



# Study Session

## FY 2015/16 Utility Rates

*March 17, 2015*

A decorative graphic at the bottom of the slide consists of several overlapping arrows in various shades of blue and white, pointing towards the right. The arrows are layered, creating a sense of depth and movement.

# Overview

- Three utilities – water, wastewater, solid waste
- Operated and accounted for as separate enterprises
- No revenues from utilities used to fund non-utility related activities

# Overview

- Utilities are billed on a combined bill, therefore seen by customers as “Sunnyvale Utilities”
- Residential customers billed bi-monthly
- Commercial customers billed monthly
- Rates reviewed and adjusted annually

# Legal Context – Prop 218

- State law – commonly called the “Right to vote on new taxes law”
- Municipal utility rates subject to the majority protest provisions of 218 – requires 45 day notice and protest process
- Property related fees may not exceed the proportional cost of service attributable to the parcel – why the City conducts “Cost of Service” studies

# Legal Context – Other State Laws

- AB 2882 – Allows for conservation based rate structures
  - May include conservation costs
  - Also allows for “overuse” charges for excess water use
- AB 3030 – Allows water retailers to pass through wholesale rate increases
  - Included for first time in FY 2014/15 Rate Resolution
  - Hedges against mid-year wholesale rate changes
  - Don’t need to go through whole majority protest process again, but do need to get Council approval

# Utility Fund Reserve Policies

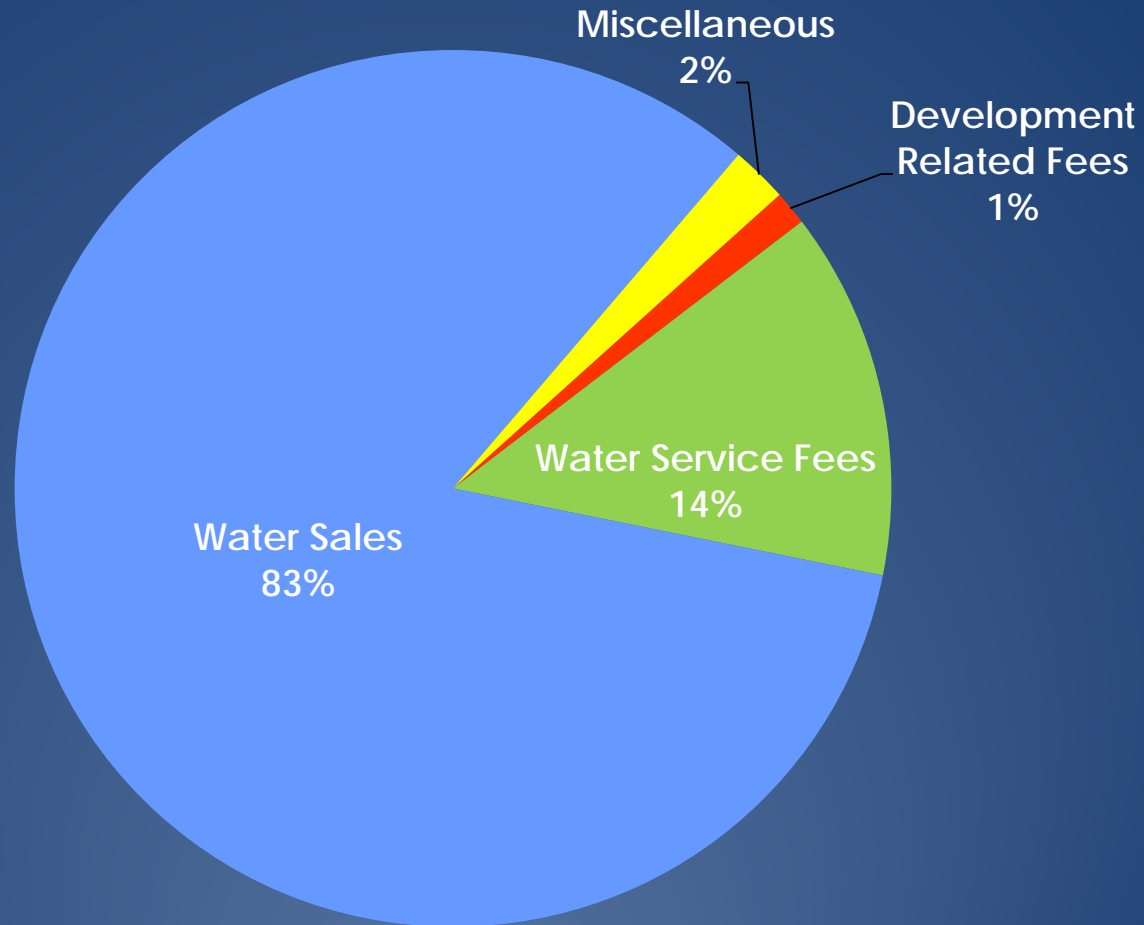
- Each utility maintains a Contingency Reserve
  - 25% for Water and Wastewater Funds
  - 10% for Solid Waste Fund
- Rate Stabilization Reserve for each utility
  - Used to smooth and normalize rate increases
  - Provides funding for capital requirements over the long term
  - Provides funding for unexpected expenses in a given year (for example projects that bid over the engineer's estimate)

