



WATER SERVICES DEPARTMENT THE FINANCIAL PLANNING PROCESS

Citizens Utility Advisory Commission Workshop December 17, 2020





Agenda

- Workshop objective
- Financial Planning background and objectives
- Steps to the financial planning process



Financial Planning Background and Objectives

- Background
- Financial planning objectives

Our Mission Statement: The Water Department provides customers with safe, reliable, high quality water, wastewater, and storm water services to ensure the health, vitality and sustainability of our community.

- Establish financial sustainability to meet long-term operating expenses, debt service, and capital expenditures
- Maintain financial policies regarding fund balance levels and debt service coverage
- Optimize capital improvement to provide reliable and resilient infrastructure



Steps to the Financial Planning Process

1 Financial Plan →

What level of overall rate revenue is needed to meet expenditures, reserves, and bond covenants?

2 Cost-of-Service →

Is each customer class paying their equitable share of costs?

3 Rate Schedule →

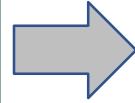
How should cost recovery be allocated to service charge and volume rates?



Financial Plan

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Financial Plan



What level of overall rate revenue is needed to meet expenditures, reserves, and bond covenants?

The financial plan is a long-term forecast of cash flows that reflects key inputs from all primary City water utility functions



Financial Plan

- Cash In-flows – Sources
 - Beginning fund balance
 - Rate revenue
 - Other operating revenue
 - Non-Operating income



Financial Plan - continued

- Cash Out-flows – Uses

- Operating & Maintenance Expenses from

- Water Treatment
 - Water Resources
 - Utility Billing
 - Personnel Services
 - Water Quality
 - Meter Maintenance
 - Line Maintenance
 - Plant Maintenance
 - Water Distribution
 - Wastewater Collection
 - Storm water Manage
 - Department Admin

- Debt Service

- Capital Outlay



Financial Plan Assumptions

- Financial Targets
 - Fund Balance
 - Days Cash on Hand
 - Debt Service Coverage
- Forecast Assumptions
 - Revenue growth and demand
 - O&M Expense increases
 - New debt terms





Capital Improvement Financing Strategy

- The financing strategy selected to pay for CIP expenditures is a key driver of water utility revenue increases
- The financial plan must have capabilities to determine the optimal mix of CIP financing:
 - Cash generated from water user charges (“Pay-Go” financing)
 - External debt financing (revenue bonds)
 - Development Impact Fees (customer account growth)



Cost of Service



Is each customer class paying their equitable share of costs?

The cost of service is the defined allocation of costs (revenue requirement) first by service function and then by customer class based on the class characteristics

