

*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: OCTOBER 6, 2015**  
**FROM: PUBLIC WORKS DEPARTMENT      WARDS: ALL**  
**SUBJECT: SEWER SERVICES – RATE REVIEW**

## **ISSUE:**

The issue for the City Council consideration is to receive and file the Fiscal Year 2014-15 annual review of the sewer services rates.

## **RECOMMENDATION:**

That the City Council receive and file the Fiscal Year 2014-15 annual review of the sewer services rates.

## **COMMITTEE RECOMMENDATION**

On September 9, 2015, the Public Works Department presented the annual review of sewer service rates to the Finance Committee (Committee) with Chair Soubrouse, Vice Chair Burnard, and Member Perry present. The Committee unanimously recommended to forward the item to the City Council.

## **BACKGROUND:**

On May 13, 2014, the City Council, voted 4-2 (Ayes – Gardner, MacArthur, Perry, Adams; Noes – Soubrouse, Davis; Absent – Melendrez) approving a five year Sewer Services Rate Structure to address the sewer fund revenue shortfall created by the recession and to finance required sewer system capital improvements. The five-year Sewer Services Rate Structure was based on a February 2014 Capital Improvement Program and Rate Study. The rate structure became effective in July 2014 and is effective through June 30, 2019. The adopted rate structure included an annual 8.5% increase in monthly services charges. Sewer capacity charges included a one-time increase in July 2014 and thereafter beginning July 2015 an annual increase equal to the Engineering News Record Construction Cost Increase, 20-city average. As part of the plan approval, the City Council directed staff to annually review the rate structure and report back to the City Council as to whether the approved rate increase could be adjusted downward based on positive outcomes not known at the time of approval.

Staff completed an analysis of operating revenues and expenditures for the first year of the associated rate increase, the period of July 1, 2014 to June 30, 2015. Comparisons of actual activity to the revenues and expenditures projected in the 2014 Rate Study is the basis of staff's

analytical efforts. The rates were determined to be appropriate to meet the operating and capital needs for the Sewer Fund.

Table 1 (below) first looks at the revenues generated for the 2014/15 fiscal year and compares them to the estimated revenue for the same period as forecast in the Rate Study. The revenue analysis includes all commercial and residential accounts, Community Services Districts, and Connection fees. Actual revenue is above the Rate Study estimate by \$594,891, or approximately 1.0%. This is a good outcome, as it indicates the Rate Study accurately projected revenue for purposes of making decisions on an appropriate rate to manage the operating and capital costs.

Table 1	
Revenues - FY 2014/15	Amount
Actuals	51,225,399
2014 Study Estimates	50,630,508
Variance – Favorable	594,891

Next, staff looked at the operating expenditures for the Sewer Fund, as reflected in Table 2, (below), and compared them to the estimated operating and debt service expenditures from the 2014 Sewer Rate Study (excluding capital improvement projects). Actual expenditures for 2014/15 fiscal year are \$2,886,325 less than those estimated in the Rate Study, or approximately -5.7%.

Table 2	
Expenditures - FY 2014/15	Amount
Actuals	47,668,399
2014 Study Estimates	50,554,724
Variance – Favorable	(2,886,325)

The majority of the variance from budgeted expenditure levels is due to staff vacancies that occurred during the year for positions that have since been filled or are currently being recruited for to fill 17 vacancies. Though the plant operated without these positions for a portion of the year, includes the Deputy Public Works Director in charge of the sewer plant, all of the positions are deemed necessary for the optimal, long-term operation of the plant. Included in the 2014 Study was to reevaluate short-term and long-term capital improvement needs. The 2014 Study recommended to shift a portion of budgeted funding that would have been classified as capital improvement projects to be classified and budgeted as maintenance. Staff further analysis determined that the reclassified maintenance could be reduced or deferred until the plant rehabilitation project is closer to completion. Expenditures for debt service were approximately \$19 Million, as anticipated.

Additionally, the new odor control and membrane bio-reactor systems will come on-line in the next year and will bring additional operating costs. While increased expenditures have been included in the 2015/16 budget, the full extent of those costs is still uncertain and it would not be prudent at this point to recommend any reduction in the rate increase plan based on a reduced level of operating expenditures.

The ending working capital balance at June 30, 2015 is approximately \$46.5 Million. This is an increase of approximately \$4.4 Million from the June 30, 2014 ending working capital balance of \$42.1 Million and is on pace with the forecast to a healthier fiscal position for the Sewer Fund. The

The Finance and Public Works Departments are currently developing a reserve policy to guide the operations of the Sewer Fund to help it secure fiscal strength and improved credit ratings from the rating agencies.

In conclusion, the FY 2014-15 revenue and expenditure activity for the Sewer Fund are largely on target with the projections from the 2014 Sewer Rate Study. For this first reporting period subsequent to the new rate increase, the operating data does not suggest any alteration to the adopted sewer rate structure. Staff will conduct a similar analysis at the end of the FY 2015-16 year and will report the results of that analysis to the City Council.


The Finance Director concurs with this report.

**FISCAL IMPACT:**

There is no fiscal impact associated with this report.

Prepared by:	Thomas J. Boyd, P.E., Public Works Director/City Engineer
Certified as to availability of funds:	Brent A. Mason, Finance Director/Treasurer
Approved by:	Al Zelinka, FAICP, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Concurs with:

  
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MIKE SOUBIROUS, Chair  
Finance Committee