

CITY OF SONOMA

Cost of Service and Rate Design Discussion

City Council Meeting 6/4/2018



Agenda

1. Where We Are
2. Update on Reserves
3. Transfers
4. COS Discussion
5. Proposed Rates



Where We Are



Rate Setting Framework

- Financial goals and policies
- Pricing objectives

Financial Plan

- Evaluation of CIP and financing options
- Cash flow analysis for financial sufficiency

Cost of Service & Rate Design

- Cost allocations
- Rate design
 - Rate calculations
 - Customer impact analyses

Final Rate Adoption

June 25

- Report
- Rate Decision

Prop 218 Notice
(45 day mailed)

August TBD

- Public Hearing
- Rate Adoption



Goal: Continue to Provide High Quality, Dependable Water to the Community

Legal Updates

San Juan Capistrano

Fund Capital Investments

Water Master Plan
\$11.0M*

Build Reserve Balances

Optimal Reserve Level
\$3.26M

Council's Policy Objectives

Affordability / Infrastructure Investment / Financial Stability

*\$11.0M takes into account inflation, expenses from FY 2019 through FY 2023 4

Assumptions

- Financial Information

- › Staffing

- Includes negotiated salary and benefits for FY 18/19 and minor staffing changes
- 18/19 Revised Personnel Allocations
- Includes Cost Allocation Plan new methodology

- › O&M based on proposed FY 18/19 budget

- › Capital based on 5 year capital projects from Water Plan with adjustments based on capital priorities and balancing rate increases

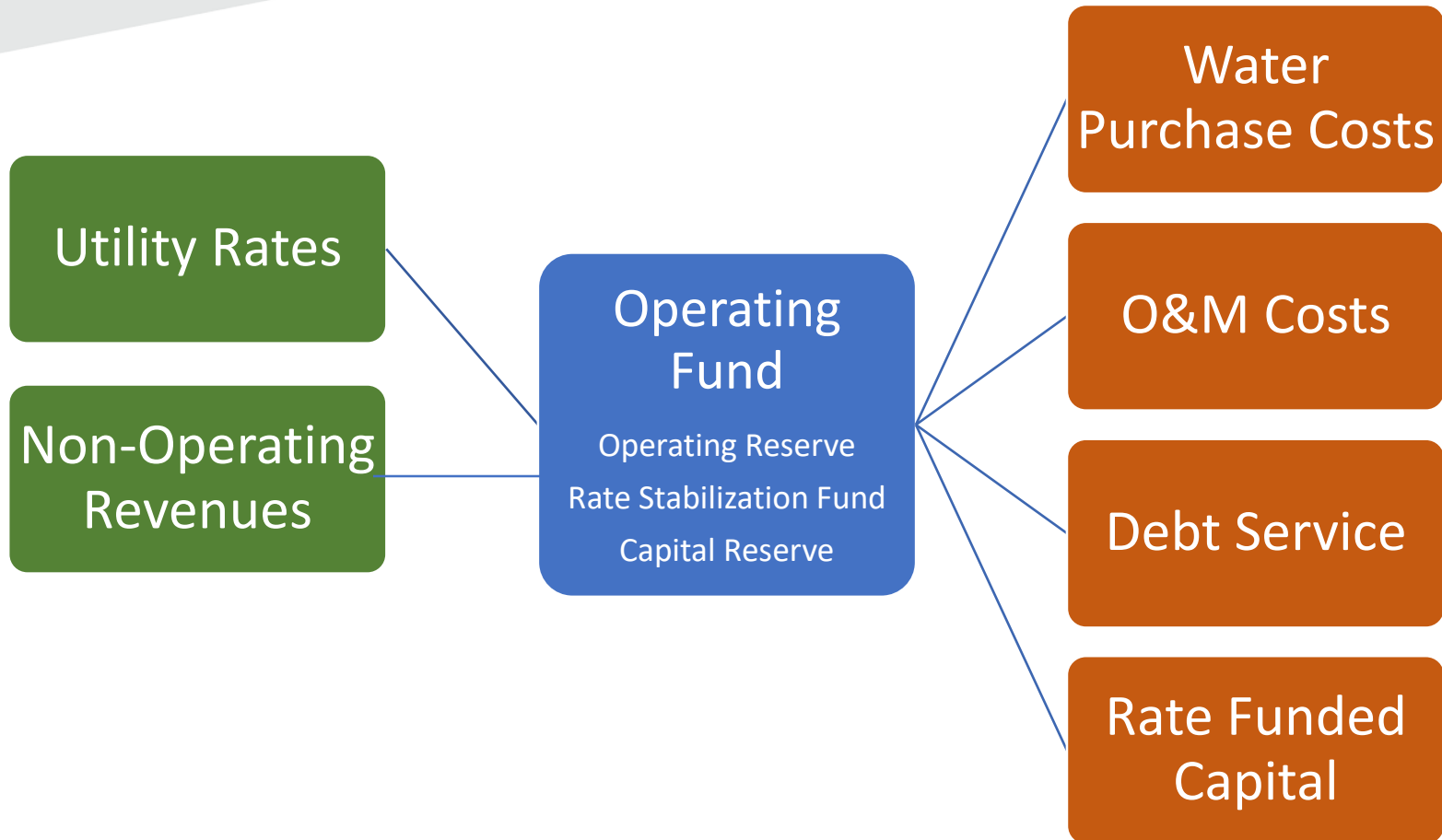
- With AMI and without AMI– can toggle as option