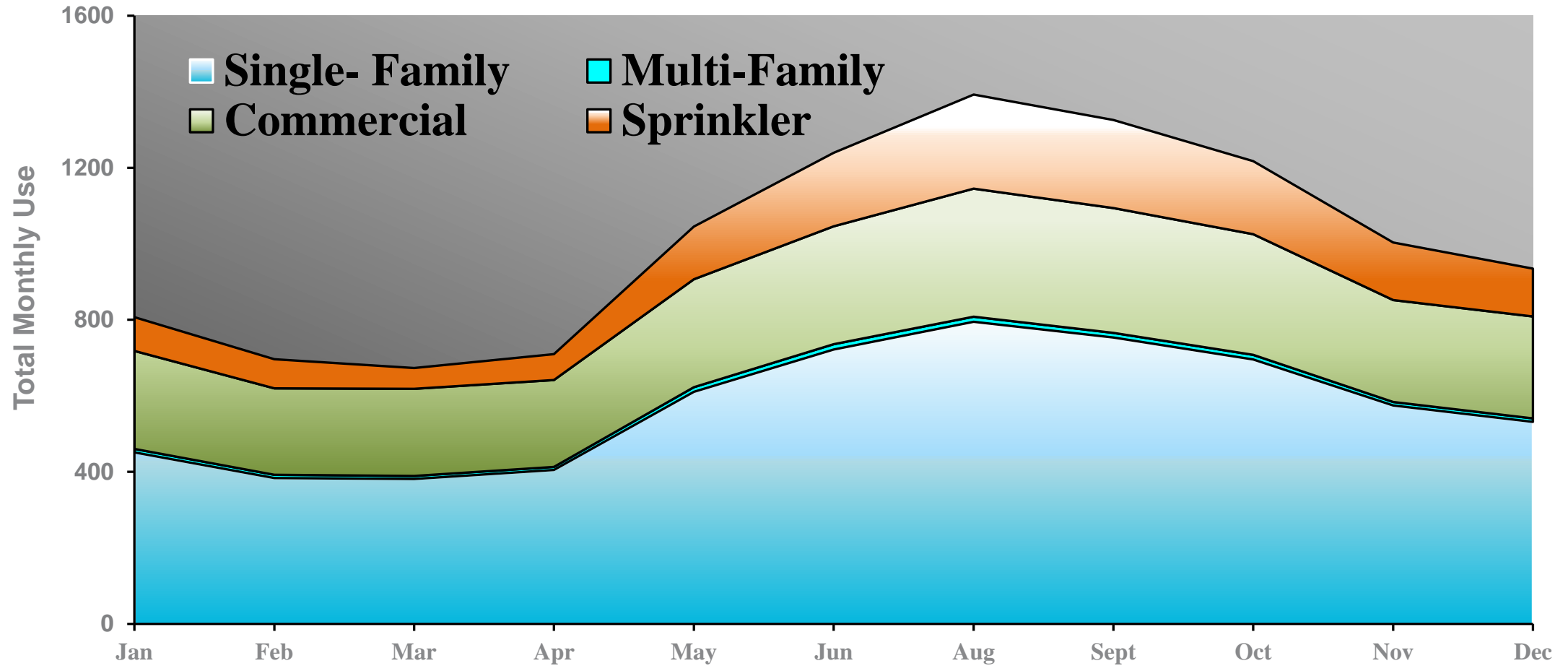


Cost of Service - Water

- Recognizes differing service function
 - Total annual usage
 - Peak usage demands
 - Size of meters
- Varies by customer class
 - Single family residential
 - Multifamily residential
 - Commercial
 - Sprinkler



Cost of Service – Water Customer Demand Characteristic





Cost of Service – Water

of accounts and usage per account characteristic

Customer Class	Number of Accounts	% of Total Accts	Annual Usage (MG)	% of Total Usage	Average (kgal/Acct)
Single Family	56,300	90%	7,038	58%	125
Multi Family	1,714	3%	125	1%	73
Commercial	2,727	4%	3,271	27%	1,200
<u>Sprinkler</u>	<u>1,573</u>	<u>3%</u>	<u>1,691</u>	<u>14%</u>	<u>1,075</u>
Total	62,314	100%	12,126	100%	195



2017 Cost of Service Results - Water

Customer Class	Revenue Under Current Rates	Indicated COS	Required \$ Revenue Change	Required % Revenue Change
Single Family	\$28,314,059	\$26,739,944	(\$1,574,115)	-5.6%
Multi Family	3,035,737	2,864,524	(171,213)	-5.6%
Industrial	7,679,042	7,812,868	133,826	1.7%
Sprinkler	7,061,239	8,558,799	1,497,560	21.2%
Commercial	<u>4,415,479</u>	<u>4,534,766</u>	<u>119,287</u>	2.7%
Total	\$50,505,555	\$50,510,901	\$5,346	0.0%



Cost of Service - Wastewater

- Recognizes differing service characteristics
 - Contributed Volume or Flow
 - Strength
 - Chemical Oxygen Demand (COD)
 - Suspended Solids (TSS)
- Varies by customer class
 - Domestic (normal) strength
 - Excessive strength



2017 Cost of Service Results - Wastewater

Customer Class	Cost Of Service	Revenue under Existing Charges	Required Change in Revenue
Residential	\$26,251,475	\$26,529,348	(\$277,873)
Commercial	5,356,462	5,083,291	273,171
<u>Outside City Customers</u>	<u>144,063</u>	<u>139,361</u>	<u>4,702</u>
Total System	\$31,752,000	\$31,752,000	\$0



Rate Schedule



How should cost recovery be allocated to service charge and volume rates?

Rate schedule design allows the utility to recover the revenue requirement from each customer class to achieve specific policy objectives



Critical Issues Considered

- Understanding of pricing objectives
- Awareness of rate design implications
- Billing system capabilities
- Data needs
- Understanding impact on City's customer base



