

Sewer Enterprise Fund Service Rate Review

Public Works Department

City Council
December 13, 2016

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BACKGROUND

1. City Council approved a five year Sewer Services Rate Structure on May 13, 2014
2. Rate structure based on February 2014 Capital Improvement Program & Rate Study
3. Effective July 1, 2014 through June 30, 2019



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BACKGROUND

4. Annual 8.5 % increase in monthly service charges
5. Annual increase for capacity charges is equal to the Engineering News Record Construction Cost Increase (20-city average)
6. Staff directed by the City Council to annually review the sewer service rates & report back
7. On October 6, 2015, staff presented a fiscal year 2014/15 analysis of actual operating revenues & expenditures to City Council
8. Sewer service rate were determined to be appropriate to meet operating and CIP expenses of the Sewer Fund



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FISCAL YEAR 2015/16 – ACTUAL REVENUE

1. Includes revenue from sewer service fees, Community Services Districts, & connection fees
2. Revenue variance from the 2014 Rate Study due to: slower than expected customer growth & state mandated water conservation

Revenues – FY 2015/16	Amount
Actuals	\$52,392,031
2014 Study Estimates	\$55,470,681
Variance – Favorable / (Unfavorable)	(\$3,078,650)



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FISCAL YEAR 2015/16 – ACTUAL EXPENDITURES

1. Expenditures include debt service, but excludes capital improvement projects
2. Expenditure variance from the 2014 Rate Study due to: 2015/16 adjusted Bond debt service

Expenditures – FY 2015/16	Amount
Operating & Debt Service Actuals	\$40,163,829
2014 Study Estimates	\$52,566,956
Variance – Unfavorable / (Favorable)	(\$12,403,127)



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FISCAL YEARS 2016/17 TO 2018/19 – PROJECTED REVENUES

1. 2016/17 projections are based on first quarter revenue activity
2. 2017/18 & 2018/19 projected revenue based on Sewer Fund Financial Model
3. Revenue variance from the 2014 Rate Study due to: slower than expected customer growth & state mandated water conservation

	FY 2016/17	FY 2017/18	FY 2018/19
Projected Revenues	\$57,370,874	\$64,618,608	\$70,637,732
2014 Rate Study Revenues	\$59,111,977	\$66,286,034	\$72,459,717
Variance – (Unfavorable) / Favorable	(\$1,741,103)	(\$1,667,426)	(\$1,821,985)



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FISCAL YEARS 2016/17 TO 2018/19 – PROJECTED EXPENDITURES

1. 2016/17 projections are based on first quarter expenditure activity
2. 2017/18 & 2018/19 projected expenditures based on Sewer Fund Financial Model
3. Expenditure variance from the 2014 Rate Study due to: 2016/17 & 2017/18 adjusted Bond debt service

	FY 2016/17	FY 2017/18	FY 2018/19
Projected Expenditures	\$59,743,495	\$64,566,270	\$70,858,136
2014 Rate Study Expenditures	\$53,945,625	\$64,840,505	\$68,248,956
Variance – Unfavorable / (Favorable)	\$5,797,870	(\$274,235)	\$2,609,180



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UNANTICIPATED ITEMS NOT IN 2014 RATE STUDY



1. Development of Sewer Enterprise Fund Reserve Policy
2. Interfund Loan Payment Plan
3. Heavy Equipment Replacement
4. SEIU contract provisions
5. City Lateral Costs ⁸



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IMPACTS OF DEFERRING OR ELIMINATING PROJECTS

1. Non-compliance with Federal & State Regulations
2. Increase potential of sewer overflows and/or water quality violations
3. Reactive emergency repair
4. City Brand & public perception



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CAPITAL IMPROVEMENT PROGRAM



1. Total CIP identified in 2008 Master Plan and included in 2014 Rate Study
2. Funded through five year Sewer Service Rate Plan FY 2014/15 to 2018/19

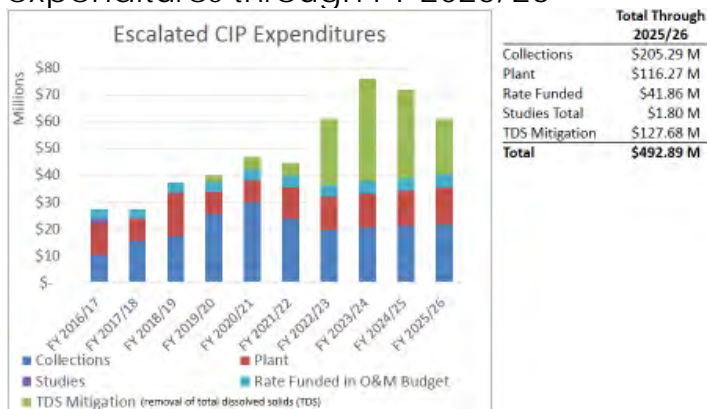
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CAPITAL IMPROVEMENT PROGRAM

- Beyond FY 2018/19, sewer rate adjustments will need to be assessed to fund the \$500M in CIP expenditures through FY 2025/26



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CAPITAL IMPROVEMENT PROGRAM

- Replace sewer pipelines
 - 50% installed before 1966
- Rehabilitate sewer pump stations
 - 10 of 19 needed
- Repair sewer laterals
- Rehabilitate Treatment Systems



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MASTER PLAN UPDATE PROJECT

1. Selecting a consultant to update the 2008 Master Plan & 2014 Rate Study
2. Reevaluate CIP needs
3. Develop financing alternatives for next 5-year sewer rate plan – FY 2019/20 to 2023/24.



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COMMUNITY SERVICE DISTRICTS



1. Wastewater from Jurupa, Rubidoux, & Edgemont is treated by the City
2. Original treatment agreements did not outline shared costs for CIP expenses
3. Settlement agreements with Jurupa & Edgemont for \$16.75M CIP contribution

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SEWER SERVICE RATE HISTORY



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IMPACT OF ADJUSTING RATES THROUGH FISCAL YEAR 2018/19

1. First Scenario – Reduce rates by 3.0% over last two years of 5-year rate plan (1.5% annually)
2. Customer Impact – Savings to Single Family Residence is estimated at \$14.16 annually, or \$1.18 per month, in FY 2017/18
3. Sewer Fund Impact –
 - Decrease of \$2.6M revenue last two-years of 5-year rate plan
 - Unfund \$40M of pipeline & lift station improvements through FY 2025/26
 - Shift \$40M to meet bond debt coverage reserve levels
 - Higher risk of sewer overflows & water quality violations



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IMPACT OF ADJUSTING RATES *THROUGH FISCAL YEAR 2018/19*

1. Second Scenario – Reduce rates by 8.5 % over last two years of 5-year rate plan (4.5% annually)
2. Customer Impact – Savings to Single Family Residence is estimated at \$39.60 annually, or \$3.30 per month, in FY 2017/18
3. Sewer Fund Impact –
 - Decrease of \$7.3M revenue last two-years of 5-year rate plan
 - Eliminates ability to meet bond debt coverage in FY 2018/19
 - Eliminates ability to maintain reserve levels
 - Unfund \$107M of pipeline, lift station improvements, & treatment plant rehab through FY 2025/26
 - High risk of sewer overflows & water quality violations



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RECOMMENDATION

That the City Council receive and file the Fiscal Year 2015/16 annual review of the Sewer Enterprise Fund service rates.



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