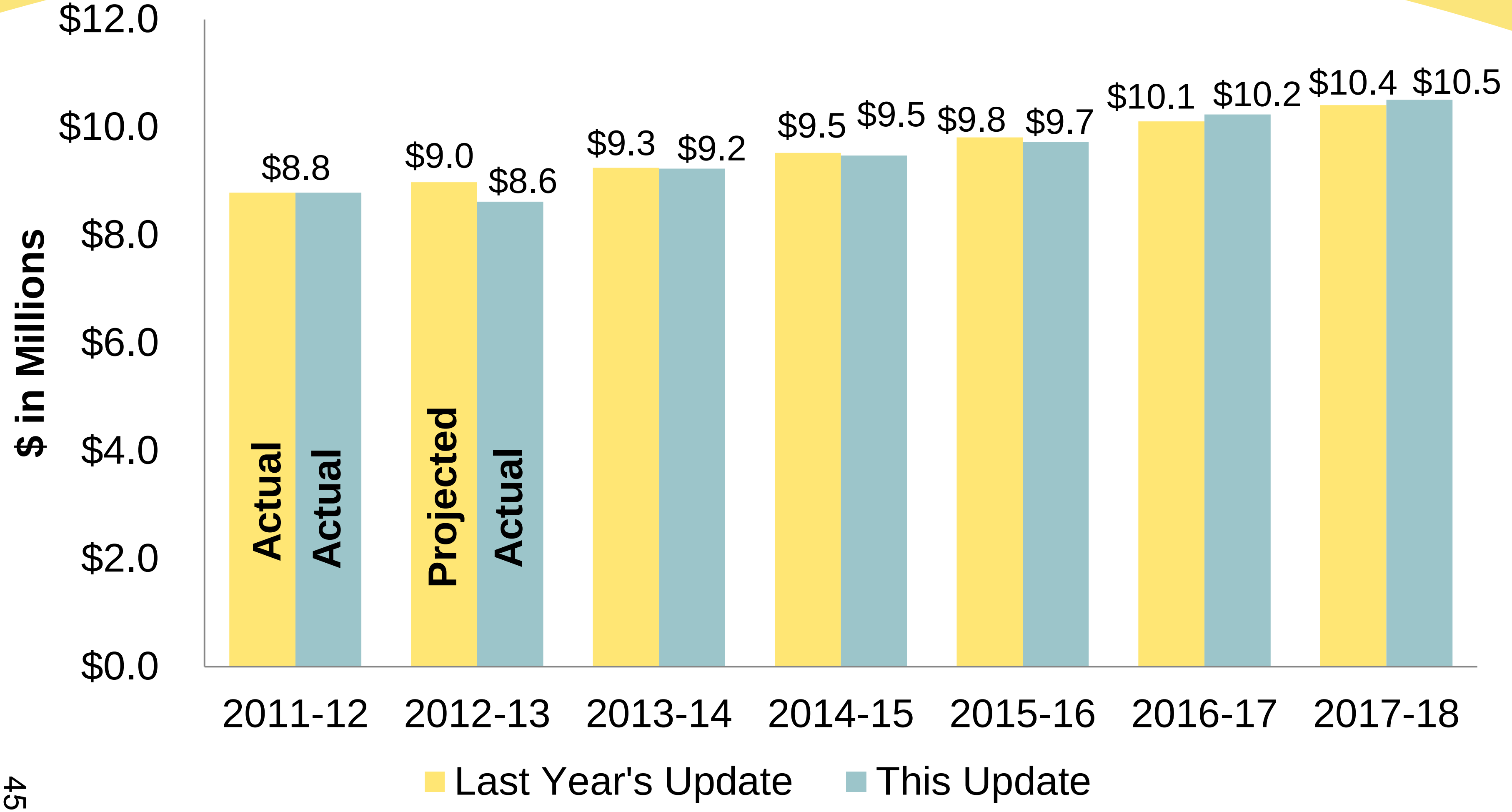
Wastewater Division: CIP



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



WASTEWATER RATE STUDY

The Rate Setting Process

Revenue Requirements

Compares the revenues of the utility to its expenses to determine the overall level of rate adjustment

Cost-of-Service

Equitably allocates the revenue requirements between the various customer classes of service

