Water & Wastewater Financial Plan Update

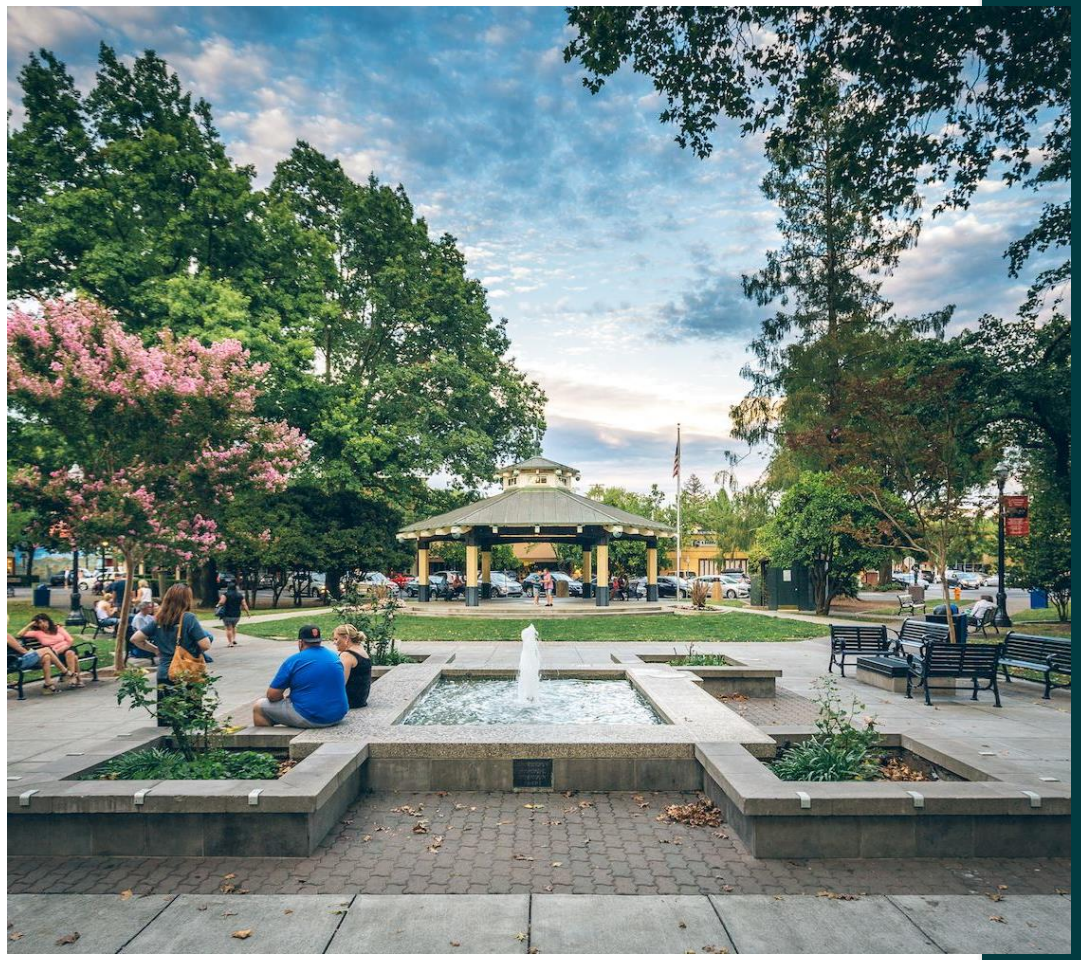
February 5, 2024

Background

- In 2022 the City Council approved a series of water and wastewater rate increase to recover costs to provide these services. These increases, unless changed, will continue with the last increase implemented July 1, 2026
- The current approved rate increases are dependent upon consumer usage returning to historic levels, which has not happened.
- Three years of lower water usage has resulted in budget shortfalls and is not financially sustainable. This created a need to review of the financial plans and propose updated water and wastewater rates.

Background (cont.)

- To review and update financial plans and rate structures, the City executed an agreement with Raftelis.
- Tonight's agenda item present early finds of Raftelis' work and provides suggestions for policy changes as well as structural changes within the water and wastewater rates.
- Specifically, Staff is seeking feedback on the following items.
  - The proposed rate structures (including the possible use of tiers)
  - The appropriate level of capital investment to meet requirements and maintain the aging system
  - Timing of efforts to diversify the City's water supply with expanded use of contract water from Lake Sonoma
  - Elimination of the capital reserve



City of Healdsburg

Water & Wastewater Rate Study
City Council Presentation | February 5, 2024

RAFTELIS

Agenda

- Rate Study Process
- Financial Planning
  - Financial Drivers
  - Capital Improvement Program
  - Reserves Policies
- Rate Alternatives

Rate Study Process

Step 1: Rate Setting Framework
- Financial goals and policies
- Pricing objectives
- Alternative rate structures for evaluation

Step 3: Rate Design
- Cost of Service Analyses (Cost allocations)
- Alternative rates design
- Rate calculations & customer impact analyses

Step 5: Rate Adoption – 218 Procedures
- Notice to City customers
- Public Hearing

We're Here

Start

Step 2: Financial Plan
- Evaluation of operating and capital costs
- Cash flow analysis for financial sufficiency
- Scenario Analysis

Step 4: Rate Adoption
- Documentation
- Study Report
- Review by legal counsel

Completion

Utility Financial Planning

Why Financial Planning?

