



Agenda

CITY CLERK'S OFFICE

DATE 9/24/14 TIME 11:15

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**PUBLIC UTILITIES COMMITTEE
MEETING
CITY COUNCIL CHAMBERS
200 Lincoln
WEDNESDAY, OCTOBER 1, 2014
REGULAR MEETING – 5:00 P.M.**

1. CALL TO ORDER
2. ROLL CALL
3. APPROVAL OF AGENDA
4. APPROVAL OF CONSENT AGENDA
5. APPROVAL OF MINUTES FROM THE SEPTEMBER 3, 2014 PUC MEETING

INFORMATIONAL ITEMS

6. Status Update on Water Conservation Office 2014 YTD. (Laurie Trevizo)
7. Report on the status of remediation of the Hydrocarbon (Volatile Organic Compounds) contamination at PNM Baca Street Well Site (aka Santa Fe Well) pursuant to 1992 Settlement Agreement between PNM, Sangre de Cristo Water Company and the New Mexico Environment Department. (Alex Puglisi and Bill Schneider)
8. Update on Urban Agriculture Resolution. (Katherine Mortimer)

CONSENT – INFORMATION ITEMS

9. Status Report on the Environmental Services Division. (Lawrence Garcia and Katheryn Mortimer)
10. Update on Current Water Supply Status. (Victor Archuleta)
11. Drought, Monsoon and Water Resource Management Update. (Rick Carpenter)

CONSENT – ACTION CALENDAR

12. Request for approval of Amendment No. 3 to the contract with NCS Engineers dated February 8, 2012 for the Hospital Tank Project for the total amount of \$578,335.60 exclusive of NMGR. (Bill Huey)

Public Utilities Committee – 10/1/14
Finance Committee – 10/20/14
City Council – 10/29/14

13. Request for approval of Award of Bid '15/01/B and approval of contract to Sasquatch, Inc. for the FY 2014/2015 Rufina Street Sanitary Sewer Line Rehabilitation Project – CIP# 949 for the amount of \$ 1,797,497.45 inclusive of NMGR. (Stan Holland)

Public Utilities Committee – 10/1/14
Finance Committee – 10/20/14
City Council – 10/29/14

14. Request for approval of Amendment No. 3 to the PSA with Santa Fe Engineering Consultants for the Reservoir Infrastructure Improvements Project – Phase I for the amount of \$ 78,644.38 exclusive of NMGR. (Robert Jorgensen)

Public Utilities Committee – 10/1/14
Finance Committee – 10/20/14
City Council – 10/29/14

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

16. Request for approval of Resolution No. 2014-_____. A resolution directing staff, when acquiring fuel powered equipment, including vehicles, to balance the cost of the City's needs with that of producing the lowest carbon footprint the city would create when using such equipment. (Nick Schiavo and John Alejandro) (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

17. Request for approval of Resolution No. 2014-_____. A resolution declaring the Governing Body's intent for the City of Santa Fe to become carbon neutral by the year 2040. (Nick Schiavo & John Alejandro) (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

MATTERS FROM THE PUBLIC

MATTERS FROM THE CITY ATTORNEY

ITEMS FROM STAFF

MATTERS FROM THE COMMITTEE

NEXT MEETING: Wednesday, November 5,, 2014

ADJOURN

PERSONS WITH DISABILITIES IN NEED OF ACCOMODATIONS, CONTACT THE CITY CLERK'S OFFICE AT 505-955-6520, FIVE (5) WORKING DAYS PRIOR TO THE MEETING DATE.

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Wednesday, October 1, 2014

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**MINUTES OF THE
CITY OF SANTA FE
PUBLIC UTILITIES COMMITTEE
Wednesday, October 1, 2014**

1. CALL TO ORDER

A meeting of the Public Utilities Committee was called to order by Councilor Christopher M. Rivera, Chair, at approximately 5:00 p.m., on Wednesday, October 1, 2014, in the Council Chambers, City Hall, Santa Fe, New Mexico.

2. ROLL CALL

MEMBERS PRESENT:

Councilor Christopher M. Rivera, Chair
Councilor Joseph M. Maestas
Councilor Bill Dimas

MEMBERS EXCUSED:

Councilor Peter N. Ives
Councilor Patti J. Bushee

OTHERS PRESENT:

Nick Schiavo, Public Utilities Division Director
Stephanie Lopez, Public Utilities
Marcos Martinez, Assistant City Attorney
Melessia Helberg, Stenographer

There was a quorum of the membership present for conducting official business.

NOTE: All items in the Committee packet for all agenda items are incorporated herewith to these minutes by reference. The original Committee packet is on file in the Public Utilities Department.

3. APPROVAL OF AGENDA

MOTION: Councilor Dimas moved, seconded by Councilor Maestas, to approve the Agenda as published.

VOTE: The motion was approved unanimously on a voice vote.

4. APPROVAL OF CONSENT AGENDA

MOTION: Councilor Dimas moved, seconded by Councilor Maestas, to approve the following Consent Informational Calendar and Consent Action Calendar as presented.

VOTE: The motion was approved unanimously on a voice vote.

CONSENT – INFORMATION ITEMS

A copy of a replacement Memorandum dated September 29, 2014, with attachments, to the Public Utilities Committee, from Melissa Byers, Legislative Liaison, regarding Item 15 under the Consent Action Calendar, is incorporated herewith to these minutes as Exhibit "1."

- 9. STATUS REPORT ON THE ENVIRONMENTAL SERVICES DIVISION. (LAWRENCE GARCIA AND KATHRYN MORTIMER)**
- 10. UPDATE ON CURRENT WATER SUPPLY STATUS. (VICTOR ARCHULETA)**
- 11. DROUGHT, MONSOON AND WATER RESOURCE MANAGEMENT UPDATE. (RICK CARPENTER)**

CONSENT – ACTION CALENDAR

- 12. REQUEST FOR APPROVAL OF AMENDMENT NO. 3 TO THE CONTRACT WITH NCS ENGINEERS DATED FEBRUARY 8, 2012, FOR THE HOSPITAL TANK PROJECT FOR THE TOTAL AMOUNT OF \$578,335.60, EXCLUSIVE OF NMGR. (BILL HUEY) Committee Review: Public Utilities Committee 10/01/14; Finance Committee 10/20/14; and City Council 10/29/14.**
- 13. REQUEST FOR APPROVAL OF AWARD OF BID 15/01/B AND APPROVAL OF CONTRACT TO SASQUATCH, INC., FOR THE FY 2014/2015 RUFINA STREET SANITARY SEWER LINE REHABILITATION PROJECT – CIP #949 FOR THE AMOUNT OF \$1,797,497.45, INCLUSIVE OF NMGR. (STAN HOLLAND) Committee Review: Public Utilities Committee 10/01/14; Finance Committee 10/20/14; and City Council 10/29/14**
- 14. REQUEST FOR APPROVAL OF AN AMENDMENT NO. 3 TO THE PSA WITH SANTA FE ENGINEERING CONSULTANTS FOR THE RESERVOIR INFRASTRUCTURE IMPROVEMENTS PROJECT – PHASE I FOR THE AMOUNT OF \$78,644.38, EXCLUSIVE OF NMGR. (ROBERT JORGENSEN). Committee Review: Public Utilities Committee 10/01/14; Finance Committee 10/20/14; and City Council 10/29/14**

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 MASS BASE CHARGE; AND MAKING SUCH OTHER CHANGES AS ARE NECESSARY (COUNCILOR IVES). (BRYAN ROMERO). Committee Review: Public Utilities Committee 10/01/14; Finance Committee 09/29/14; City Council (Request to Publish) 10/08/14; and City Council (Public Hearing) 11/12/14
16. REQUEST FOR APPROVAL OF RESOLUTION NO. 2014- _____. A RESOLUTION DIRECTING STAFF, WHEN ACQUIRING FUEL POWERED EQUIPMENT, INCLUDING VEHICLES, TO BALANCE THE COST OF THE CITY'S NEEDS WITH THAT OF PRODUCING THE LOWEST CARBON FOOTPRINT THE CITY WOULD CREATE WHEN USING SUCH EQUIPMENT (COUNCILOR IVES). (NICK SCHIAVO AND JOHN ALEJANDRO). Committee Review: Public Utilities Committee 10/01/14; Finance Committee 09/29/14; City Council (Request to Publish) 10/08/14; and City Council (Public Hearing) 11/12/14.
17. REQUEST FOR APPROVAL OF RESOLUTION NO. 2014- _____. A RESOLUTION DECLARING THE GOVERNING BODY'S INTENT FOR THE CITY OF SANTA FE TO BECOME CARBON NEUTRAL BY THE YEAR 2040 (COUNCILOR IVES). (NICK SCHIAVO & JOHN ALEJANDRO) Committee Review: Public Utilities Committee 10/01/14; Finance Committee 09/29/14; City Council (Request to Publish) 10/08/14; and City Council (Public Hearing) 11/12/14

5. APPROVAL OF MINUTES FROM THE SEPTEMBER 3, 2014 PUC MEETING

MOTION: Councilor Maestas moved, seconded by Councilor Dimas, to approve the minutes of the meeting of September 3, 2014, as submitted.