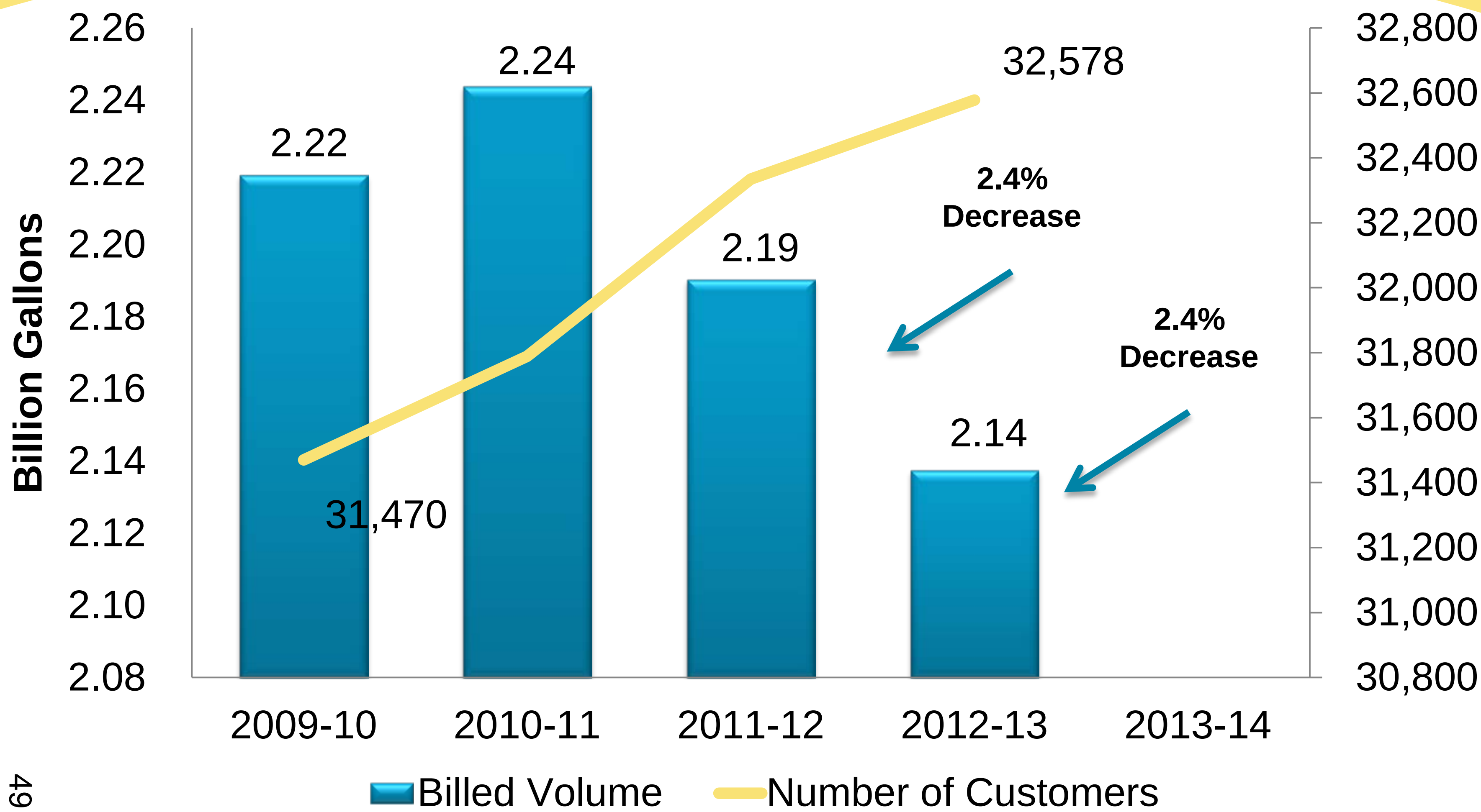
Rate Design

Design rates for each class of service to meet the revenue needs of the utility, along with any other rate design goals and objectives