Financial Sufficiency for the Short- and Long-Term

- Operating expenses
- Anticipated capital expenditures
- Anticipated water sales

Prepare for the Future

- Identify known and unknown variables
- Evaluate risks
- Evaluate opportunities

Long-Range Financial Plan Drivers

Inflationary Pressures

Supply Sources and Costs

Cash Reserves

Future Borrowing Terms and Assumptions

Baseline Water Sales Estimates

Capital Reinvestment

City Utilities Financial Discussion

Reduced water demands equal reduced rate revenues

- Approx. 20% reduction in water sales
- Required and continued deferral of some capital projects

Unanticipated inflationary pressure on operating and capital costs

Reduced cash reserves

New CIP landscape including

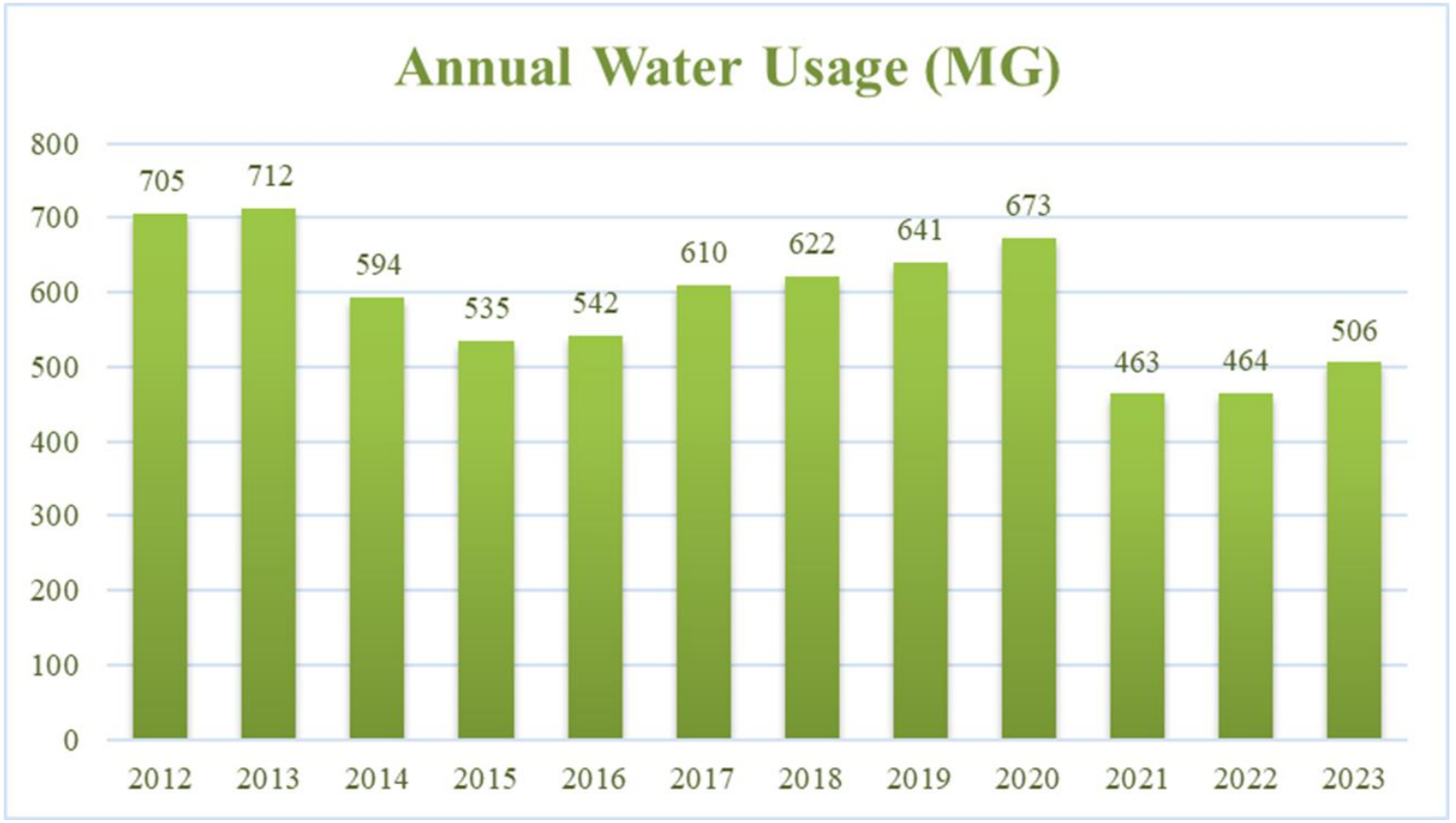
- Repair and replacement of major pipelines
- Potential regulatorily required PFAS improvements (estimated at $17 million)
- Cryptosporidium projects

2021 Rate Study planned increases will not be sufficient

- **FY24** – Water 8% increase / Wastewater 7% increase
- **FY25** – Water 5% increase / Wastewater 6% increase
- **FY26** – Water 5% increase / Wastewater 6% increase

Baseline Water Demands

- Baseline demand projected from Fiscal Year (FY) 2023
- Represents 20% reduction from historical average
- Aligns with reductions experienced by other water agencies across California
- Calendar Year (CY) 2023 usage was 126 GPCD versus the regional average of 93 GPCD

