NewGen Strategies & Solutions

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July 22, 2021

Mr. David Kneuper, P.E.
Utility Engineering Group, PLLC
191 N. Union Avenue
New Braunfels, TX 78130

Subject: Water and Wastewater Rate Design Study – Draft Report

Dear Mr. Kneuper:

NewGen Strategies and Solutions, LLC (NewGen) was engaged by Utility Engineering Group, PLLC (UEG) to conduct a Retail Water and Wastewater Rate Study (Study) for the City of Schertz (City). This *draft* report describes the analysis performed for the City and makes recommendations with respect to rates to be charged to the City's retail customers.

The analysis performed by NewGen is designed to consider the revenue requirement from the current Fiscal Year (FY) 2021 through FY 2026. As with any rate study, assumptions must be made. The City should be aware that the actual rates required may be different from the projected rates outlined in this report due to unforeseen changes such as system growth, inflation, etc. In addition, it should be noted that this analysis is based on data provided by the City. While this data has been reviewed and tested for accuracy to the extent possible, if the data relied on by the Project Team to produce this analysis is inaccurate and not reflective of the actual operation and/or financial condition of the City's water and wastewater system, then the results of this analysis may merit revision.

Background

A water and wastewater utility is essentially a business run by a City and, therefore, should operate in a fiscally sound and prudent manner. The City Council must currently contend with issues which are impacting the financial integrity and stability of the City's water and wastewater utility. The primary issue the utility is facing is the Capital Improvement Plan (CIP). The secondary issue the utility is facing is the water purchases due to the Guadalupe Plant coming on-line. Both of these issues are discussed in more detail below.

It is the Project Team's understanding that the City's last rate action was taken in October 2018 for water rates and October 2019 for wastewater rates. Regular review and revision of a utility's rates is necessary to ensure that sufficient funds are available to meet the financial requirements of the utility, as well as to ensure that the pricing signals being provided to customers meet the goals and objectives of the City Council. Regular revision of rates is also important to pass along increases in cost from wholesale service providers. Increases in wholesale costs represent an increase in the overall cost of goods sold. Failure to pass along such cost increases to customers only serves to erode the City's ability to generate needed financial resources to maintain its own internal infrastructure.

Based on the analysis conducted and in consideration of the overarching issues, the Project Team has outlined a proposed plan for adopting rates which will assist the City in facilitating the long-term financial stability of the utility systems while providing needed funding for the City's ongoing capital improvement

program. This rate plan is illustrated in Appendix A; the underlying methodology supporting this rate plan is detailed throughout the remainder of this report.

Development of Revenue Requirement

There are two primary ratemaking methodologies employed in the utility industry: the utility basis and the cash basis. The primary difference between the utility basis and the cash basis involves the treatment of depreciation, return on invested capital, and debt service. The utility basis, most commonly used by private utilities, includes depreciation and return on invested capital, but excludes debt service from the revenue requirement determination. The cash basis, which is the most common method used by governmental entities, includes debt service, but excludes depreciation and return on invested capital in the revenue requirement determination. The cash basis focuses on meeting the cash demands of the utility. The cash basis is usually more easily understood since it follows the traditional cash-oriented budgeting practices used by governmental entities. In addition, the cash basis is generally easier to explain to customers since the cash basis attempts to match revenue to expenditures. In performing this analysis, the Project Team has utilized the cash basis to develop the City's revenue requirement.

To develop the Test Year Revenue Requirement (i.e., the first year for which rates are developed), NewGen utilized the City's adopted FY 2021 budget. Since the focus of the Study is the water and wastewater rates, solid waste expenses and revenues were removed, which were approximately $4.7 million of expenses and $5.6 million of revenues. Based on discussions with Staff about the capital improvement project list, cash capital and a transfer to the capital construction reserve fund were added. Both the wholesale debt payment and existing debt payment had slight adjustments to match up with the debt schedules. No adjustment was made to the operations and maintenance portion of the wholesale cost in the Test Year.