Cost of Service Discussion



Fund Structure Overview



Capital Project Plan Adjustments to Water Master Plan

- Changes: postponed renewal and replacement to FY 2022, postponed drilling Well No. 9, & incorporated three years of projected benefits in offsetting Meter System Upgrades (AMI) cost.
- Total CIP Reduction through FY 2023: \$4.3 million.

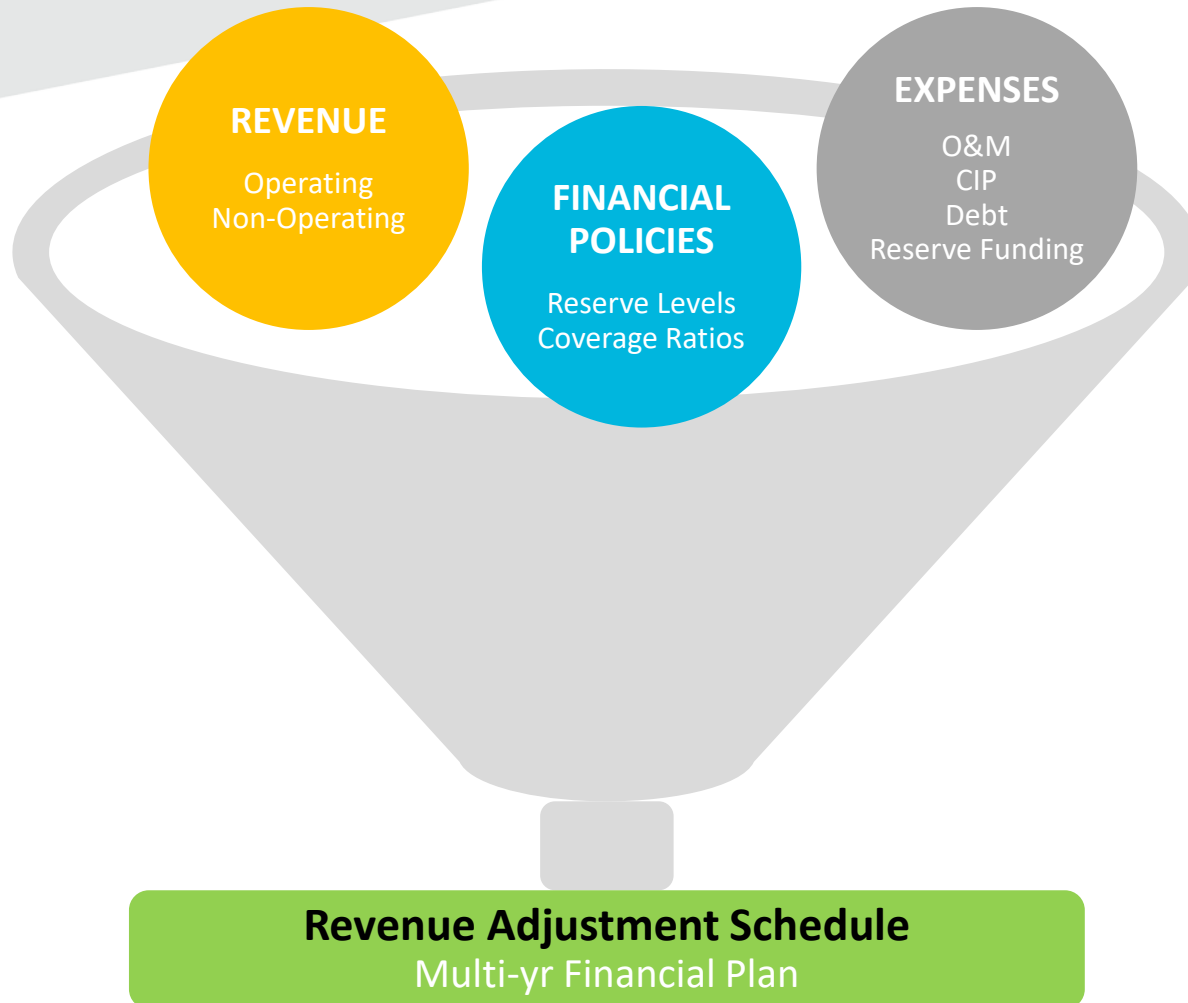
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Water Services with Street Rehabilitation	\$0	\$233,398	\$0	\$247,612	\$0
Condition Data - Phase 1	\$18,540	\$0	\$0	\$0	\$0
Condition Data - Phase 2	\$118,450	\$106,811	\$49,173	\$50,648	\$52,167
Renewal and Replacement of Existing Pipelines	\$0	\$0	\$1,201,344	\$1,237,384	\$1,274,506
Condition Assessment of AC Pipes	\$23,690	\$0	\$0	\$0	\$0
Fire Flow Improvements - Upsizing AC Pipe 8" PVC	\$164,800	\$1,060,900*	\$0	\$0	\$0
Fire Flow Improvements - Upsizing Unknown Pipe 8" PVC	\$72,100	\$434,969*	\$0	\$0	\$0
New Well No. 9	\$465,620	\$307,131	\$1,640,120	\$0	\$0
2020 UWMP and Water Master Plan Update	\$0	\$0	\$81,955	\$0	\$0
Meter System Upgrades	\$25,750	\$79,568	\$2,723,893	\$0	\$0
			\$2,026,939*		
Total	\$423,330	\$1,915,646	\$2,158,066	\$1,535,644	\$1,326,673