VOTE: The motion was approved unanimously on a voice vote.

INFORMATIONAL ITEMS

6. STATUS UPDATE ON WATER CONSERVATION OFFICE 2014 YTD. (LAURIE TREVIZO)

Laurie Trevizo reviewed the information in her Memorandum of September 18, 2014, which is in the Committee packet. Please see this Memo for specifics of this presentation.

Chair Rivera said he has a low flow showerhead he received from the City.

Ms. Trevizo said it's a government showerhead. She said, "That's my caveat. You're not going to get any kind of giant rain falling on your showerhead."

Chair Rivera asked if a low flow showerhead can be traded for a newer one.

Ms. Trevizo said, absolutely yes. She said, "That's the purpose, because I want people to actually physically take off their showerheads, bring them in. They give me their old ones and I will give them a new one. In times past, we've given away showerheads and we've given away all sorts of devices, but they just go in peoples' junk drawers. So this is the way to get them to go ahead and change that showerhead out."

Chair River said, "This says an old, high flow showerhead for a new one, but you can exchange an old low flow showerhead."

Ms. Trevizo said yes. A lot of times they have things like calcium buildup and other things on them, so we will take those.

Councilor Maestas asked if that's the spooky part.

Ms. Trevizo said, "That is the spooky part and we do take pictures of the spookiest ones and then we have a working relationship with *Around the Roundhouse*, and so they've posted some of those pictures in the past, so hopefully, they'll do that again for us, and hopefully not embarrass some of our customers."

Chair Rivera thanked Ms. Trevizo for the work she does, and said he would like to be a judge for the poster contest.

Ms. Trevizo said the due date for her baby [a girl] is in 5 weeks, so after that the Committee members can contact Nick Schiavo or Rick Carpenter if you have any other questions with regard to water conservation.

7. REPORT ON THE STATUS OF REMEDIATION OF THE HYDROCARBON (VOLATILE ORGANIC COMPOUNDS) CONTAMINATION AT PNM BACA STREET WELL SITE (A/K/A SANTA FE WELL), PURSUANT TO 1992 SETTLEMENT AGREEMENT BETWEEN PNM, SANGRE DE CRISTO WATER COMPANY, AND THE NEW MEXICO ENVIRONMENT DEPARTMENT. (ALEX PUGLISI AND BILL SCHNEIDER)

A copy of an aerial photograph of *Santa Fe Generating Station Site Location Map – Groundwater Monitoring Wells*, with attached Metric Monitor Well Location Map, provided for the record by Alex Puglisi, is incorporated herewith to these minutes as Exhibit "1."

Alex Puglisi noted his Memorandum of September 24, 2014, with attachments, which is in the Committee packet, noting it includes the Settlement Agreement, the MOU, and major historical points, and presented information from his Memorandum. Please see this Memorandum and attachments for specifics of this presentation.

Mr. Puglisi said he was informed by PNM last Friday that they are considering moving forward under the Corrective Action Fund, they are seeking counsel from its General Counsel, as to how far up in the company this needs to be approved and they are proceeding in that direction. He said that doesn't guarantee one way or another that they are going to proceed in that direction, but it's actually the first time we've gotten to that point with PNM where they are even considering any activities. Hopefully, it will lead to further investigation of the site to explain what exactly the contaminant transport mechanisms are and whether, in fact, it is an on site source or an off site source. So PNM actually may be relieved of any responsibility through this investigation and he is sure they will be happy about that. However, we obviously have bigger problems in terms of other sites within Santa Fe that maybe lean to the contamination of this well, and possibly other wells in the future.

Mr. Puglisi continued, "So the point we are at right now is waiting to hear whether PNM is going to proceed under the CAF, and if not, I have several recommendations at the end of my Memo, in terms of how I feel the City might want to consider moving forward. Obviously, I think we should continue participation in the Technical Advisory Group, because this is the only mechanism available to us right now as heir apparent to the Sangre de Cristo Water Company to be involved in discussions regarding the site. I think the City needs to continue its efforts to reopen and amend the Settlement Agreement to perform the necessary level and type of investigation and remediation necessary. And we've already talked to Legal about this to look at all of our options, both regulatory and legal, in terms of pursuing further cleanup at the site, either by the State of New Mexico or by the Public Service Company of New Mexico. And I would also encourage that our Governing Body, PNM and NMED enter into frequent conversations about the site to encourage further action at the site."

Mr. Puglisi continued, "Basically, we've been under a settlement agreement for 20 years and we're still seeing contamination at the site. The well is not in operation at the current time. We shut it down because of mechanical difficulty that had happened out there, a disagreement over who was responsible for payment of the repair to that part under the Settlement Agreement and the MOU, and it was our position that the City of Santa Fe is not responsible for repair of any equipment out there. The only reason we are monitoring the well 24 hours a day, 365 days per year, was to help PNM's proposed remediation at the site. The proposed remediation effort was to go on the Santa Fe well, try to capture the source through the Santa Fe well, so we were actually using the production well as a means to not only capture the source and prevent migration, but also to remove contamination, run it through a series of groundwater activated [inaudible] filters and then it was put into the distribution system, after making sure it met all Safe Drinking Water Act guidelines."

Mr. Puglisi continued, "There was one other small extraction well that was installed at the site, but that also ran through these GAC filters and into the distribution system. So it was our position that the only reason we're running this well as much as we are is to further the goals of the Settlement Agreement. And although the MOU says we will operate and maintain the well, it does not say that we will repair anything that goes wrong with the well. And part of the reason behind that is that we would not run that well as hard as we are, if it wasn't for the Settlement Agreement."

Mr. Puglisi continued, "And so we're at a point where the well has been down for a year and two months. It provides an opportunity to look at contaminate migration at the site. As the water levels rebound it give us a little bit more information about the hydrology of the site, and so we're using that opportunity to look at water levels and take further samples. Other than that, I stand for questions."

The Committee commented and asked questions as follows:

- Councilor Maestas said the bullets in the Memo imply that prior remediation efforts by PNM caused this new nitrate contamination, and asked if that has been confirmed or substantiated in any way, and how that could happen. PNM did soil excavation in 1990, and he asked Mr. Puglisi if that was the remediation effort he suspects caused the nitrate contamination.

Mr. Puglisi said it wasn't the soil removal efforts. He said, "We feel, the City feels, that there is conclusive evidence that PNM is responsible for the nitrate contamination. The high nitrate values we were seeing coincided with monitoring wells they were used to perform enhanced bio-remediation at the site, so what they were doing is they were pumping in peroxide and ammonium nitrate to feed the bugs that would break down the hydrocarbons. It worked to some extent, but it also produced a lot of nitrates. If you look at the sampling values, the high nitrate values were at those wells used for injection of peroxide and ammonium nitrate, and they seemed to coincide directly with that effort."

Mr. Puglisi continued, "In light of the fact that there is no further evidence by PNM that it did not cause the nitrate contamination, I think both the NMED and the City of Santa Fe feel that they did."

- Councilor Maestas asked if "they had concurrence or request from all the settlement parties to conduct the remediation and injecting these biochemicals."