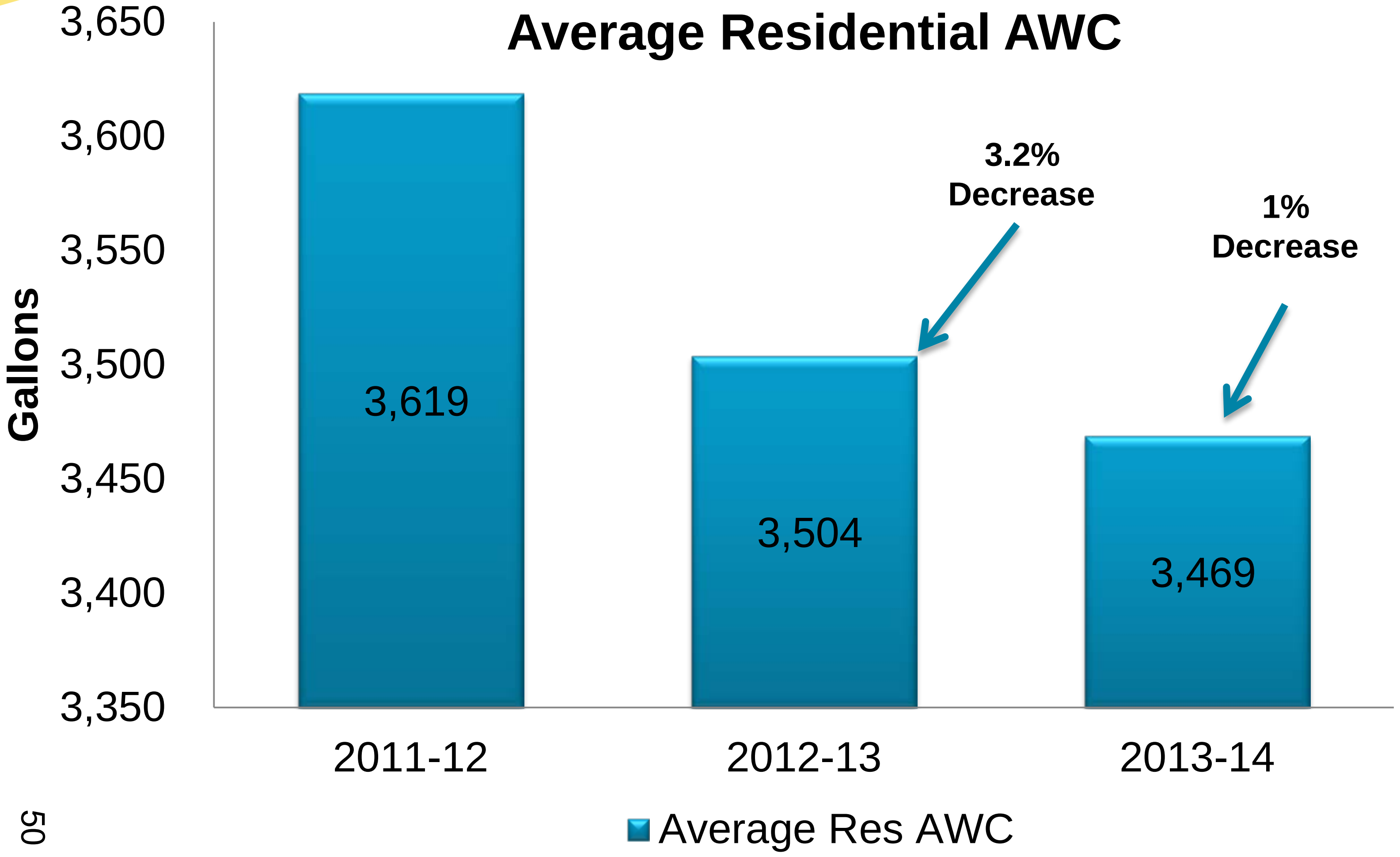
Cost-of-service

- A method to equitably allocate the revenue requirements of the utility between the various customer classes of service (e.g. residential, commercial, etc.)
- The cost of service provides two key pieces of information
  - Allocated total costs to each class of service
  - Average unit costs
    - $/Customer/Month
    - $/1,000 gallons

Wastewater Bill Volumes



Wastewater Bill Volumes



Proposed Wastewater Rates

Proposed Rates

Class	Service Charge (per Unit)	Volume Rate
Inside City	$6.22	$3.79
Outside City	$4.51	$3.95
Extra Strength (Per Lb.)		$0.54

Existing Rates

Class	Service Charge (per Unit)	Volume Rate
Inside City	$5.85	$3.58
Outside City	$4.29	$3.95
Extra Strength (Per Lb.)		$0.51