Identify Pricing Objectives

**Equity Between Classes
and Within a Class**

Financial Sufficiency

Simple to Understand

Ease of Administration

Revenue Stability

**Water Efficiency/
Conservation**

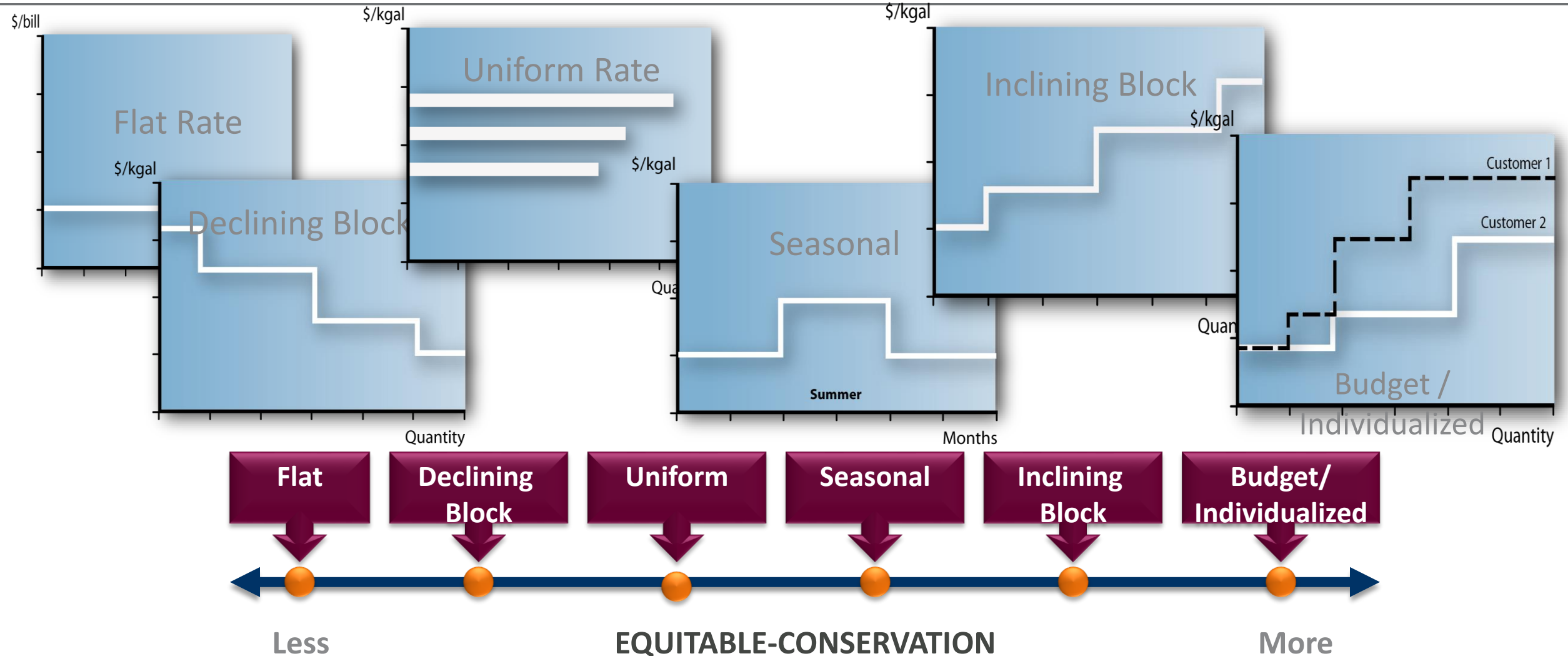
**Affordability to
Disadvantaged Customers**

Minimal Customer Impacts

Economic Development



Water Rate Structure Alternatives





Water User Charges

- Rates based on meter size and water consumption
 - Base rate to recover the cost of the meter maintenance, monthly reading, and billing & collection costs
 - Volume rate to recover operational and capital costs (salaries, chemicals, power, water resources, debt service, cash-funded capital projects, equipment maintenance, etc.)



Current Water Base Rate Schedules

Size	Rate
3/4"	\$14.40
1"	\$20.40
1-1/5"	\$41.40
2"	\$73.80
3"	\$125.00
4"	\$222.00



Current Water Volume Rate Schedules

■ Residential/Single Family

Tier	Rate	Usage
1	\$2.66	0-6
2	\$3.33	7-15
3	\$4.66	16-30
4	\$6.64	> 30

• Residential / Multi Family

Tier	Rate	Usage
1	\$2.61	0-6
2	\$3.27	7-15
3	\$4.57	16-30
4	\$6.50	> 30

• Commercial (Seasonal Rates)

Season	Rate
Winter	\$2.92
Summer	\$3.65

■ Sprinkler (Seasonal Rates)

Season	Rate
Winter	\$3.59
Summer	\$4.94

• Volume/Usage Rate- \$ per 1,000 gallons



Sewer Rate Structure

• Customer Classes

- **12** different Inside City Customer Classes
- **2** different Outside City Customer Classes