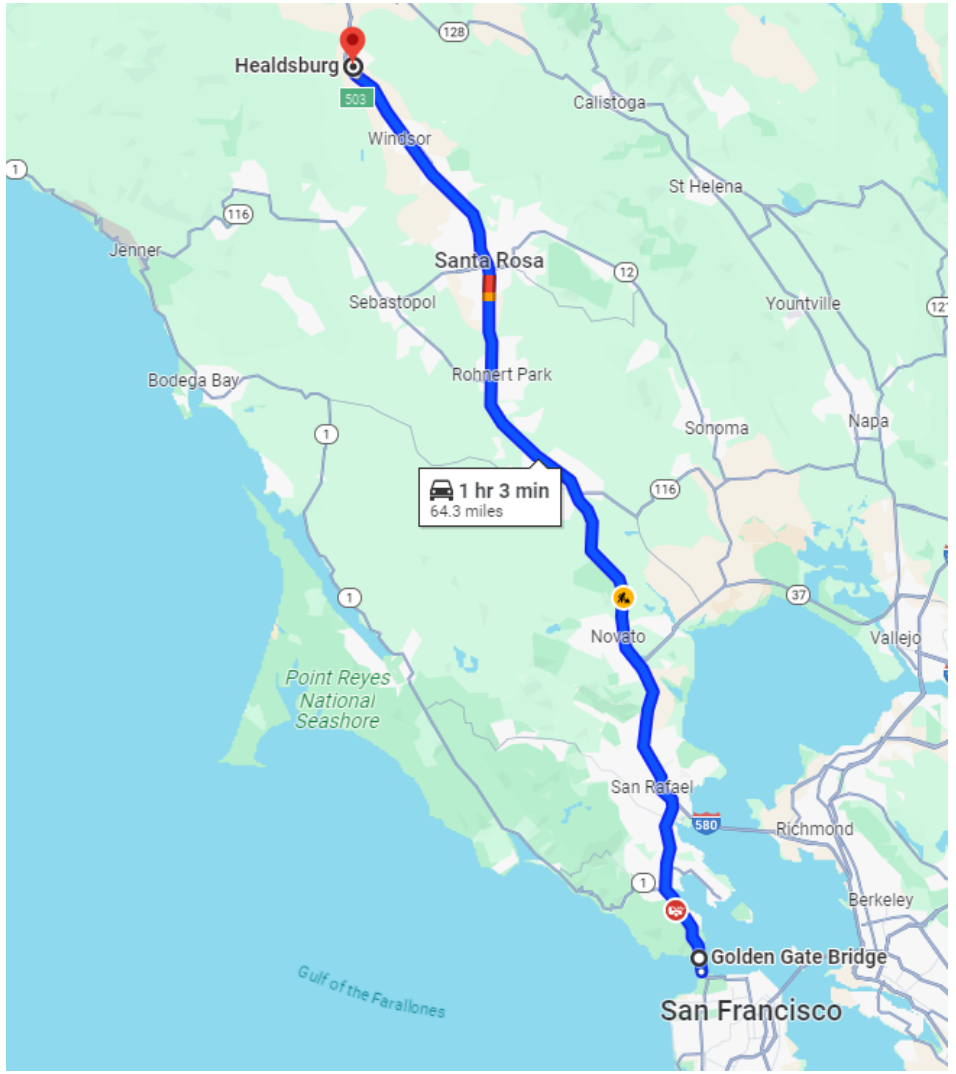


MG = Million Gallons

Capital Improvements

Aging Infrastructure

- 120 miles of utility pipeline
  - Equivalent of roundtrip from Healdsburg to Gold Gate Bridge
- 1/3 of pipes 50+ years old
- Averaging two water service repairs per week



Primary Water Capital Improvement Projects

Many projects in the long-term Capital Improvement Program (CIP) previously included were deferred due to financial constraints.

Continued deferral will challenge overall system reliability and cause larger future rate increases.

Proposed projects total roughly $5.5 million over the next three fiscal years.

Deferred projects total roughly $8.1 million excluding the possible cost of PFAS treatment.

1. **Cryptosporidium Filtration**
2. **Healdsburg Ave Utility Replacement** (Related to Streets Improvement Project)
3. **Brown Street Water & Sewer Replacement**
4. **University Sewer & Water Replacement**
5. **Water Treatment Membrane Replacements**

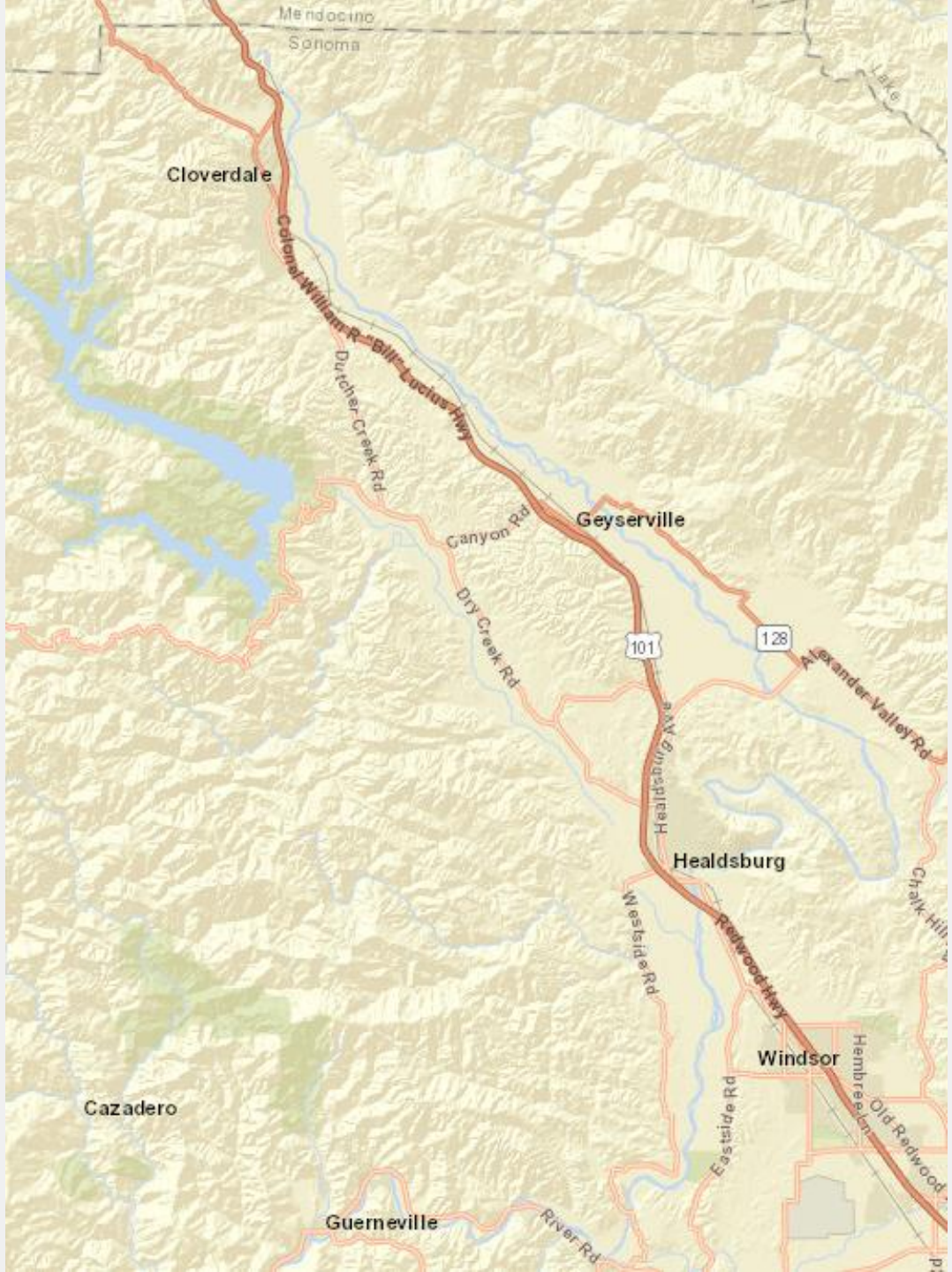
Primary Wastewater Capital Improvement Projects