Proposed Wastewater Rates Comparison

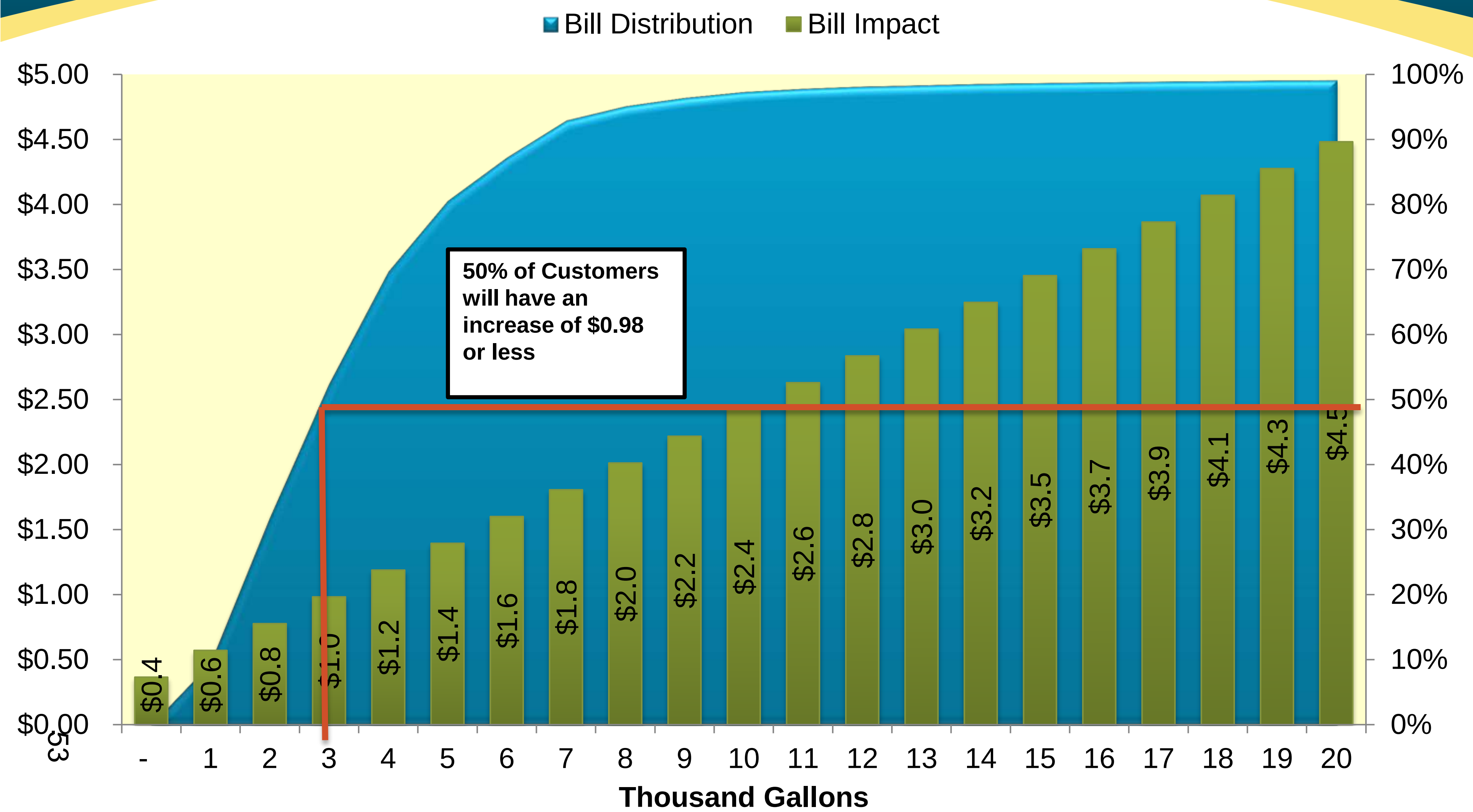
Service Charge (per Unit)

Class	Existing	Proposed	Difference
Inside City	$5.85	$6.22	$0.37
Outside City	$4.29	$4.51	$0.22

Volume Charge (1,000 gallons)

Class	Existing	Proposed	Difference
Inside City	$3.58	$3.79	$0.21
Outside City	$3.95	$3.95	$0.00
Extra Strength (Per Lb.)	$0.51	$0.54	$0.03

Residential Bill Impact



Average Bill Impact (3,600 gallons)