*- these projects are likely to be debt funded

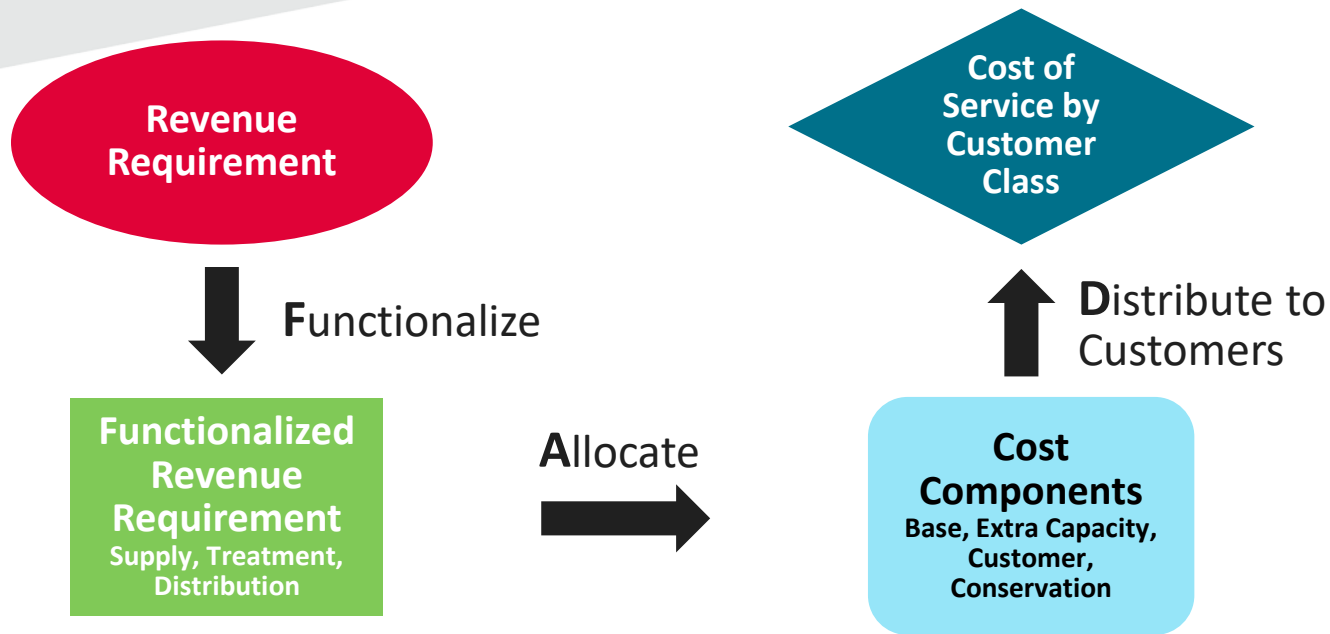
Financial Policies and Reserves

Reserves	Financial Plan Levels Proposed 2018 Rate Study		Target Levels Future Rate Study	
Operating Reserve	15% of O&M	\$636,767	25% of O&M	\$1,061,279
Capital Reserve	1 Year of Average CIP Expenditure	\$1,045,421	1 Year of Average CIP Expenditure	\$1,045,421
Rate Stabilization Fund	10% of Volumetric Revenue	\$305,086	20% of Volumetric Revenue	\$610,172
Emergency	0% of Net Asset Values (RCLD)	\$0	2.5% of Net Asset Values (RCLD)	\$540,845
TOTAL	\$1,987,274		\$3,257,717	