Mr. Puglisi said, "Yes they did, Councilor. NMED actually, under the Settlement Agreement it agreed to allow this remedial action to go forward. We were not a party of this Settlement Agreement, so we, the City, did not give permission for PNM to perform that remedial action. It was actually before the system was turned over to the City of Santa Fe. It was in the early 90's, I believe."

- Councilor Maestas said he isn't prepared to let PNM go, and obviously there is some liability and a long history of PNM's involvement and culpability. He is concerned about focusing on the remediation. He asked if this is a site which could qualify as a superfund site, and was that ever investigated or is it out of the question since it's still in partial production, because you are remediating some of the water and putting it back into the distribution system, right. So it would have to be totally inactive to qualify for superfund."

Mr. Puglisi said it would have to go through a ranking procedure to determine whether or not it would qualify for a superfund. However, due to no one ever proposing it for listing, "they'll never go through that ranking." He said as structured currently, under the Settlement Agreement, one

vote by any party could veto any action forward, and this is one of the reasons we're not happy with the Settlement Agreement. He said, "Basically NMED and the City of Santa Fe can be in agreement, and if PNM votes no, we go nowhere. If someone isn't going to admit liability there'll probably no proposed listing for the superfund.

Mr. Puglisi said, "It does qualify as a brownfield and we could use brownfield funding to do work out there, but brownfield funding is usually associated with a redevelopment process."

- Councilor Maestas said, "It seems like an intractable situation and we're still wrestling over contamination and contamination liability and not moving on another more objective track and try to find other solutions for mediation like superfund designation." He spoke about his previous experiences in this regard. He would like to move forward in parallel focusing on remediation.

Mr. Puglisi said the reason staff suggested the Petroleum Corrective Action Fund is because it is likely the only avenue for a path forward with regard to the site. PNM doesn't have to admit liability to participate, but if it is determined that PNM is the responsible party it would be held accountable for cleanup costs.

- Councilor Maestas asked if that fund would pay for the cleanup as well as drilling another drinking well elsewhere.

Mr. Puglisi said the fund would pay for any investigation and remedial action necessary to clean up the site to no further action status, but it would not pay for redrilling the well somewhere else. He said if the site were cleaned up, we might be able to operate the well without fear of future contamination. Hopefully, under the Corrective Action Fund it would be cleaned to a level where it would be safe to operate the well, or drill a replacement well. One of his concerns is that the City has considered replacement wells, but under the State Engineer rules, it would have to be fairly close to the current well, and if we have a contaminated site out there we don't want to sink a well in an area of contamination where we could create a hydrologic gradient that forced contaminants toward our well. He said, "We are reluctant to try to consider any replacement well at the site at this point in time, but it would certainly be feasible that the site, in its current condition could be cleaned up to the point where the current well could be used again, without the treatment units at the site."

- Councilor Maestas supports the recommendation, but feels it might be unlikely to amend the Settlement Agreement under these circumstances where PNM is using the latest study to declare they're not liable..

Mr. Puglisi said staff feels there are a number of ways the Settlement Agreement might be opened. He said, "Number one, there is language within the Settlement Agreement that says the remediation has to be constant, and the fact the well is no longer being operated means that the remediation is no longer occurring. So there is no treatment occurring at the site. In our interpretation, that would seem to nullify the Settlement Agreement, whether or not PNM or NMED

agree. And the only commitment we have to operate that well is under the MOU with PNM and I don't feel our commitment, and I've talked with legal about that, drives us to the point where we have to continue to operate the well when we feel it could either further contaminate the site or cause harm to our public, or further pollute the well. And so I don't think we're strictly bound by the terms of the MOU. Would you agree with that."

Marcos Martinez, Assistant City Attorney said, "Yes. Without going into too much detail, I think as Alex has intimated, the Settlement Agreement is really entered into between NMED and PNM, and then the City became interested in purchasing the water company. And so a lot of disclosures. PNM made several disclosures in those purchase agreements that indicated that they really bore the responsibility to remediate the site. And so a lot of disclosures. PNM made several disclosures in those purchase agreements that indicated that they really bore the responsibility to remediate the site. Now they agreed to remediate it without saying that they were the cause of it, basically, which is the fine line they've been walking this entire time. But I agree with Alex's conclusion that the fact that they haven't been constantly remediating the site, or that the Settlement Agreement they had entered into with NMED has not achieved remediation, means there is still some avenue for the City to pursue requiring, one way or another, PNM to remediate this site."

- Councilor Maestas asked if we have received any formal response from PNM.

Mr. Puglisi said, "The word I received from PNM is they are considering the CAF and they need to run it through their legal counsel to see at what level within PNM it needs to be approved. At first, I was told that it had to be approved by the Board, and I'm presuming their Board of Shareholders, but that was corrected, and the person told me the correction was they haven't determined at what level it needed to be approved. So they are considering it, but they haven't found out who in the organization has the final say-so in approving that option."

Mr. Puglisi said, "I would also bring up two other things we feel could open the Settlement Agreement. The Settlement Agreement makes specific reference to conditions that existed at the site when the Settlement Agreement was signed. It makes provision for any new condition at the site to be a reopener for the Settlement Agreement. We have two new conditions we feel exist at the site that were never considered during the signing of the Settlement Agreement. One is the existence of the nitrate contamination, and two is the existence of *[inaudible]* product in USTB 17. There was none in the wells at that point in time when the Settlement Agreement was signed. So that's a totally different beast than dissolved concentrations or concentrations of BTEX within your well, when you have floating product, that's a totally different, possibly remediation option that you need to consider."

Mr. Puglisi said, "The interesting thing and I would like to bring this forward about the hydrologic report is, even though we don't agree with it entirely, it actually says that the operation of the Santa Fe well was not the right remediation option to be considered with respect to the site. It says, 'The Santa Fe well as completed and operated has been and will continue to be the problem rather

than the solution.' And so their own hydrologic report says, all right you guys signed the Settlement Agreement and chose an option that, if anything, according to your report, may have made this situation worse. But we do feel there are several reasons to reopen the agreement. I guess the quandary is, when you have a Settlement Agreement that's set up where you have a TAG team, they call it the Technical Advisory Group, they do have a management committee. If the TAG cannot come to a resolution it is elevated to a management advisory group which consists of the management of the three parties and then management can try to resolve the problem at that level. If it's not resolved at that level, there's a provision for binding arbitration. So we can suggest as much as we want that the Settlement Agreement be opened because of these new factors that have been discovered at the site. Whether or not we would get complete agreement from NMED and PNM is questionable. We don't know. But we have brought it forward and will continue to bring it forward."

- Chair Rivera asked Mr. Martinez if we are handling this internally, or are we contracting it.

Mr. Puglisi said right now, we're still handling it internally.

Chair Rivera asked if there is anything that we, as a Council, can do to help expedite the process.

Mr. Martinez said, "I think Alex and I will try to keep you updated, and if there is a time that the Council or the Committee or individuals members can intervene, we would do our best to let you know."

Mr. Puglisi said if PNM does decide to pursue one of the CAF options, we will keep you informed about that also.

8. UPDATE ON URBAN AGRICULTURE RESOLUTION. (KATHERINE MORTIMER)

Ms. Mortimer presented information from her Memorandum of September 23, 2014, to the Public Utilities Committee in this matter. Please see this Memorandum for specifics of this presentation.

The Committee commented and asked questions as follows:

- Councilor Maestas noted the Memo says, "To use as much non-drinking water supply for crop watering as reasonable and feasible." He said we just had a report on the rebates. He thinks there should be something more formal, maybe their business should have low flow toilets, low flow showerheads. There should at be an assessment of their water conservation measures in place as part of the eligibility criteria. He said, "I think that's just too vague and if we're going to allow this and have this aspirational provision, I think we need to ask for more and maybe formalize those requirements that they employ every possible water saving measure available to them, prior to getting approval for this. I would feel much more comfortable in terms of wanting them to minimize the use of potable water."

Ms. Mortimer said that's a great addition, noting one thing to bear in mind is that this is a draft that has yet to be introduced. She provided a very rough draft. One of the things she is doing currently is getting with staff who have expertise areas, and Laurie Trevizo is one of those. She said they have some additional language with regard to the water that is used on the crops. She thinks the idea of looking any water fixtures on the property and making sure they are water efficient is a great addition and she will incorporate that.