# Rate Setting Overview

- Runs concurrent with the City's budget process
  - Develop Operating and Capital Budgets in alternating years
- Develop 20-Year Long Term Financial Plans
- Determine the revenue requirement (how much money is needed in the coming year)
- Cost of Service review approximately once every five years

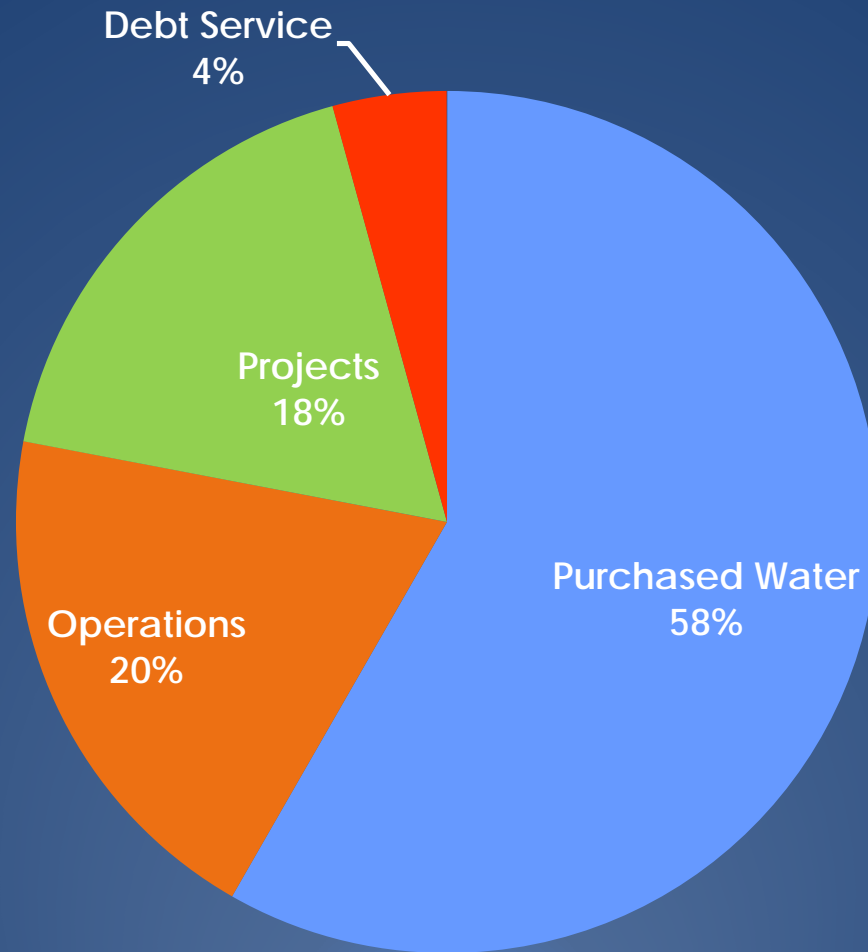


# Water Fund Overview - Revenues





# Water Fund Overview - Expenses



# Purchased Water

- Almost 60% of total expenses
- Wholesale Suppliers
  - Santa Clara Valley Water District (SCVWD) – 49%
  - San Francisco Public Utilities Commission (SFPUC) – 49%
  - Sunnyvale wells (SCVWD) – 2%
- Each wholesale contract contains minimum quantities
- Significant increases projected due to loss of revenue and increased expense from drought