Financial Plan



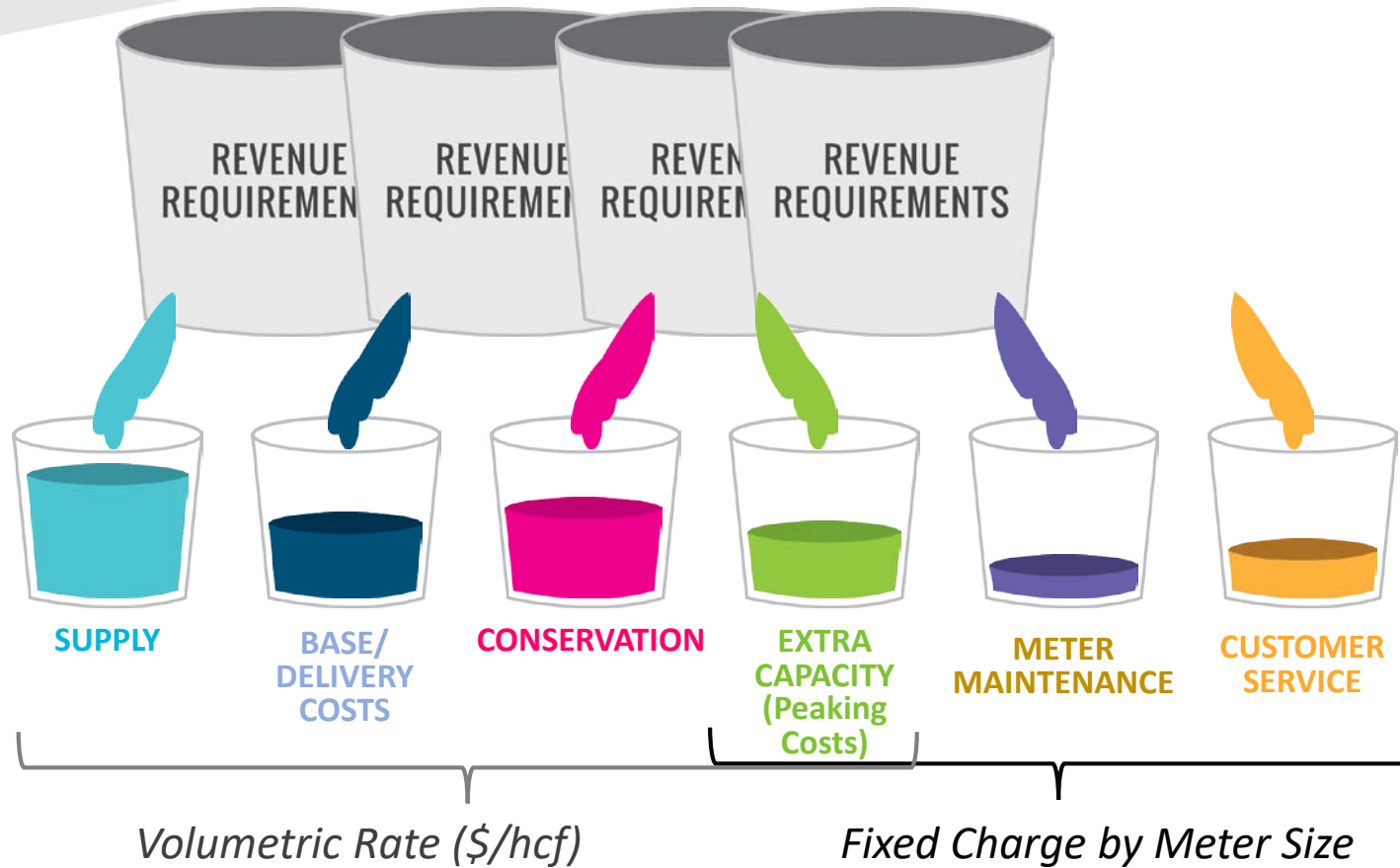
Cost of Service



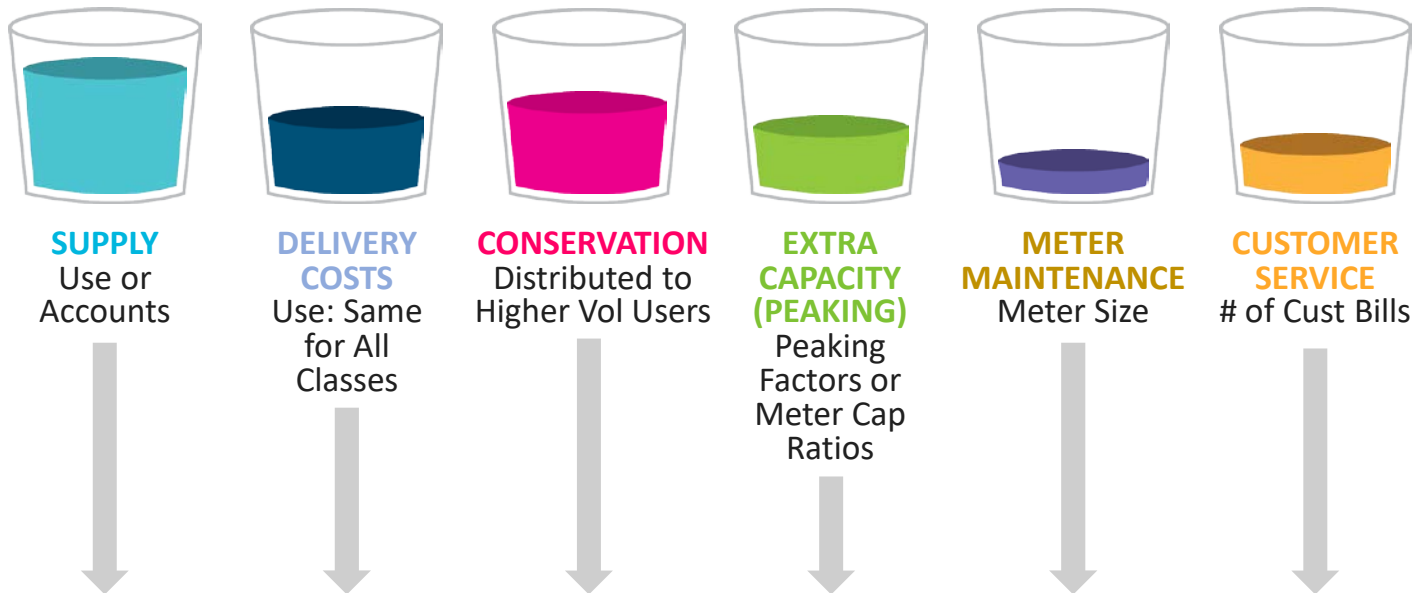
- » Recovers costs from customer classes in proportion to the demands they place on the system, recognizing the impact of each customer class on the costs to run system facilities
- » Cost of Service is the fundamental methodology used to establish utility rates in the United States

Water Cost of Service

Allocation to Cost Components



Distribute Cost Components to Customer Classes



Develop Units Rates for each Cost Component (Bucket) which are used to Distribute Costs to Each Class