- Councilor Maestas said perhaps we can incentive water harvesting through rain barrels, for example. He thinks there should be some sort of metrics/requirement that some of the water be harvested through rain barrels.

Ms. Mortimer agreed, saying that is in the draft. She said there is a hierarchy of uses, noting these came "out of my head," and isn't her area of expertise and the reason she wanted to get the expertise of the staff that have it. But to first look for gray water or treated effluent from on site sources, so if someone has an on-site wastewater treatment unit that they would use the water from that first, then captured rainwater from site roofs, acequias or other direct surface water existing or legally obtained rights, well water from existing on site wells, then treated municipal effluent which has a greater greenhouse gas footprint because of having to get it from the wastewater treatment facility to the site, and then the last source of water you would look to would be municipal drinking water. They have discussed having a requirement that a certain percentage has to come from some of these non-municipal drinking water sources. She is unsure whether they are comfortable at this time with what that percentage should be. So, that may be part of the discussion when they go to the community and talking with the farmers who have been grappling with this.

- Councilor Maestas thinks the bar should be set high for people who are going to grow crops under this Ordinance.
- Chair Rivera said on the first page of the Memo, Ms. Mortimer said she is hoping to schedule this at least one public meeting. He recommends at least two public meetings before the Governing Body, one of the Committees and then the full Council. He believes this should be in addition to the community meetings which are planned.
- Chair Rivera said he assumes Planning and Land Use is playing a very large part in this.

Ms. Mortimer said, "They have not yet. I wanted to get the water piece fixed first. I've been talking with Noah Berke who is also involved with this and we are planning to start talking to them either later this week or early next week, but absolutely they would be involved since this is a Chapter 14 amendment."

- Chair Rivera said in the Memo, Ms. Mortimer talks about off-street parking and making sure if they are going to be selling produce, that they have sufficient parking to do so. He asked if they will be addressing the selling of produce which is not near a street area, but perhaps near a trail, or an area which isn't near a street."

Ms. Mortimer said that didn't come up. She doesn't have that folder with her this evening, but we possibly could say that if there a non-vehicular right-of-way adjacent to the property that there could be a farm stand that did not have parking requirements.

- Chair Rivera said when people get a business license, they must comply with business rules which would mean a sprinklered building and quite a bit of other things. He is unsure if that is going to be part of the discussion. He said he would also recommend that there be governance in spraying and the use of fertilizers, and assumes that will come up in the discussion as well.

Ms. Mortimer said she hasn't talked about spraying or fertilizer to date. It hasn't come up in the urban policies she looked to from other communities, but she will see if she can find something specific on that that we can use.

CONSENT DISCUSSION

No items were removed from consent for discussion.

DISCUSSION AND ACTION ITEMS

There were no Discussion and Action Items.

MATTERS FROM THE PUBLIC

There were no matters from the public.

MATTERS FROM THE CITY ATTORNEY

There were no matters from the City Attorney.

ITEMS FROM STAFF

Mr. Schiavo introduced John Alejandro the new Renewable Energy Planner for the City. He said since he accepted the Public Utilities Director position full time, Mr. Alejandro has been a great help to him. He said Mr. Alejandro has a great background and the Committee will see a lot of him on renewable energy and energy efficiency projects.

MATTERS FROM THE COMMITTEE

Councilor Maestas said a constituent contacted him regarding his lack of eligibility for a water credit. He has been corresponding with staff and it appears we don't have to change the Ordinance. He asked when we can expect to have the form changed and implemented.

Mr. Schiavo said it is something staff can address in a few weeks, but he wants to have Mr. Martinez look at it first, to make sure it is just an administrative change and what process we would have to follow for that.

Mr. Martinez said he needs to speak with the Utility Billing Director and get the policy to make sure the City Manager can make that change as he indicated to the Councilor. He said he will communicate with her tomorrow and then he will speak with him and let him know.

Councilor Maestas said Section 8 income counts as personal income in other benefits as well as housing. He asked Mr. Martinez to do a global check to see where Section 8 income is counted toward total personal income. He would like to look City-wide where similar circumstances may exist.

Mr. Martinez said he will, but as he indicated, it's not an ordinance requirement.

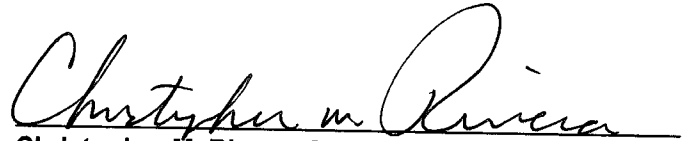
Councilor Maestas asked who is handling the public education campaign in rolling out the sewer rate increases. He said we need to do a greater effort in educating the public in terms of the reasons for the increase so they can understand what has happened. He knows staff can do a great job, but he wants to see a lot of understandable, reassuring public education prior to the implement of the sewer rate increases. He said, given it will be effective during the holiday season, he would like to see us start soon, within a month.

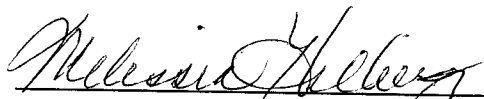
Ms. Schiavo said he can get with Brian Romero and our PIO to get something put out and on our website – making sure it is a clear explanation of the reasons for the increase.

NEXT MEETING: WEDNESDAY, NOVEMBER 5, 2014.

ADJOURN

There was no further business to come before the Committee, and the meeting was adjourned at approximately 6:10 p. m.


Christopher M. Rivera, Chair


Melessia Helberg, Stenographer

Revised - Item #15

City of Santa Fe, New Mexico

memo

Date: September 29, 2014

To: Public Utilities Committee

From: Melissa Byers, Legislative Liaison *mb*

Re: October 1, 2014 PUC Item # 15
Sewer Rates Increase Ordinance

Attached hereto is supplemental information related to the proposed amendments to sewer rates, Item #15 on the October 1, 2014 PUC agenda. Staff had provided this information to my office prior to the packet printing, however, the information was inadvertently left out.

Thank you.



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.