- Healdsburg Ave Utility Replacement
  (Linked w/ Healdsburg Ave Street Improvements)
- Orchard Lift Station Rehabilitation
- Healdsburg Avenue Sewer Replacement
- Brown Street Water / Sewer Replacement
- University Sewer & Water Replacement
- Wastewater Membrane Replacements

Many projects in the long-term CIP that were included in prior rate studies were deferred due to financial constraints.

Continued deferral will challenge overall system reliability and result in larger future rate increases.

Proposed projects total roughly $6.1 million over the next three fiscal years with an addition $5 million deferred.



Water Supply Resiliency

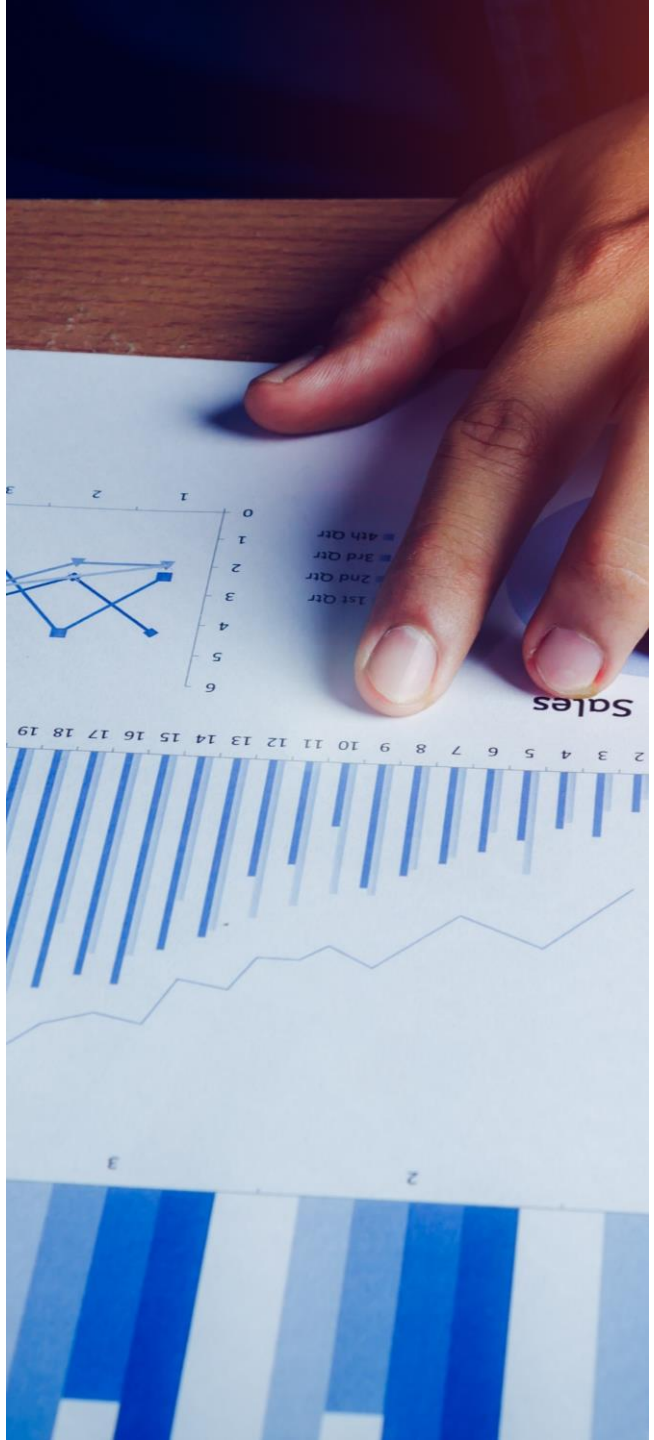
During the 2014/15 and 2021 droughts, the City was required to conserve significant amounts of water.