CUSTOMER CLASSES (Cost to Serve Each Class)

(Single Family, Multi-family, Commercial etc.)

Rates Discussion



Current Rate Structure

- Tiered SFR, MFR and Commercial volumetric Rates
- Fixed charges based on meter size

Current Residential Volumetric Charges	Tier Width (in 1,000 gallons or kgals)	Rate Per kgal
Tier 1	1 to 6	\$3.94
Tier 2	7 to 12	\$6.91
Tier 3	13 to 18	\$7.76
Tier 4	19+	\$11.22

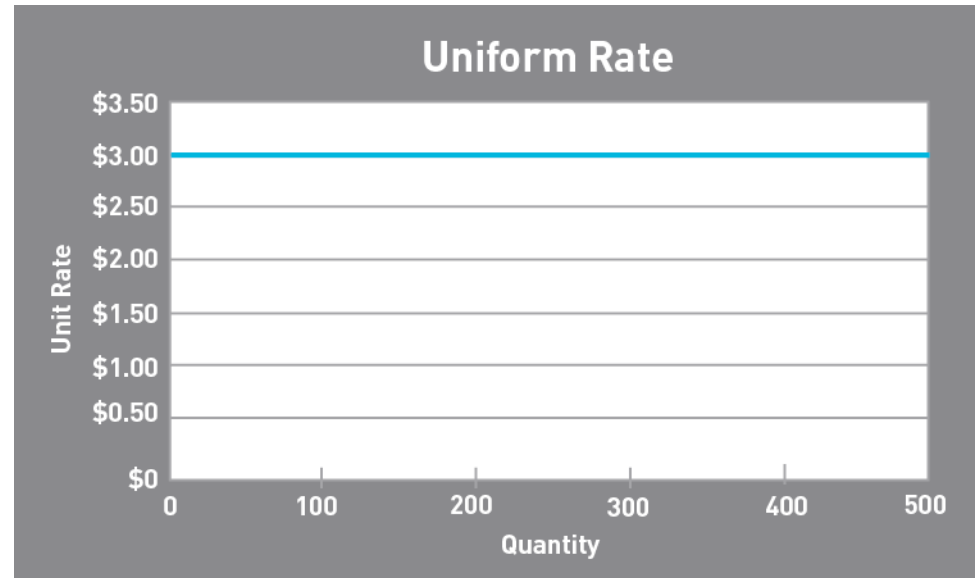


Suggested Rate Options

1. Tiered SFR Rates– With AMI Spending
2. Uniform Volumetric Rates– With AMI Spending
3. Tiered SFR Rates– No AMI Spending
4. Uniform Volumetric Rates– No AMI Spending