Existing	Proposed	Difference
$18.74	$19.84	$1.11

Recommendations

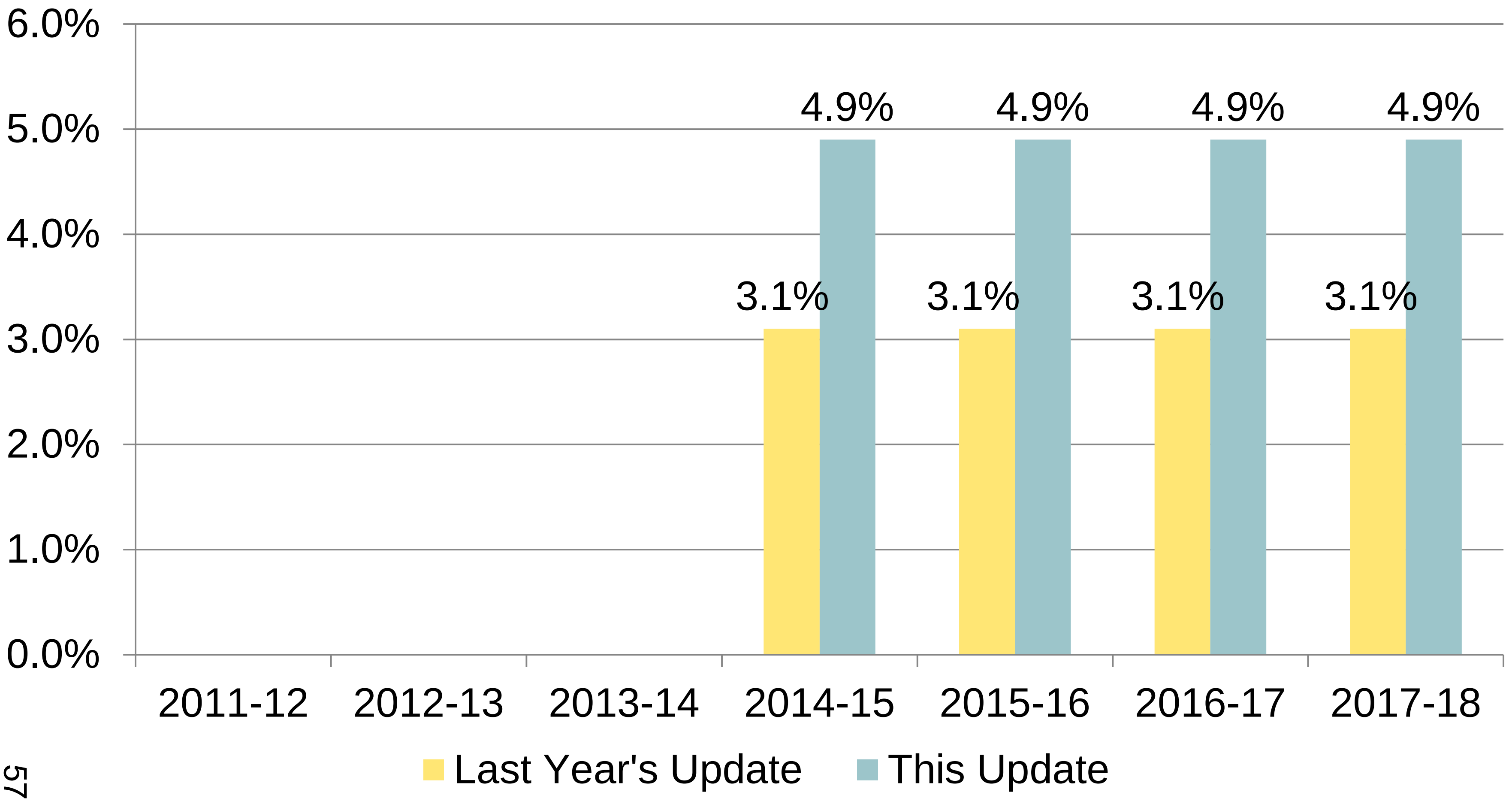
- Approve the proposed rates for FY2014-15 (with January 2015 implementation)
- Approve an across the board 4.9% increase for FY2015-16, FY2016-17, FY2017-18, and FY2018-19
- Perform an audit of the wastewater billed usage with the implementation of the new billing system
- Keep monitoring the wastewater division financial performance

Thank you for your time

Questions?

Comments?

Wastewater Division: Rate Increases



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	$4.51	$4.73	$4.96	$5.20	$5.45

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