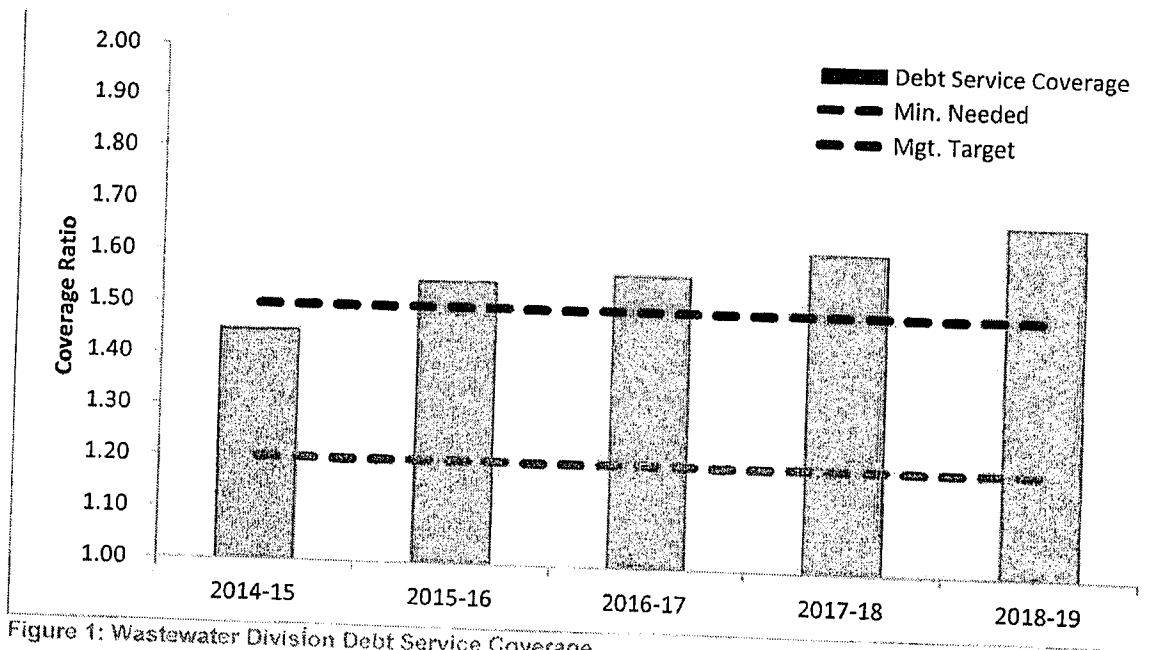


Figure 1: Wastewater Division Debt Service Coverage

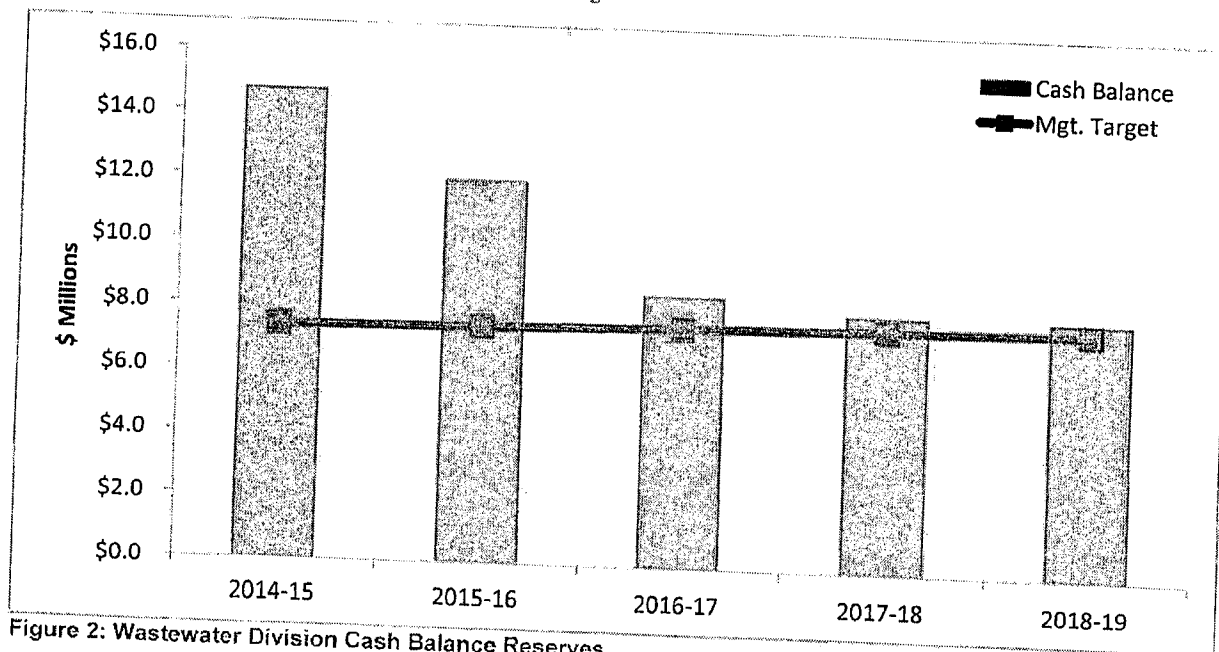


Figure 2: Wastewater Division Cash Balance Reserves

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

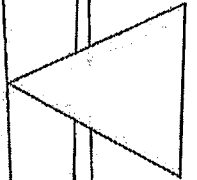
Sources
of Funds

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

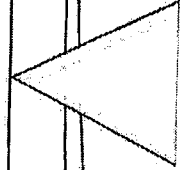
Sources of Funds

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
-
-

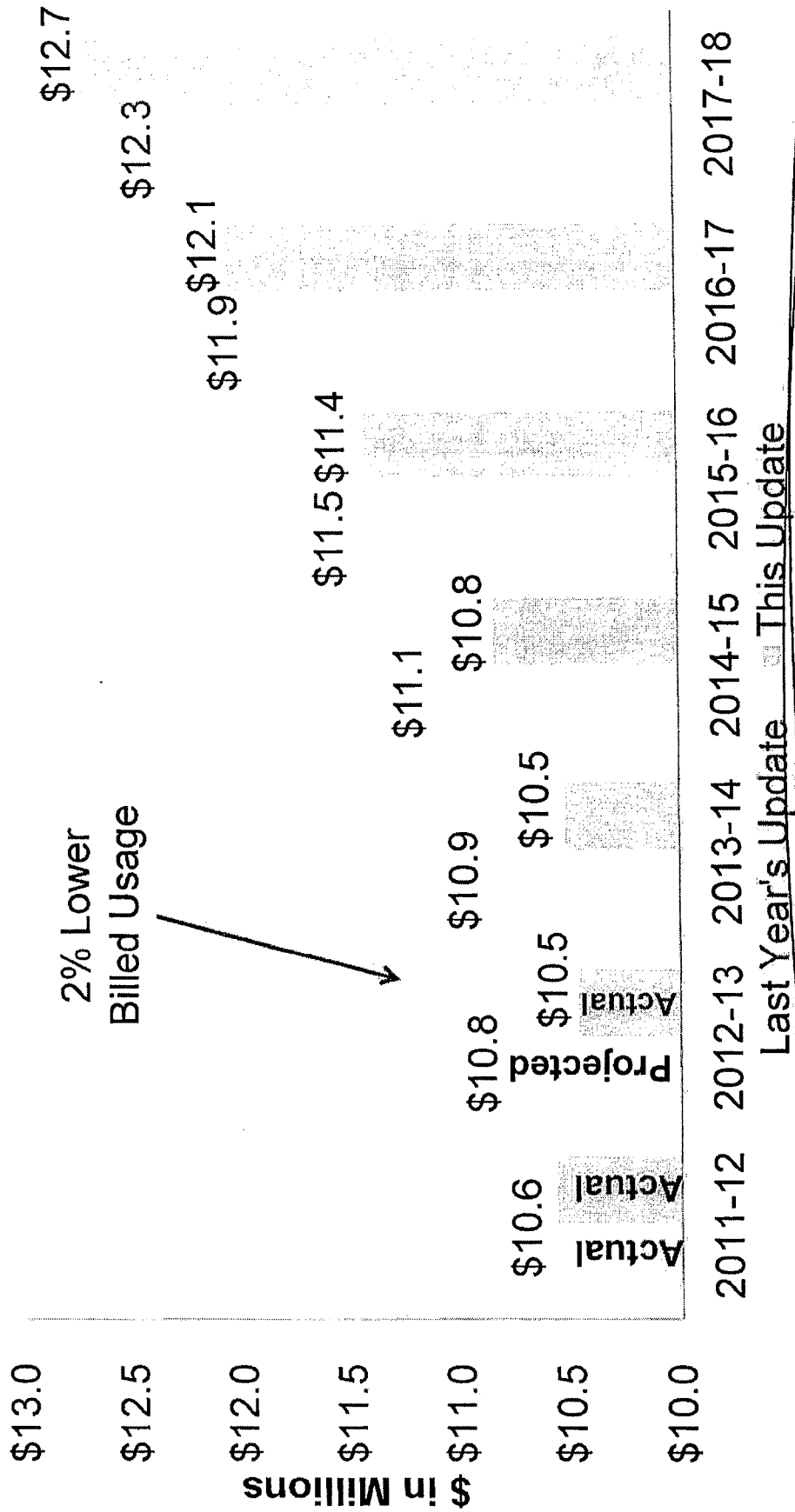
Financial Plan Policy Decision Parameters