Water Rate Structure Evolution

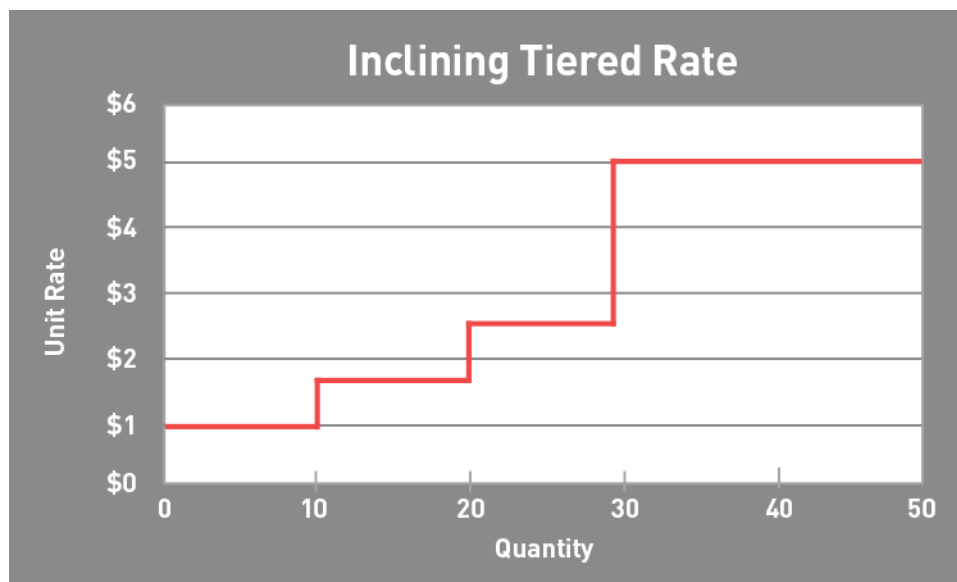
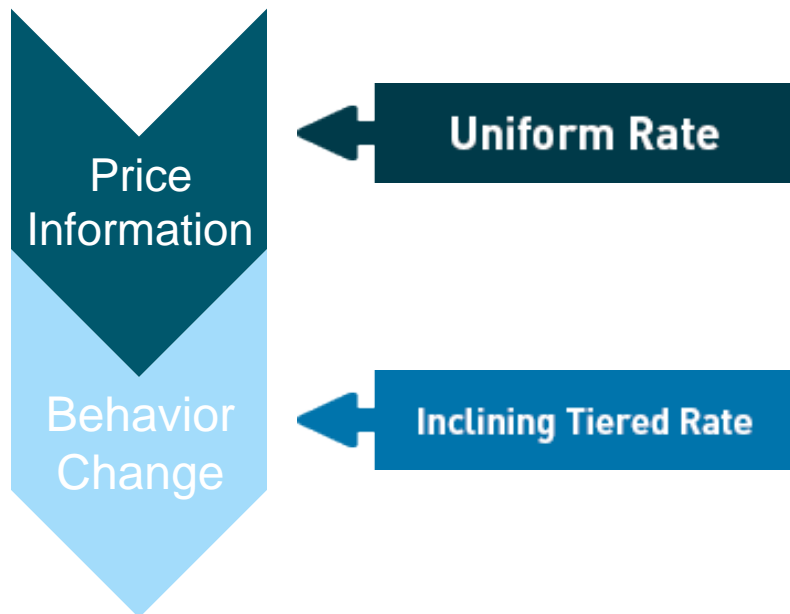


Uniform Rate: \$xx / hcf

Pros: Revenue stability, administrative ease, easy to understand

Cons: Weak conservation, not affordable for essential use

Water Rate Structure Evolution



Inclining Tiered Rate:

Pros: Promote conservation, affordable for essential use, easy to administer, easy to understand

Cons: Target large users

Inside City Limits – Residential Tier Reduction

	Current Structure	Proposed Structure	Proposed Methodology
Tier 1	6 kgals	2 kgals	Most affordable; 100% well water backfilled by SCWA water
Tier 2	6 kgals	5 kgals	Average SFR use
Tier 3	6 kgals	Beyond 7 kgals	All use above average
Tier 4	Beyond 18 kgals		



Proposed Fixed Charges – With AMI

Meter Size	Current Charge	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
		8%	8%	8%	8%	8%
		Adjustment	Adjustment	Adjustment	Adjustment	Adjustment
5/8"	\$20.28	\$22.54	\$24.35	\$26.30	\$28.41	\$30.69
3/4"	\$20.28	\$22.54	\$24.35	\$26.30	\$28.41	\$30.69
1"	\$20.28	\$22.54	\$24.35	\$26.30	\$28.41	\$30.69
1 1/2"	\$30.94	\$37.02	\$39.99	\$43.19	\$46.65	\$50.39
2"	\$38.67	\$54.40	\$58.76	\$63.47	\$68.55	\$74.04
3"	\$58.01	\$100.75	\$108.81	\$117.52	\$126.93	\$137.09
4"	\$96.68	\$152.89	\$165.13	\$178.35	\$192.62	\$208.03
6"	\$154.82	\$297.73	\$321.55	\$347.28	\$375.07	\$405.08