While conservation was necessary, the financial impact continues and directly impacts not only the City's water and wastewater departments but also Healdsburg businesses and residents through lost vegetation and landscape.

With the Potter Valley project ending, there is a need to consider the development of more consistent water supplies.

The purchase of stored water from Lake Sonoma and installation of additional pumping facilities along Dry Creek could present the City with a more stable water supply.

However, the contracted water and pumping facilities will come at an increased cost.



Reserves Policy Discussion

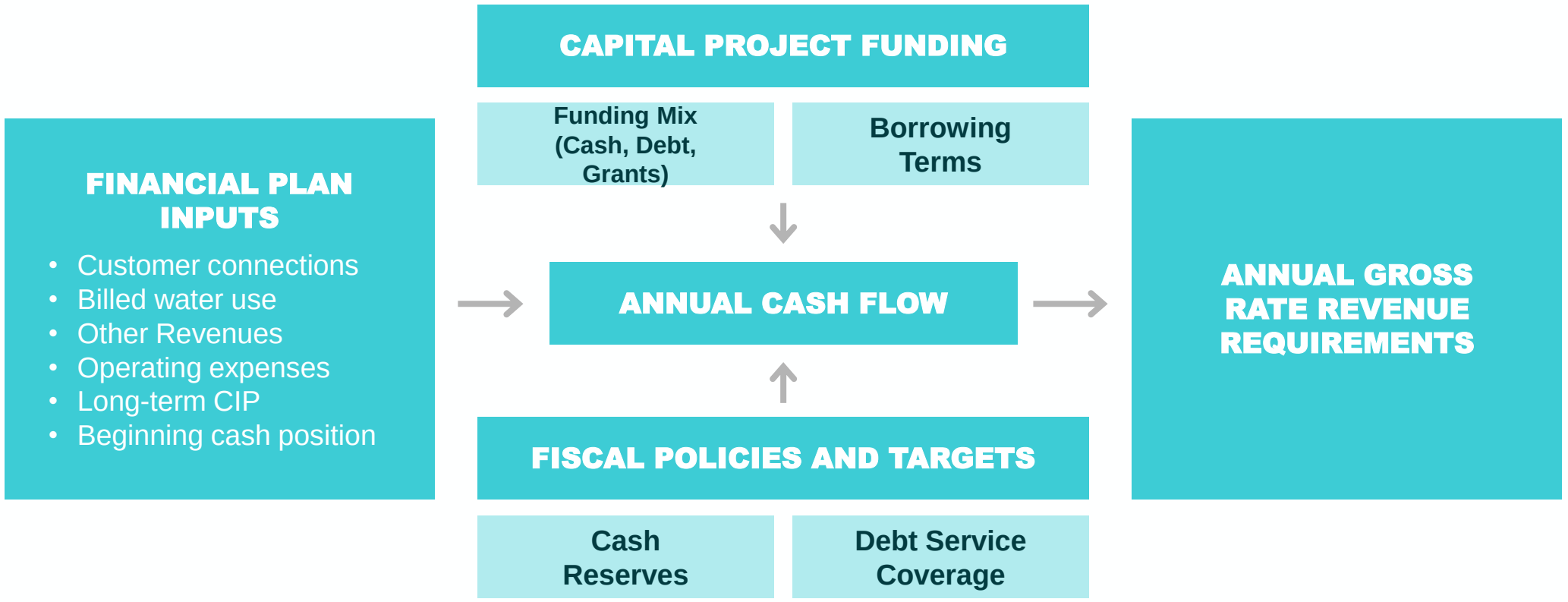
- Maintain Operating Reserve target of 90 days for working capital
- **Make available the portion of the Capital Reserve funded from rates**
  - Increases unrestricted working capital to lower near-term rate impacts

This recommendation:

- Improves days cash on hand (a key metric for credit rating agencies)
- Helps ensure self-sustaining utility enterprises
- Mitigates otherwise higher rate increases

Financial Outlook

Financial Plan Elements



Preliminary Operational, Debt, and Capital Costs

Forecasted operating, debt, and capital costs for the Water Department

Expense Type	FY2024-25	FY2025-26	FY2026-27
Total O&M	$5,247,953	$5,506,084	$5,774,793
Total Debt & Capital	$2,184,465	$3,335,097	$3,251,999
Total Costs	$7,432,418	$8,841,181	$9,026,792