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

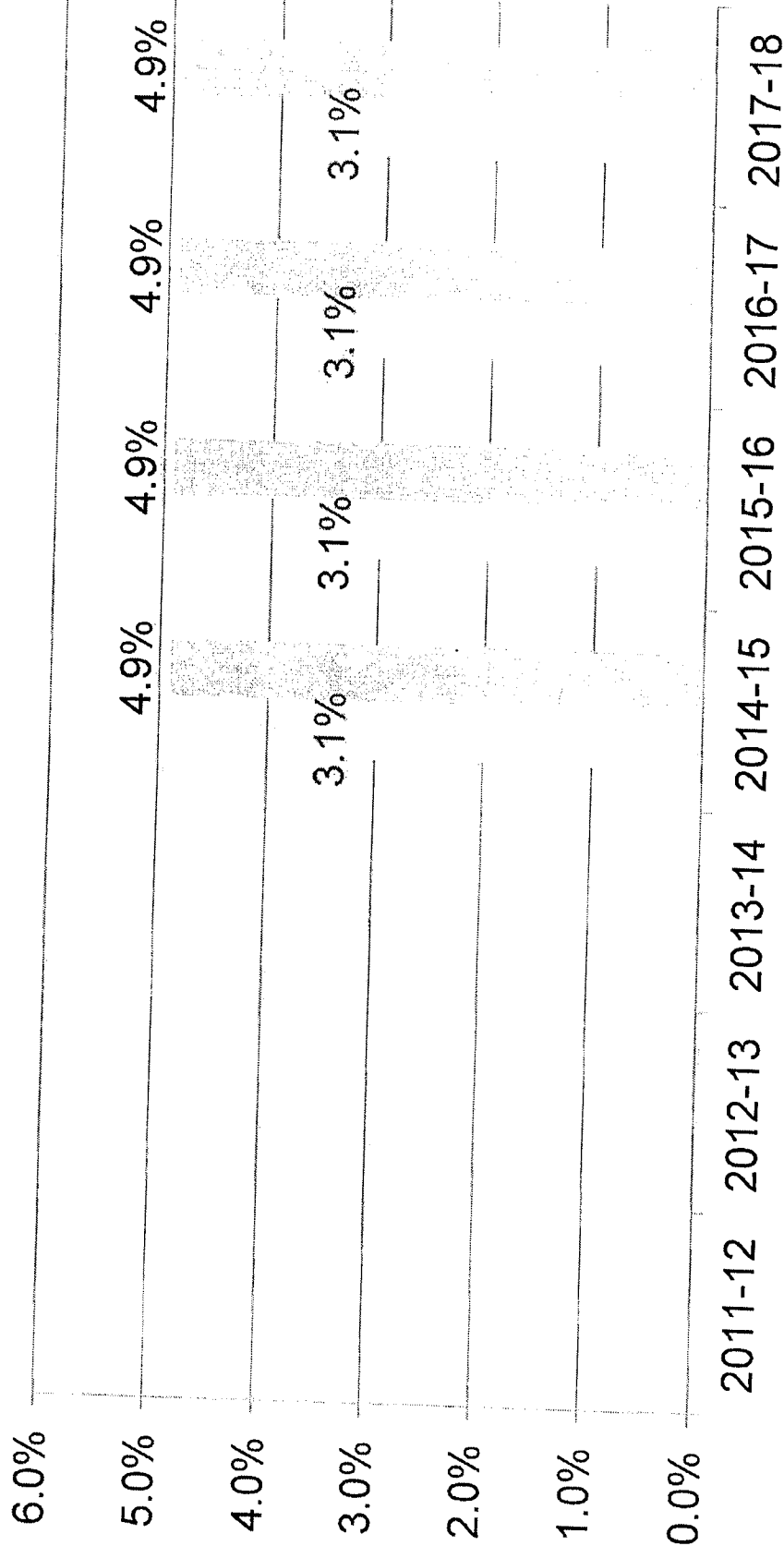
Wastewater Division

- 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



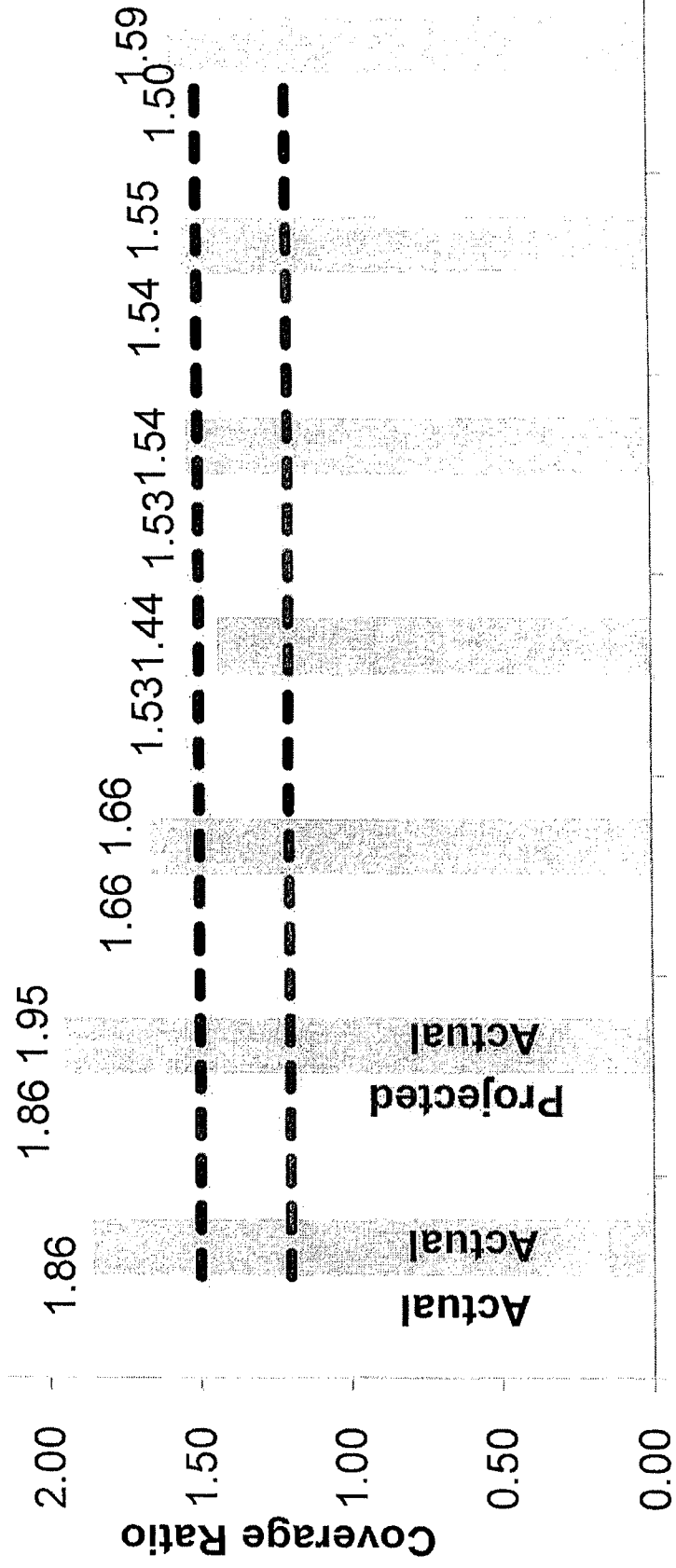
Wastewater Division: Rate Increases



Last Year's Update This Update

Wastewater Division: Debt Coverage

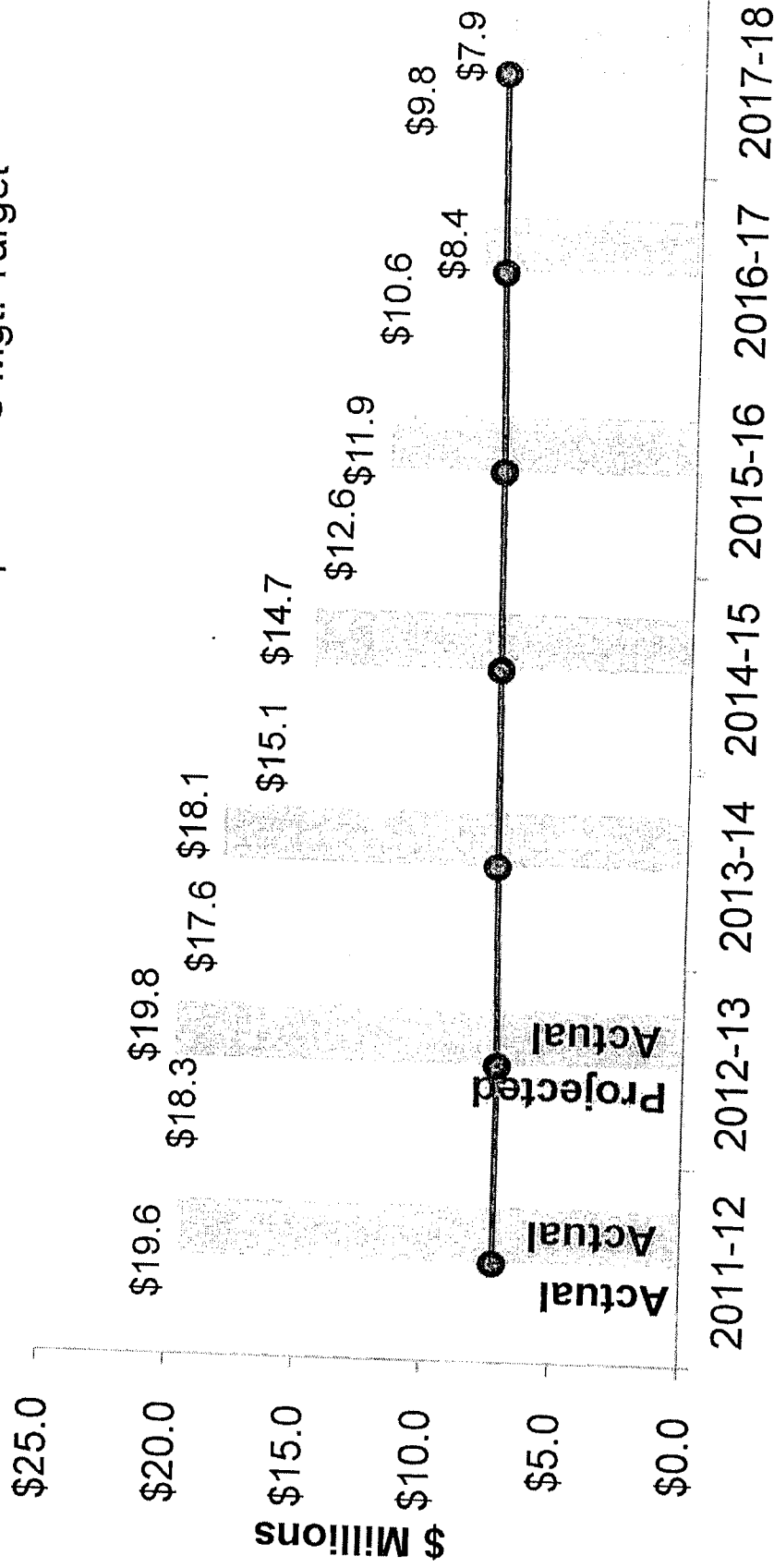
2.50



Last Year's Update This Update Min. Needed Mgt. Target

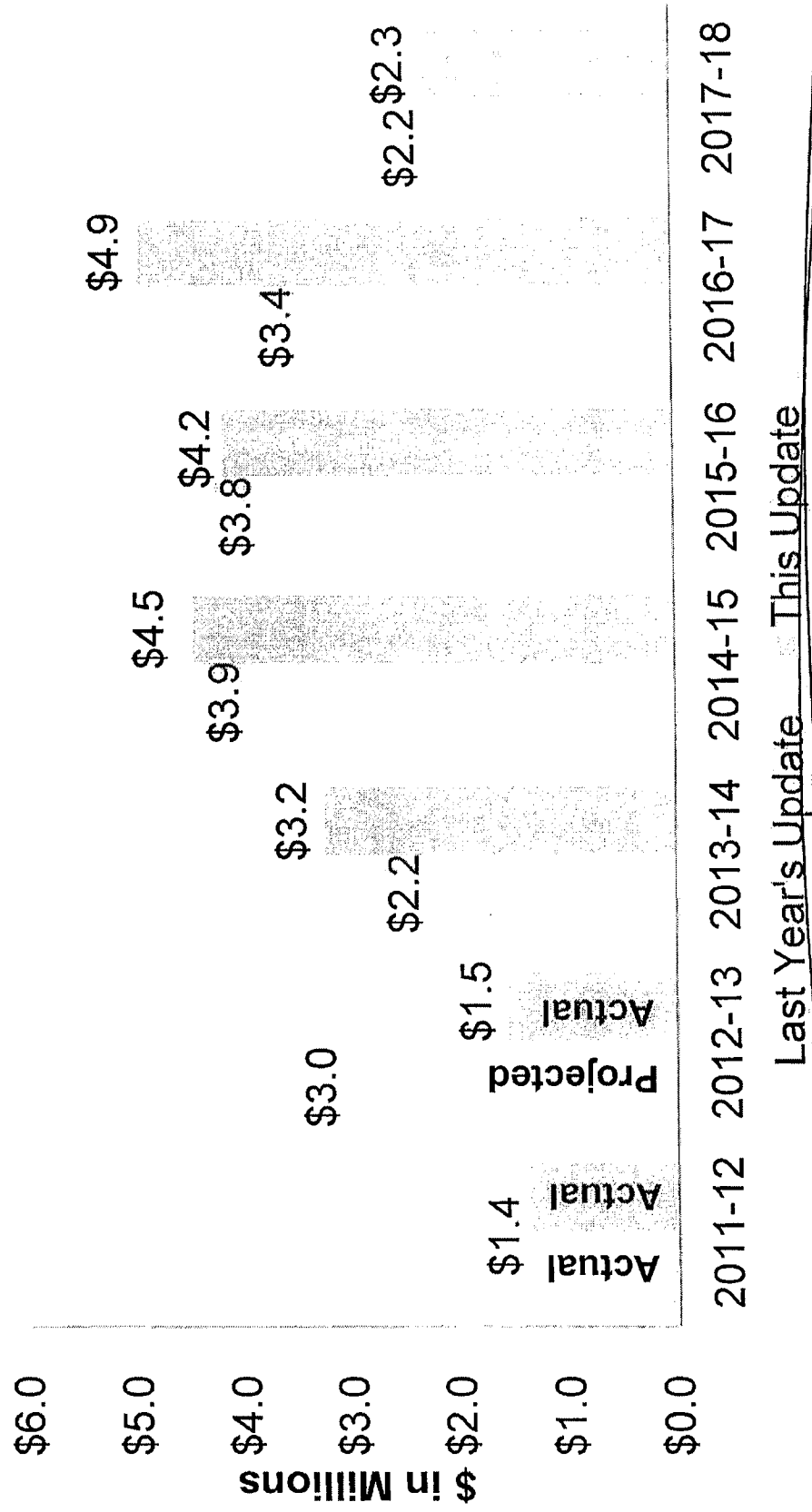
Wastewater Division: Fund Balance

Last Year's Update This Update ● Mgt. Target



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

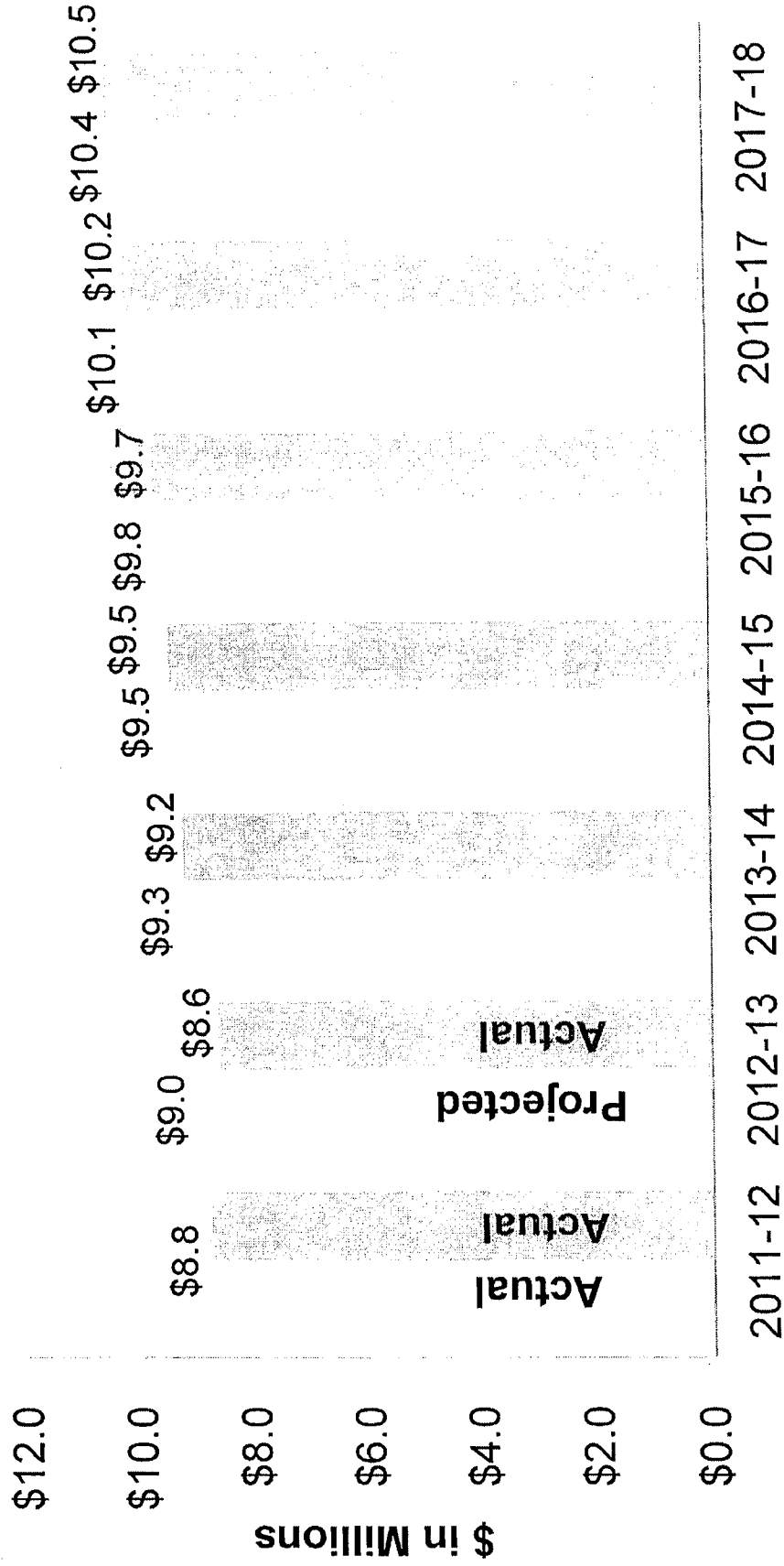
Wastewater Division: CIP



Wastewater Division Upcoming Improvements

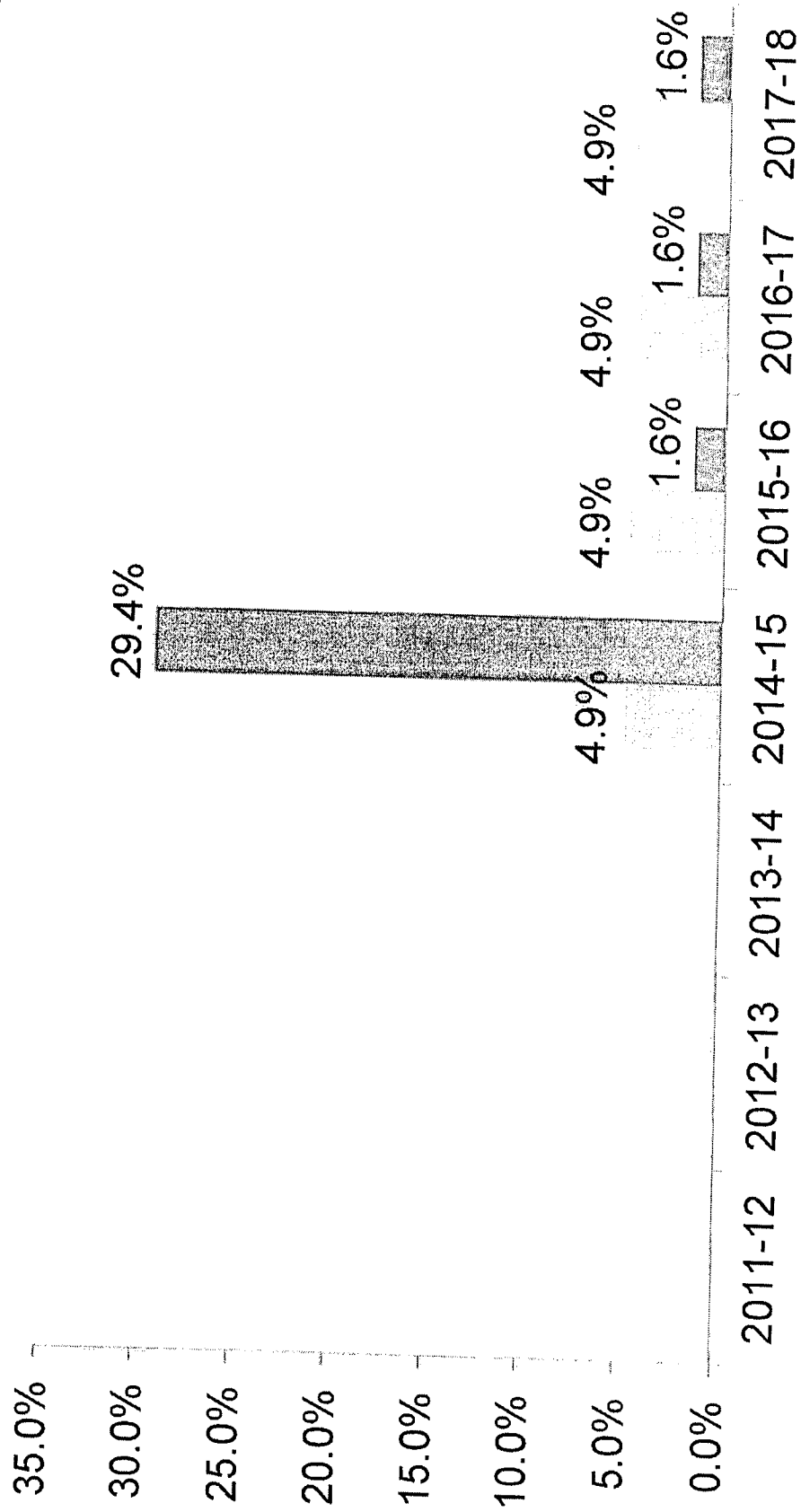
- Sewer Line Rehab (Rufina) - \$2,500,000
 - New Digester - \$4,000,000
 - Digester Rehab - \$1,000,000
 - Dewatering Equipment - \$700,000
