

RESPONSE TO COUNCIL QUESTIONS RE: 6/9/15 AGENDA

PUBLIC HEARING/GENERAL BUSINESS:

Item #3

There seems to be a discrepancy between the water rate options described in the Discussion and Alternatives section. Early in the RTC, staff says that we have the flexibility of dropping water rates 2%, from 20% to 18%. But Alternatives 2 and 3 indicate that we have the flexibility of dropping rates 2.5%, from 20% to 17.5%. What's the correct range of flexibility?

If we decided to split the difference, drop water rates by 1%, and place the other 1% (or 1.5%) in reserves, what would the projected reserve balance be in 2019/20 instead of \$278,000?

Staff Response: The correct range of flexibility is from 20% to 18%. Staff inadvertently left the 17.5% in the alternatives from an earlier draft when staff was working through various scenarios. The fund cannot absorb a 2.5% decrease in the recommended rate without going out of balance.

In addition to the recent actions by wholesalers on their FY 2015/16 water rates, staff obtained revised 10-year projections from each provider. Including the adopted changes as well as the projections results in a net savings of approximately \$9 million over 10 years for purchased water costs. It was important to account for these new longer-term projections as in the case of SCVWD they were actually higher over the 10 years than in their original projections while the SFPUC's projections were slightly lower. If Council chose to split the difference, a 19% increase would still improve the fiscal condition of the Fund, with the Rate Stabilization Reserve low point at \$2.7 million in FY 2017/18.

It is important to note that the Water Fund is complex, and there are many moving pieces that affect the financial position of the Fund. Water sales and rate volatility, as well as the increasing cost of capital and infrastructure all can have significant impacts. Also, several actions that reduce the Rate Stabilization Reserve have been taken since the Recommended Budget was released, including appropriating resources to drought outreach and enforcement, and a new vehicle purchase to improve the City's water system maintenance services. As such, maintaining a healthy reserve as a hedge against these unknowns is especially important in this Fund.