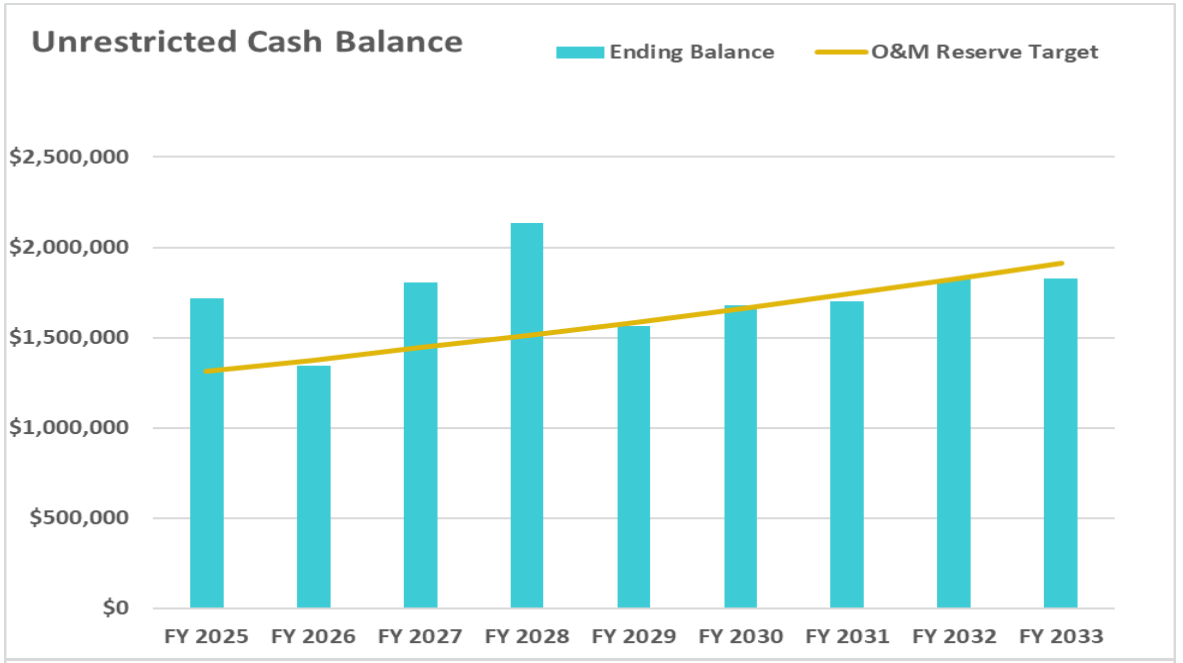
Forecasted operating, debt, and capital costs for the Wastewater Department

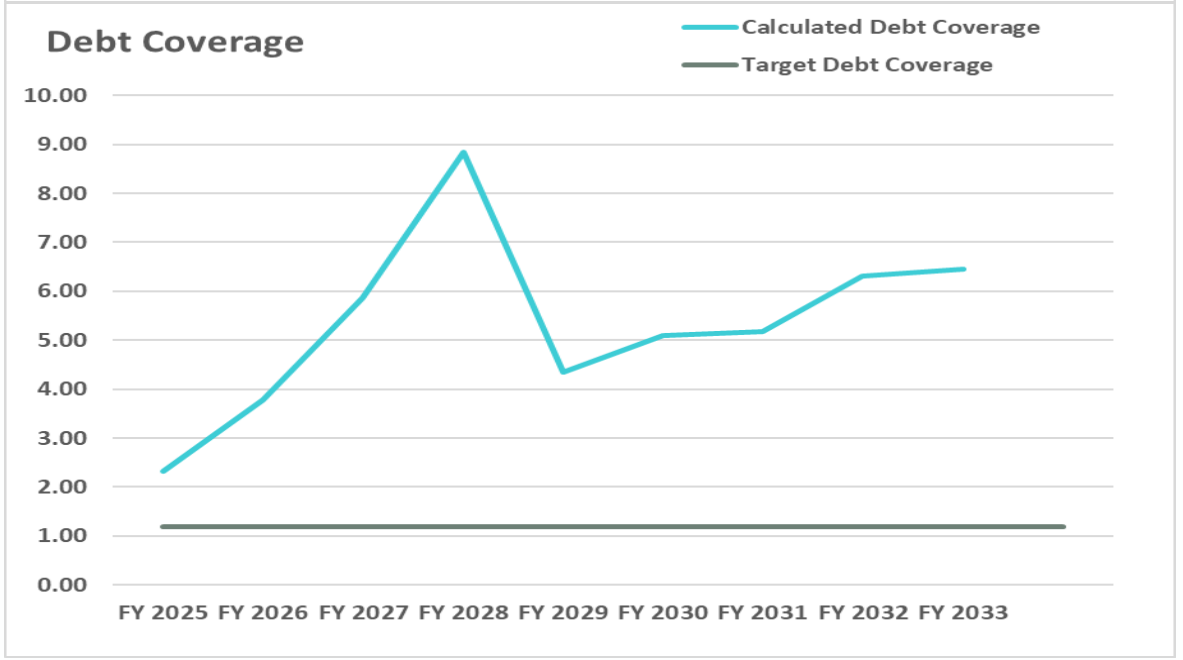
Expense Type	FY2024-25	FY2025-26	FY2026-27
Total O&M	$6,719,022	$7,045,209	$7,381,809
Total Debt & Capital	$2,954,844	$4,124,379	$5,187,123
Total Costs	$9,673,866	$11,169,588	$12,568,932

Water Financial Plan

Fiscal Year	Revenue Adjustment	Planned Bonds
FY 2025	21%	$0.00
FY 2026	20%	$0.00
FY 2027	12%	$0.00
FY 2028	12%	$0.00
FY 2029	12%	$13,000,000
FY 2030	10%	$0.00
FY 2031	3%	$0.00
FY 2032	3%	$0.00
FY 2033	3%	$0.00