 - Replace Tublex Blowers - \$600,000
 - Aeration Basin Dewatering Fac. - \$1,000,000
-
-

Wastewater Division: O&M



Last Year's Update This Update

Wastewater Division GRT Revenue Impact



This Update No GRT Revenues

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

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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	\$10,513,115	\$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)
Total Revenue Requirement	\$13,095,708	\$13,067,625	\$13,647,688	\$14,259,508	\$14,910,855	\$15,606,311
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
Total Non-Rate Related Revenue/Income	\$2,580,049	\$2,231,139	\$2,218,296	\$2,205,116	\$2,197,630	\$2,198,585
Required User Charge Revenue	\$10,515,659	\$10,836,486	\$11,429,393	\$12,054,392	\$12,713,225	\$13,407,726

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

	2012	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
Total	\$9,235,474	\$9,479,316	\$9,730,472	\$10,239,163	\$10,513,115	\$10,795,285

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
Total	\$3,237,000	\$4,470,000	\$4,176,900	\$4,941,900	\$2,281,597	\$2,164,864

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
Total	\$2,321,607	\$1,982,813	\$1,982,813	\$1,982,813	\$1,982,813	\$1,982,813

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
Debt Service Coverage	1.66	1.44	1.54	1.55	1.59	1.65
Management Goal	1.50	1.50	1.50	1.50	1.50	1.50
Minimum Needed	1.25	1.25	1.25	1.25	1.25	1.25

Reserve Requirements

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



Legend

- Santa Fe Well
- Monitor Wells
- Dry Monitor Wells
- USTB-17 LNAPL

0 125 250 Feet
1 inch = 125 feet

Figure 1-4

**Santa Fe Generating Station
Site Location Map - Groundwater Monitoring Wells**



Exhibit "2"