- **Inside vs. Outside**
 - Outside rates **1.3x** Inside Rates
(per City policy)

• Fixed Charges-Usage Rates

- Monthly Base Charge **\$11.40** charge same for all meter sizes

Volume Rates

- Uniform rate per 1,000 gallons based on:
 - 90% AWC* for Residential
 - 95% AWC* for Commercial
- Rates differ by customer class & loading strengths

* Average Winter Consumption (AWC) = average winter water usage during the months of January, February and March

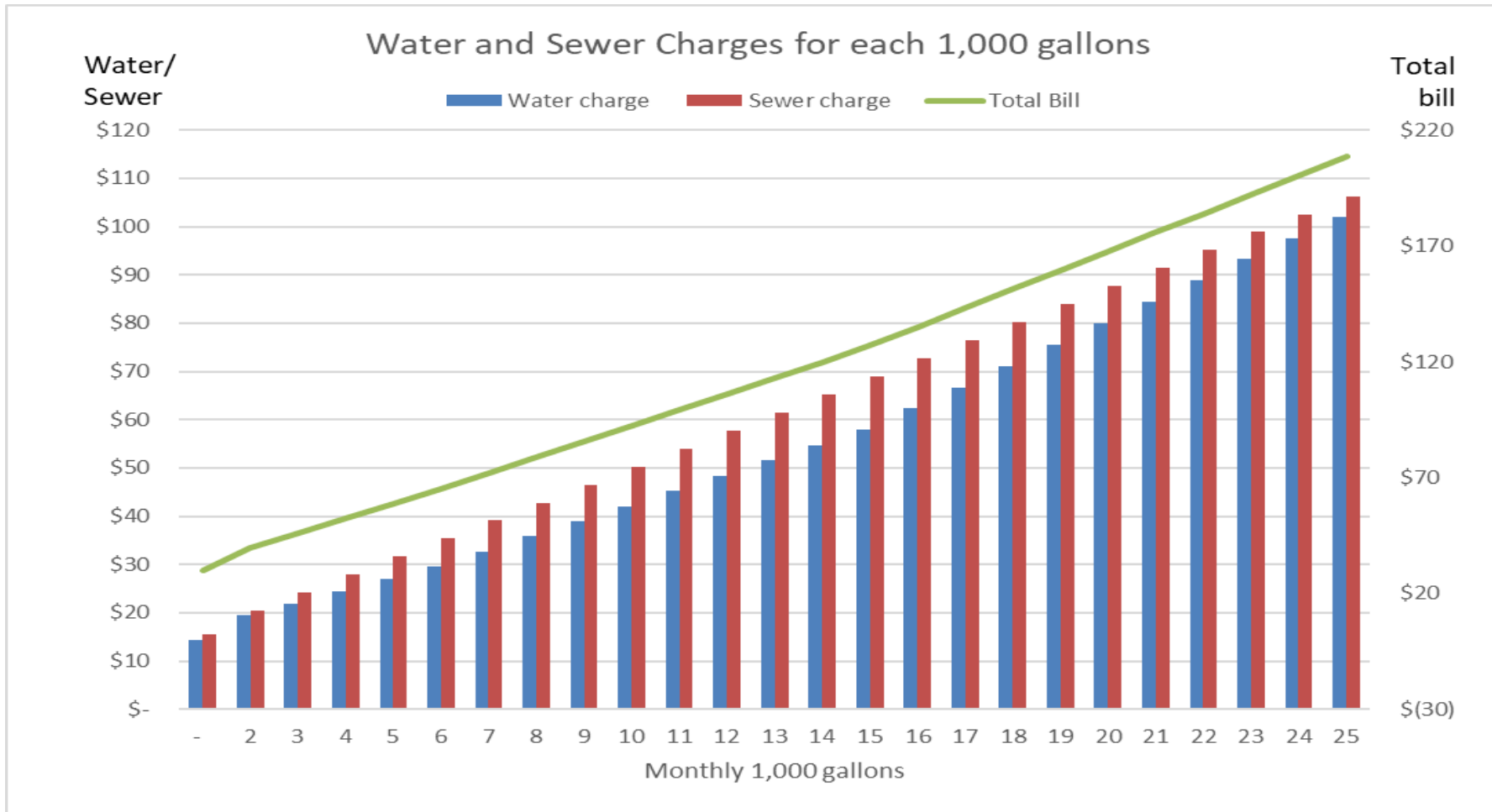


Current Wastewater Rate Schedule

Inside City volume charge per 1,000 gallons	
Residential-Single and Multi-family	\$4.37
Commercial:	
Group 2-Car Wash	\$3.48
Group 3-Office, Church, School, Govnmt	\$3.90
Group 4-Medical	\$4.22
Group 5-Retail, Conv Market, Warehouse	\$3.98
Group 6-Service Business	\$4.28
Group 7-Bar without food	\$4.68
Group 8-Hotel with food	\$8.60
Group 9-Auto repair, Full serv station	\$4.39
Group 10-Food Market, Mortuaries	\$8.53
Group 11-Restaurant, Food Manf, Shop Ctr	\$8.68