Proposed Volumetric Charges – With AMI

Customer Class	Current Charge	FY 2019 8% Adjustment	FY 2020 8% Adjustment	FY 2021 8% Adjustment	FY 2022 8% Adjustment	FY 2023 8% Adjustment
SFR Tier 1	\$3.94	\$4.55	\$4.92	\$5.32	\$5.75	\$6.21
SFR Tier 2	\$6.91	\$6.27	\$6.78	\$7.33	\$7.92	\$8.56
SFR Tier 3	\$7.76	\$7.60	\$8.21	\$8.87	\$9.58	\$10.35
SFR Tier 4	\$11.22	N/A	N/A	N/A	N/A	N/A
MFR		\$6.16	\$6.66	\$7.20	\$7.78	\$8.41
Commercial		\$5.97	\$6.45	\$6.97	\$7.53	\$8.14
Municipal	\$5.74	\$6.16	\$6.66	\$7.20	\$7.78	\$8.41
Irrigation	\$7.57	\$6.58	\$7.11	\$7.68	\$8.30	\$8.97
Fire & Hydrant	\$7.57	\$5.04	\$5.45	\$5.89	\$6.37	\$6.88
Uniform		\$6.22	\$6.72	\$7.26	\$7.85	\$8.48



Elevation Charges – With AMI

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
	8%	8%	8%	8%	8%
	Adjustment	Adjustment	Adjustment	Adjustment	Adjustment
Elevation Charge	\$0.51	\$0.55	\$0.60	\$0.65	\$0.71

- Elevation charge derived from electric costs that are non-groundwater pumping related
- Charge per kgal
- Sonoma has 356 accounts that would pay this charge



Proposed Fixed Charges – No AMI

Meter Size	Current Charge	FY 2019 8% Adjustment	FY 2020 8% Adjustment	FY 2021 7% Adjustment	FY 2022 6% Adjustment	FY 2023 6% Adjustment
5/8"	\$20.28	\$22.54	\$24.35	\$26.06	\$27.63	\$29.29
3/4"	\$20.28	\$22.54	\$24.35	\$26.06	\$27.63	\$29.29
1"	\$20.28	\$22.54	\$24.35	\$26.06	\$27.63	\$29.29
1 1/2"	\$30.94	\$37.02	\$39.99	\$42.79	\$45.36	\$48.09
2"	\$38.67	\$54.40	\$58.76	\$62.88	\$66.66	\$70.66
3"	\$58.01	\$100.75	\$108.81	\$116.43	\$123.42	\$130.83
4"	\$96.68	\$152.89	\$165.13	\$176.69	\$187.30	\$198.54
6"	\$154.82	\$297.73	\$321.55	\$344.06	\$364.71	\$386.60



Proposed Volumetric Charges – No AMI

Class	Current Charge	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
		8% Adjustment	8% Adjustment	7% Adjustment	6% Adjustment	6% Adjustment
SFR Tier 1	\$3.94	\$4.55	\$4.92	\$5.27	\$5.59	\$5.93
SFR Tier 2	\$6.91	\$6.27	\$6.78	\$7.26	\$7.70	\$8.17
SFR Tier 3	\$7.76	\$7.60	\$8.21	\$8.79	\$9.32	\$9.88
SFR Tier 4	\$11.22	N/A	N/A	N/A	N/A	N/A
MFR		\$6.16	\$6.66	\$7.13	\$7.56	\$8.02
Commercial		\$5.97	\$6.45	\$6.91	\$7.33	\$7.77
Municipal	\$5.74	\$6.16	\$6.66	\$7.13	\$7.56	\$8.02
Irrigation	\$7.57	\$6.58	\$7.11	\$7.61	\$8.07	\$8.56
Fire & Hydrant	\$7.57	\$5.04	\$5.45	\$5.84	\$6.20	\$6.58
Uniform		\$6.22	\$6.72	\$7.20	\$7.64	\$8.10