# Purchased Water Forecast FY 2015/16

Supplier	Percent Increase	Projected Cost per Acre Foot	Total Cost
SFPUC	30.7%	\$1,668	\$15.0 M
SCVWD	31.5%	\$1,082	\$9.8 M
Groundwater (SCVWD)	31.5%	\$1,096	\$120 K

- Purchased water budget estimated to increase by \$4.7 M

# Project Budget

- Budgets increased due to escalating construction costs
- Increased funding for deteriorating water infrastructure
- 20-Year project budget up \$46.6 M

# Project Highlights

- City-wide Water Line Replacement
  - \$72M over twenty years
  - Focus on water mains not meeting modern fire flow standards
- Wolfe Road Recycled Water Project
  - In partnership with SCVWD
  - Serve Sunnyvale and adjacent communities
  - Total project \$17M, Sunnyvale's share \$2.1M
- Wolfe/Evelyn Water Plant Upgrade
  - Replace all mechanical and electrical components
  - \$2.25M total cost

# Recommended Rate Increase

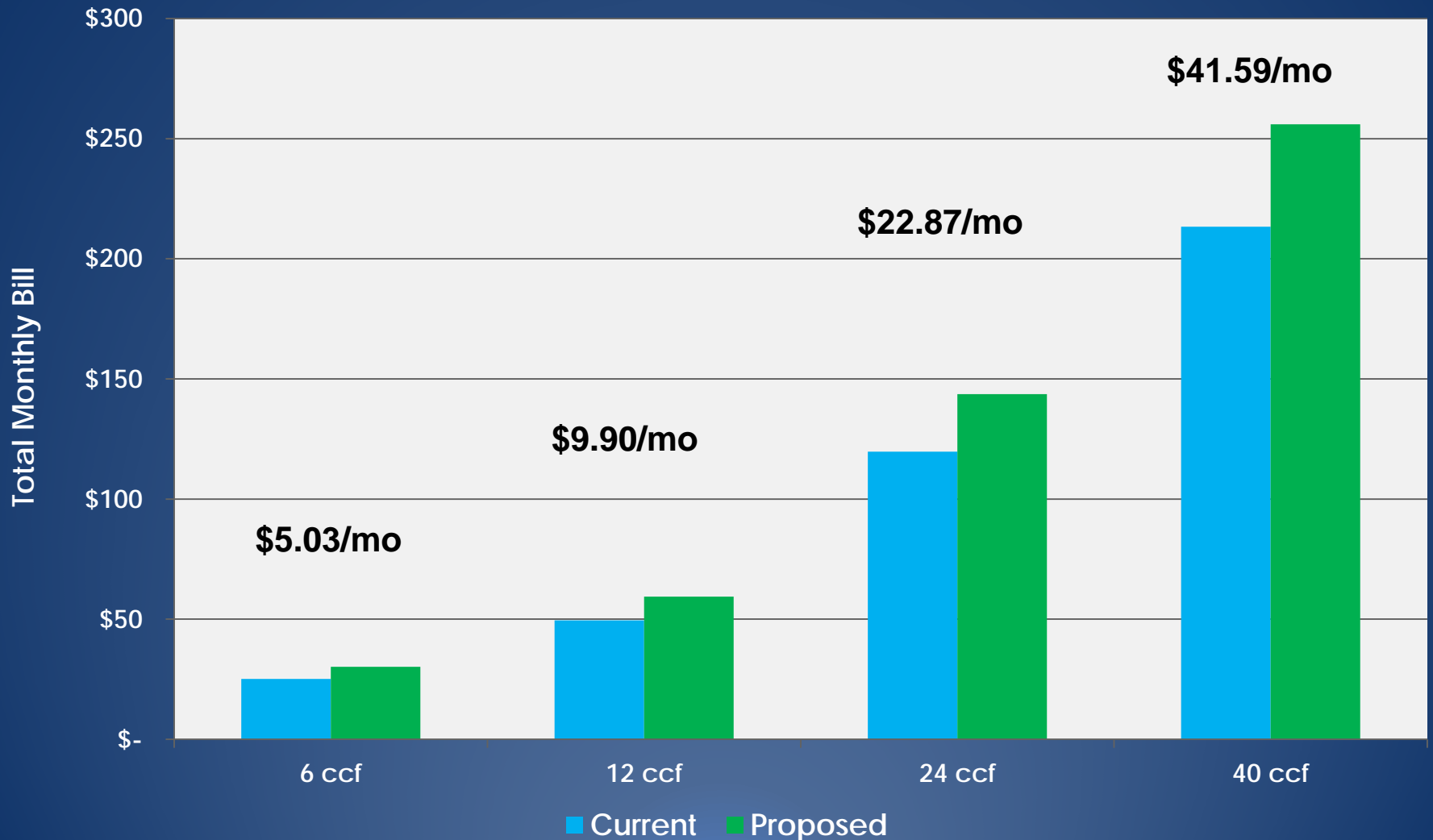
- 20% recommended rate increase
  - 60% purchased water and 40% projects
- Assumes drought will continue and sales decline
- Draws down rate stabilization reserve by \$2.6M
- Average Single Family monthly bill will increase by approximately \$9.90/month