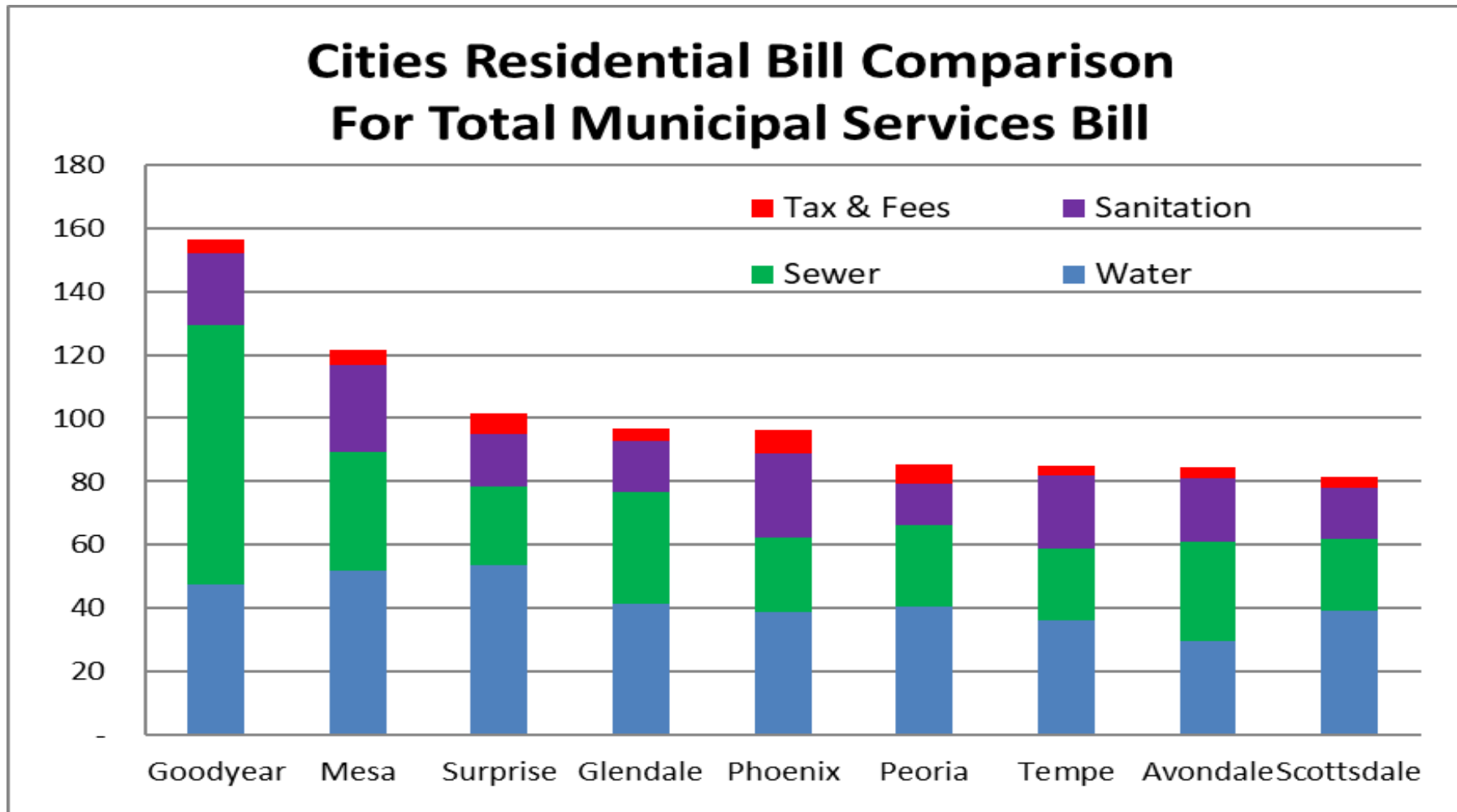


Glendale Water and Sewer Bill





How does Glendale compare to other cities





Questions

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