Recommended 3-Year Revenue Adjustments





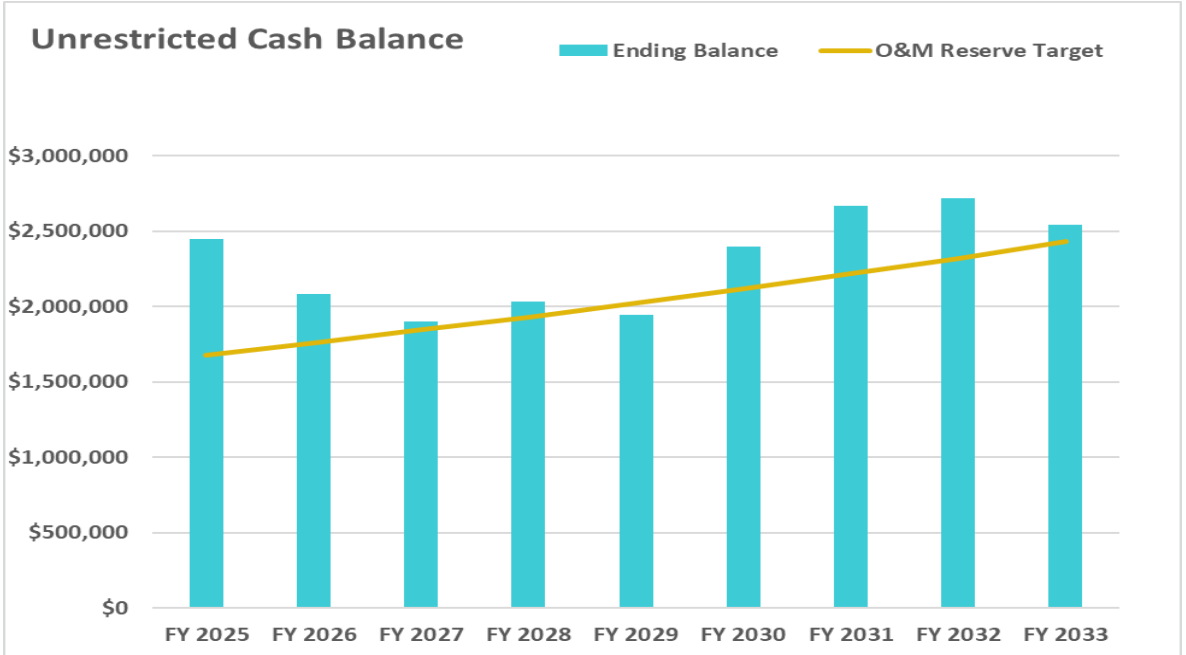
Water Rate Increase Comparisons

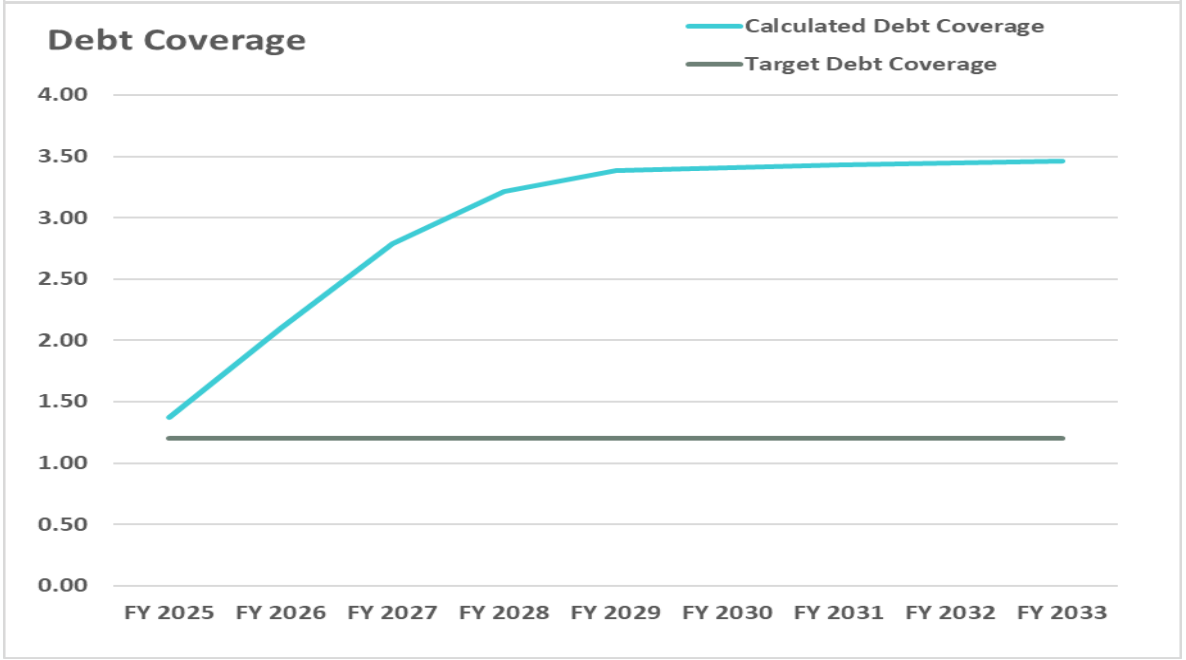
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Healdsburg	21%	20%	12%	12%	12%
St Helena	28%	8%	8%	8%	8%
Calistoga	50%	12%	10%	6%	6%
City of Sonoma	5%	5%	5%	5%	5%
Rohnert Park	5%	5%	5%	-	-
Sebastopol	Study in Progress				
Cloverdale	12%	12%	12%	-	-
Santa Rosa	4%	-	-	-	-
Windsor	Study in Progress				

Wastewater Financial Plan

Fiscal Year	Revenue Adjustment	Planned Bonds
FY 2025	18%	$0.00
FY 2026	18%	$0.00
FY 2027	15%	$0.00
FY 2028	9%	$0.00
FY 2029	5%	$0.00
FY 2030	3%	$0.00
FY 2031	3%	$0.00
FY 2032	3%	$0.00
FY 2033	3%	$0.00

Recommended 3-Year Revenue Adjustments





Wastewater Rate Increase Comparisons

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Healdsburg	18%	18%	15%	9%	5%
St Helena	50%	4%	4%	4%	4%
Calistoga	35%	25%	3%	3%	3%
City of Sonoma	-	-	-	-	-
Rohnert Park	Study in Progress				
Sebastopol	Study in Progress				
Cloverdale	10%	10%	10%		
Santa Rosa	2%	-	-	-	-
Windsor	Study in Progress				

Financial Plan vs. Cost of Service

Financial Plan

- Determines the TOTAL amount of revenue required from water rates each year (i.e., how large of a pie do we need?)