# Current Water Rates

- Residential Rates are steeply tiered
  - Start at \$2.30 per ccf and top at \$7.61 per ccf
- Incentivize Conservation
  - Tiers break based on city-wide demographics
  - Highest tier is at four times the monthly average
- Separate Landscape Rates
- Commercial Rates not as steeply tiered
  - Commercial customer base much more diverse



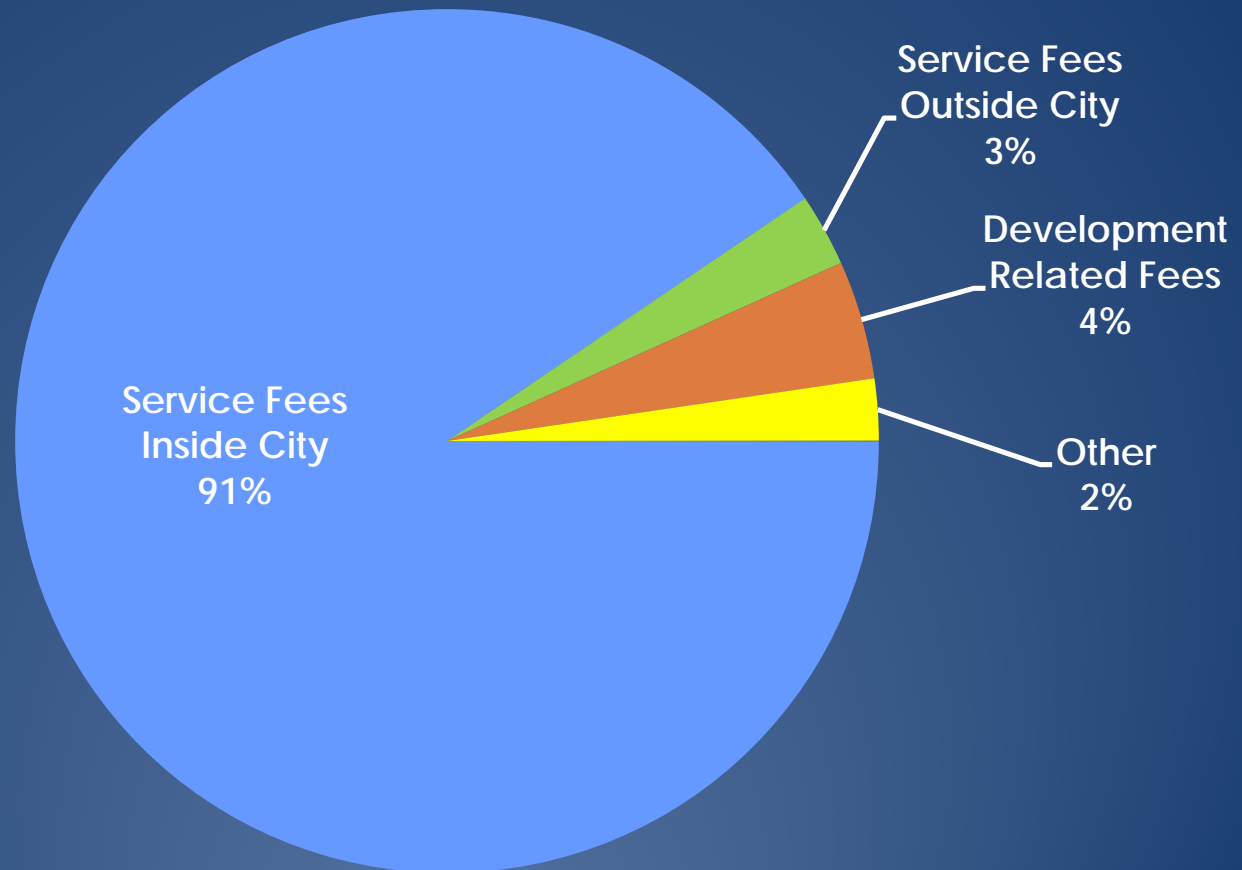
# Monthly Impact on Residential Bills



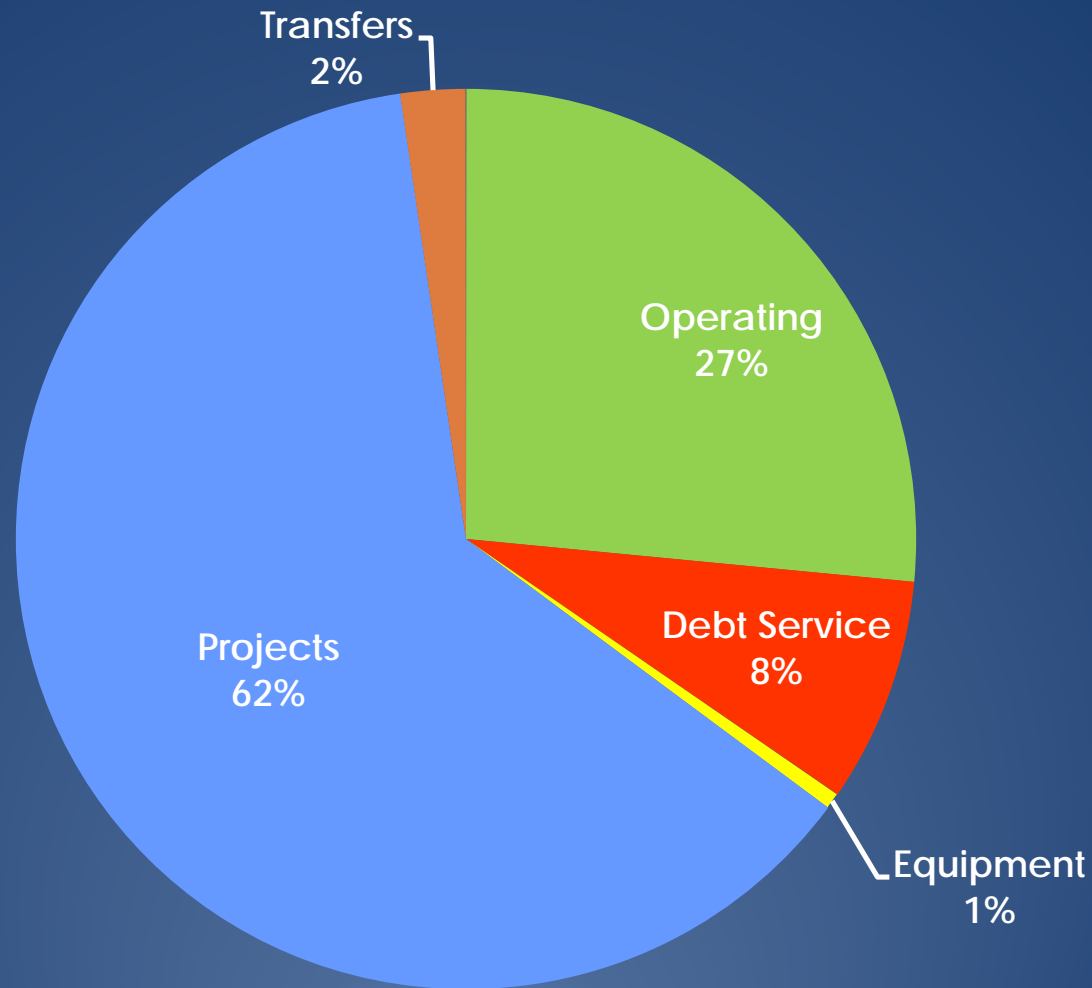
# Potential Changes in Wholesale Rates

- SCVWD Board has noticed “worst-case,” hopes for “best-case”
  - Directed staff to look for ways to lower increase
- SFPUC has not indicated any changes
- SCVWD - Each drop of 6 percentage points equals approximately 1% decrease in Sunnyvale rate
- SFPUC - Every 3.5 percentage points equals approximately 1% decrease in Sunnyvale rate

# Wastewater Fund Overview - Revenues



# Wastewater Fund Overview - Expenses



# Pressures on Wastewater Fund

- Aging treatment plant and collection system
- Tightening regulatory environment
- Increased operating costs

# Project Budget

- Water Pollution Control Plant (WPCP) replacement to be updated pending master planning process
- Additional projects for maintaining current plan and regulatory requirements
- 20-year project budget up \$19M
  - \$17M in first ten years of plan

# Project Highlights

- Water Pollution Control Plant (WPCP) replacement
  - Primary treatment design underway
  - “Manage the gap” projects continuing
  - Master plan underway
  - Construction on primaries scheduled to start in Nov
- Lawrence Expressway Sewer Line Rehabilitation
  - Line originally installed in 1963, and is past life expectancy
  - Over \$6.4 million , expected completion in FY 2017/18