Elevation Charges – No AMI

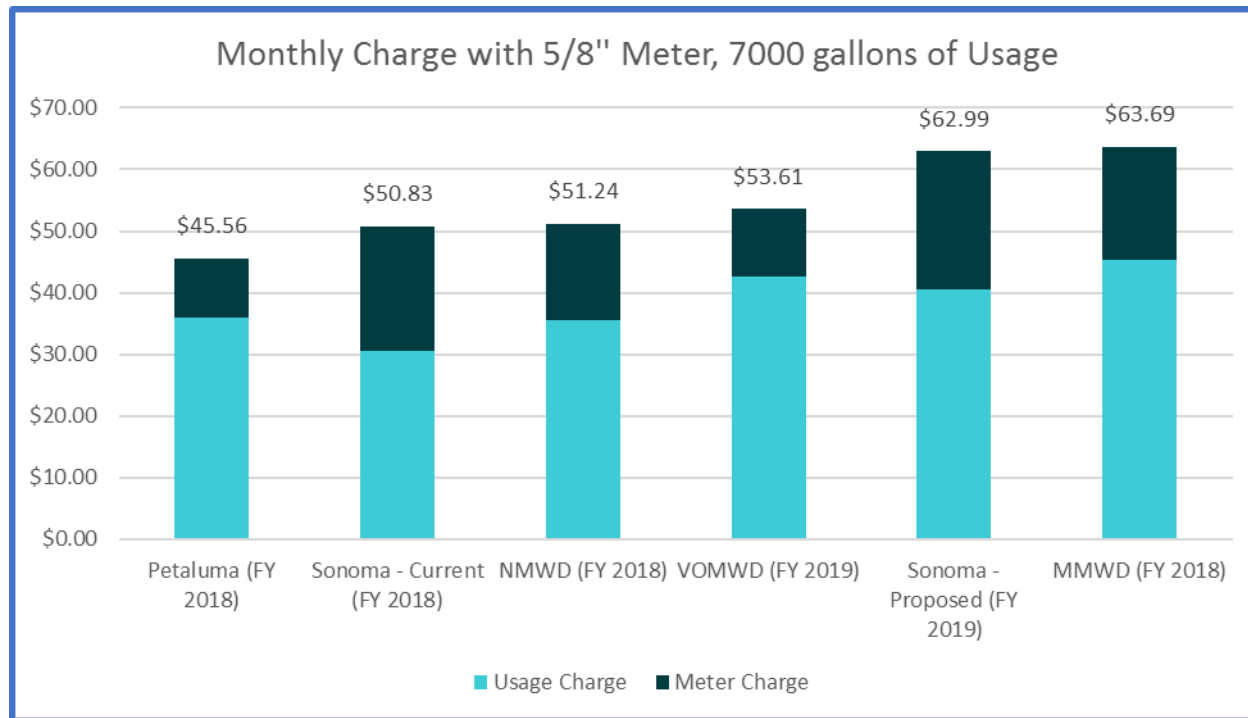
	Current Charge	FY 2019 8% Adjustment	FY 2020 8% Adjustment	FY 2021 7% Adjustment	FY 2022 6% Adjustment	FY 2023 6% Adjustment
Elevation Charge	*	\$0.51	\$0.55	\$0.59	\$0.63	\$0.67



Surrounding Communities

Typical Residential Comparison Use

Recent Rate Surveys



ESCALATION FACTORS

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Budgetary Inflation Factors					
General	3.0%	3.0%	3.0%	3.0%	3.0%
Salary	3.0%	3.0%	3.0%	3.0%	3.0%
Benefits	8.0%	8.0%	8.0%	8.0%	8.0%
Utilities	3.0%	3.0%	3.0%	3.0%	3.0%
Construction	3.0%	3.0%	3.0%	3.0%	3.0%
Insurance	3.0%	3.0%	3.0%	3.0%	3.0%
Engineering	3.0%	3.0%	3.0%	3.0%	3.0%
Professional Services	3.0%	3.0%	3.0%	3.0%	3.0%
Water Purchase Cost	6.0%	6.0%	6.0%	6.0%	6.0%
No Inflation	0.0%	0.0%	0.0%	0.0%	0.0%
Non-Operating Revenue Growth	0.0%	0.0%	0.0%	0.0%	0.0%

Historic CPI averages have been roughly 3%. Historic CCI (construction cost index) has been on average slightly above 3% for Northern California since 1978. Anticipated SCWA cost increases are roughly ~6%/year.

ACCOUNT & USAGE GROWTH

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Account Growth	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%
Demand Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Inside City Accounts	4,384	4,402	4,420	4,440	4,460	4,481
Outside City Accounts	326	327	328	329	330	331
Inside City Fire Lines	140	140	140	140	140	140
Outside City Fire Lines	12	12	12	12	12	12
Sold Water	1,673 AF	1,680 AF	1,687 AF	1,694 AF	1,702 AF	1,710 AF



CURRENT DEBT

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
2012 Revenue Bonds						
Principal	\$75,000	\$75,000	\$75,000	\$80,000	\$85,000	\$85,000
Interest (3.9%)	\$48,653	\$45,728	\$42,803	\$39,780	\$36,563	\$33,248
Total	\$123,653	\$120,728	\$117,803	\$119,780	\$121,563	\$118,248

2012 Revenue Bonds were a refinance of the 2001 Bond Issuance. The 2001 Bond Issuance financed the following improvements:

Water Tank Project

Construction of a 3.0 million gallon water storage tank, 1800 lineal feet of 12-inch diameter water transmission pipe, a pump station and pressure zone intertie facilities.

Installation of Water Mains and Laterals

The construction consisted of 8" and 10" diameter water mains and appurtenances: water service laterals; necessary trenching, road and concrete repair; and other associated work.



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