Cost of Service

- Determines how the overall rate revenue requirement is allocated to various customer classes (i.e., how do we slice the pie based on costs incurred?)

Rate Alternatives

Current Water Fixed Charge Structure

- Residential fixed charges based on Dwelling Units (DU)
- Commercial Fixed Charge by meter size

Residential Monthly Meter Charge ADU's	
Single Family	$28.61
Single Family + ADU (per DU)	$21.84
Multi-Family (per DU)	$17.01

Recommendation

Harmonize all customer fixed charges by meter size

Non-Residential Monthly Meter Charge	
¾ inch	$45.26
1 inch	$45.26
1 ½ inch	$86.90
2 inch	$136.86
3 inch	$253.46
4 inch	$419.91
6 inch	$1,127.75
8 inch	$1,502.45
10 inch	$2,002.06
12 inch	$2,813.93

Water Commodity Rate Structure

Current FY 2024 Rate Variable Water Charges ($/HCF)	
Single Family Residential	$6.48
Multi-Family Residential	$6.48
Commercial	$6.48
Industrial	$6.48
Landscape	$6.48

Customer Class	Current Structure	Alternative Structure
Residential (SFR & MFR)	Uniform Commodity Rate	Tier 1 Residential
		Tier 2 Residential
Commercial		Uniform Commercial
Industrial		Uniform Industrial
Landscape		Uniform Landscape

SFR = Single Family Residential / MFR = Multi-Family Residential

Staff's intent, subject to Council direction, is to develop a two-tier water rate structure for Residential customers and specific uniform rates for each non-residential customer class

Current Sewer Charge Structure

- Residential fixed charges based on Dwelling Units (DU)
- Commercial Fixed Charge by meter size

Residential Monthly Meter Charge ADU's	
Single Family	$46.67
Single Family + ADU (per DU)	$31.95
Multi-Family (per DU)	$37.80

Recommendation

Harmonize all customer fixed charges by meter size

Non-Residential Monthly Meter Charge	
¾ inch	$75.75
1 inch	$75.75
1 ½ inch	$148.49
2 inch	$235.77
3 inch	$439.44
4 inch	$730.39
6 inch	$1,966.94
8 inch	$2,621.58
10 inch	$3,494.44
12 inch	$4,912.83

Drought Rates

A tool to cover ongoing operating costs during times of reduced water use

- Supplemental rates or surcharges to normal condition rates
- Temporary in nature
- Available during declared shortages, mandatory conservation, or other water emergencies
- Subject to the procedural and substantive requirements of Proposition 218
- Implemented (and rescinded) at the resolution of City Council

Drought Rate Structures

Policy Objectives	Uniform Commodity Charge	Uniform Percentage	Monthly Fixed Meter Charge
Easy to understand and administer	★★	★★	★★★
Stability and guaranteed recovery of revenue	★★	★	★★★
Ability to change the bill	★★	★★★	★
Targeted use and conservation	★★	★★★	★
Promotes affordability	★★	★★★	★

Drought Rate Implementation

Drought rates are subject to Proposition 218

Noticed drought rates are the maximum that the Council can implement

City Council maintains discretion to:

- Implement a lower drought rate than adopted
- Use reserves in lieu of drought rates
- Defer capital projects
- Utilize other conservation authority per the water code (e.g., water allocations, penalties, flow restrictions, etc.)
- Any combination of the above

Next Steps

1. Finalize Long-Range Financial Plan Model

2. Cost of Service Analyses

   In Process

3. Water & Wastewater Rates

   March 4 City Council Meeting

4. Update Rate Proposal with Council and community feedback

   Request Council approve starting the Prop 218 process

   March 18 City Council Meeting

5. Hold public meeting to hear community feedback and consider adoption of updated water and wastewater rates

   May 6 City Council Meeting

RAFTELIS

Thank you

Contact:

Kevin Kostiuk

213-262-9309 / kkostiuk@raftelis.com

Justin Rasor

213-262-9311 / jrasor@raftelis.com

Questions & Requested Feedback

- Seeking feedback on the following items.
  - The proposed rate structures including the possible use of tiers and elimination of the "dwelling unit" methodology for fixed fees.
  - The appropriate level of capital investment to meet requirements and maintain the aging system
  - Timing of efforts to diversify the City's water supply with expanded use of contract water from Lake Sonoma
  - Elimination of the capital reserve to lessen rate impacts and fund near-term capital improvement projects

Backup Slides

Financial Plan Details

External Debt Financing
(Lower Short-Term Rates versus Long-Term Obligations)

ADVANTAGES	DISADVANTAGES
• Cheaper short-term option relative to rate-funded financing • Provides intergenerational equity • Far less impactful on current ratepayers • Low-interest rate programs available (SRF, USDA, etc.)	• More costly (in absolute dollars) in the long term, relative to rate-funded financing • Obliges the agency to maintain minimum revenue/ liquidity levels for debt coverage requirements • Excessive debt limits financial flexibility & may lower credit rating

Financial Health Indicators

Healthy Reserves

- Operating Reserve – results from positive cash flow
- Capital Reserve – can award contracts quickly and speed up projects if necessary
- Rate Stabilization – funds used during periods of revenue shortages
- Emergency – funds available in case of asset failure

Debt Coverage

- Exceed Official Statement requirements
- Achieve/maintain good credit ratings
- Borrowing capacity
  - How much debt is the enterprise able to issue?

Goals of Financial Reserves Policies

- Mitigate financial risk
  - Rate / revenue instability
  - Emergency with asset failure
  - Volatility in working capital
- Maintain solvency
- Achieve and/or maintain a specific credit rating
- Determine the most opportune time to issue debt
- Enhance financial management transparency through a policy statement