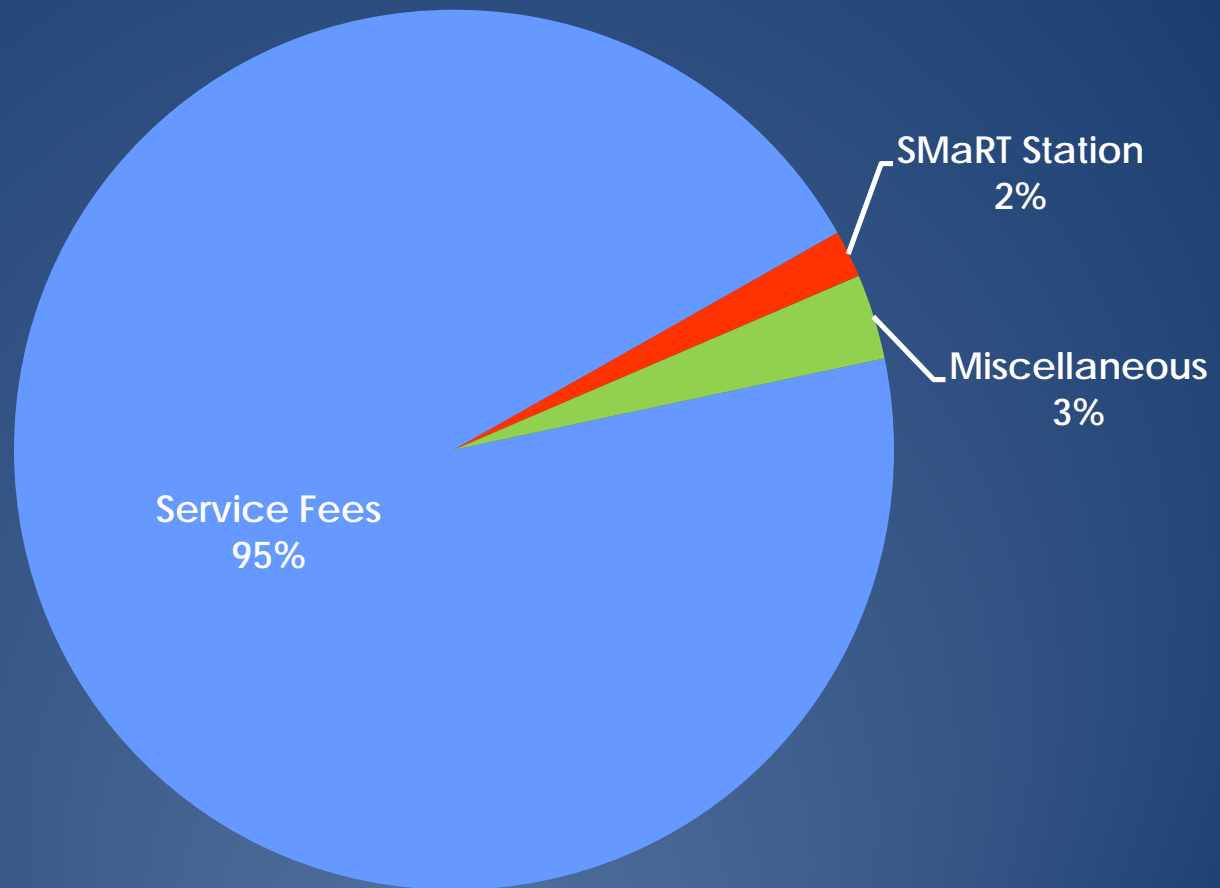
# Recommended Rate Increase

- 8% recommended rate increase
- As projected in current year financial plan
- Fully attributable to project funding
- Rate Stabilization Reserve drawdown of \$1.3M
- Monthly impact on single family residential customer is \$2.94 per month

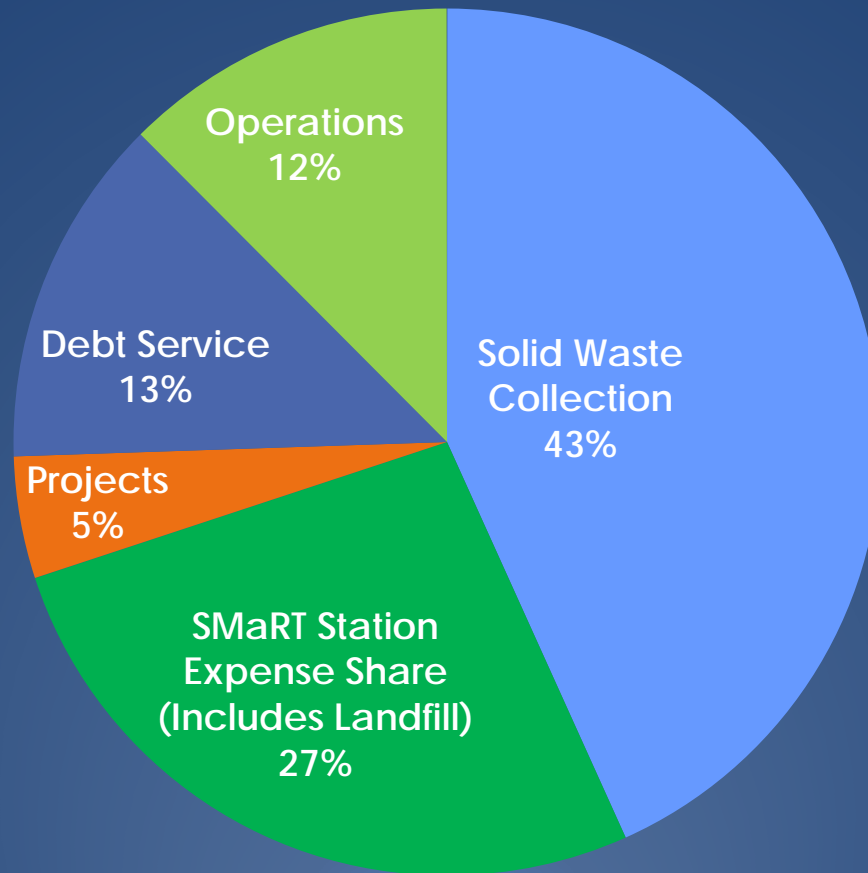
# Solid Waste and Recycling Rates

- Solid waste system comprised of two enterprise funds – Solid Waste Management and SMaRT Station Funds
- Solid Waste Fund represents Sunnyvale's share of the system
- SMaRT Station Fund represents the three-city costs of operating and maintaining SMaRT

# Solid Waste Fund Overview - Revenues



# Solid Waste Fund Overview - Expenses



# Solid Waste Fund Expenses

- Solid Waste collection contract cost down \$400K
- Debt service down \$4 M from refunding of 2003 and 2007 Revenue Bonds
- Project budget up \$19.5 M – primarily Zero Waste

# Project Highlights

- Zero Waste Strategic Plan Implementation
  - Increase diversion to 70% by 2015 and 75% by 2020
  - Total 20-year cost \$20.1M – includes operating savings from reduced landfill costs
- Replacement of the SMaRT Station
  - Budgeted to begin FY 2021
  - Assumes will be funded through debt issuance
- Solar installations at City facilities
  - \$1.5M – half funded by other funds

# Solid Waste Cost of Service Study

- Approximately once every five years
- Last study done in 2008 in run-up to implementation of Choice Collect
- Study looks at cost and revenue allocation across customer classes and makes adjustments
- Study results are not significant



# Solid Waste Cost of Service Study

- Costs and Revenues can be broken into two categories – fixed and variable
- In solid waste, majority of costs are fixed
  - Trucks and drivers that service customers
  - Maintenance of closed landfill
  - Operation of SMaRT Station
  - Overhead and administration
- Variable costs include -
  - Amount of material recycled or disposed

# Solid Waste Cost of Service Study

- Revenues tend to be more variable
  - Recycling revenues fluctuate due to volatile markets
  - Customers are responsive to changes in economic conditions and move quickly to downsize service
- Residential revenues tend to be less variable
- Commercial revenues more variable

# Solid Waste Cost of Service Study - Results

- 1% of costs shift to single family residential customers
- 5.6% in costs shift to mobile home parks
  - Recycling revenue allocated to residential service reduced
  - Reduction of one route resulted in cost savings
- Multi-family rates on average remain flat

# Recommended Rate Increase

- 5% recommended rate increase
- Increase covers additional project budget costs, rising contract costs
- As projected in current financial plan
- Increase is applied after cost of service shifts are made

# Solid Waste Cost of Service Study - Results

Container Size	FY 2014/15 Current Monthly Rate	FY 2014/15 Cost of Service Adjusted Rate	FY 2015/16 Proposed Rate – 5% Increase	Increase in monthly cost – Current vs. Proposed
Single Family 35 Gallon	\$34.88	\$35.18	\$36.94	\$2.06
Mobile Home 35 Gallon	\$25.96	\$27.36	\$28.72	\$2.76
Multifamily – 65 gallon	\$42.53	\$40.78	\$42.82	\$0.29
3 CY bin serviced 1x/wk	\$372.70	\$371.84	\$390.43	\$17.73

# Combined Single-Family Monthly Bill Impact

Service	Current	Proposed	\$ Increase	% Increase
Water	\$49.51	\$59.41	\$9.90	20%
Wastewater	\$36.77	\$39.71	\$2.94	8%
Solid Waste	\$34.88	\$36.94	\$2.06	6%
Total	\$121.16	\$136.06	\$14.90	12%

# Project Delivery

- Currently in a projects budget year
- The number and scope of projects has increased
- Project delivery resources are insufficient to fully deliver all projects as budgeted
- Staff will make adjustments as projects are prioritized and implemented
- Looking at options to fully resource project delivery



# Next Steps

- 45-day notices go out no later than April 24th
- Public hearing on June 9th
- Rates effective July 1<sup>st</sup> – prorated bi-monthly or monthly bills
- Water cost of service study initiated for implementation in FY 2016/17