In order to calculate the revenues that are required from rates to cover expenses associated with providing retail service, it is necessary to isolate the cost of service by subtracting utility-related non-rate revenues, also known as revenue offsets, from the cost of service. Since the purpose of the Study is to determine the costs necessary to recover through water and wastewater rates, the revenue projected to be generated through rates must also be removed from the budget. After the removal of rate revenues, the resulting cost of providing water and wastewater is projected to be approximately $19.3 million in the Test Year. The revenue requirement is shown in Table 1 below.

Table 1
Test Year Revenue Requirement

	FY 2021 Budget	Adjustments	Test Year
Expenses			
O&M	$10,673,611	($4,721,600)	$5,952,011
Water Purchases	3,200,000	0	3,200,000
Sewer Purchases	4,100,000	0	4,100,000
Cash Capital	146,887	407,000	553,887
Transfer to Reserve	0	2,263,518	2,263,518
Wholesale Debt Service	4,599,173	(9,800)	4,589,373
Existing Debt Service	2,106,932	20	2,106,952
Total Cost of Service	$24,826,603	($2,060,862)	$22,765,741
Revenues			
Rate Revenue	$18,692,000	($18,692,000)	$0
Non-Rate Revenue	6,812,368	(5,616,000)	1,196,368
Total Revenue Offsets	$25,504,368	($24,308,000)	$1,196,368
Total Revenue Requirement	($677,765)	$19,983,620	$19,305,855

Forecasted Revenue Requirement

In determining the forecasted revenue requirement of the utility, the Project Team utilized the City's adopted FY 2021 budget, adjusted as discussed above, as the basis for the revenue requirement projections through FY 2026. Inflation factors were estimated and applied to the baseline data. The source for each factor are discussed below in detail.

- Chemicals – Twenty (20) year average Producer Price Index (PPI) for Water Treating Compounds plus customer growth
- Customer Growth – 300 Accounts per year[1]
- Debt Service – Debt Principal and Interest schedules
- Electricity – Annual Energy Outlook 2020 electricity inflation[2]
- Natural Gas – Annual Energy Outlook 2020 natural inflation[2]
- Fuel – Annual Energy Outlook 2020 fuel inflation[2]
- General Inflation – American WSC and County, Municipal Cost Index (MCI), 20-year average[3]
- Inflation + Customer Growth – General inflation plus customer growth factor

[1] Per discussions with Staff.
[2] The Annual Energy Outlook, published annually by the U. S. Energy Information Administration, presents yearly projections and analysis of energy topics including natural gas, motor gasoline, fuel oils, electricity, and propane.
[3] The Municipal Cost Index, published monthly by American WSC and County, is designed to show the effects of inflation on the cost of providing municipal services.

- Sewer Purchases – SARA, NBU, and CCMA historical invoices and projections.

Table 2 represents the inflation factors applied for the five years of the Study period.

Table 2
Inflation Factors

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Chemicals	1.24%	1.24%	1.24%	1.24%	1.24%
Customer Growth	2.00%	2.00%	2.00%	2.00%	2.00%
Electricity	2.32%	2.35%	2.84%	3.75%	3.57%
Natural Gas	2.79%	3.17%	4.00%	5.28%	4.27%
Fuel	2.53%	2.02%	0.92%	3.42%	3.21%
General	2.48%	2.48%	2.48%	2.48%	2.48%
General + Growth	4.48%	4.48%	4.48%	4.48%	4.48%

Capital Improvement Projects

One of the key issues reviewed during this Study was the need for capital improvement projects. As of July 2021, the City has a CIP consisting of current costs of approximately $37.7 million in water projects and $25.7 million in wastewater projects over the next five years. Presently, it is anticipated that $11.5 million will be debt funded, $27 million will be funded through impact fees, and $24.9 million will be funded through cash and reserves. The new debt principal and interest will be funded through cash generated from rates. In addition, the City is expecting to receive and use funds from the City's American Recovery Funds (ARP Funds) specific to water and sewer infrastructure. The estimated total of $4.4 million was considered but should not be relied on until it is confirmed that these funds will be used on for utility related projects. Figure 1 below shows the projected capital in each year by funding source.

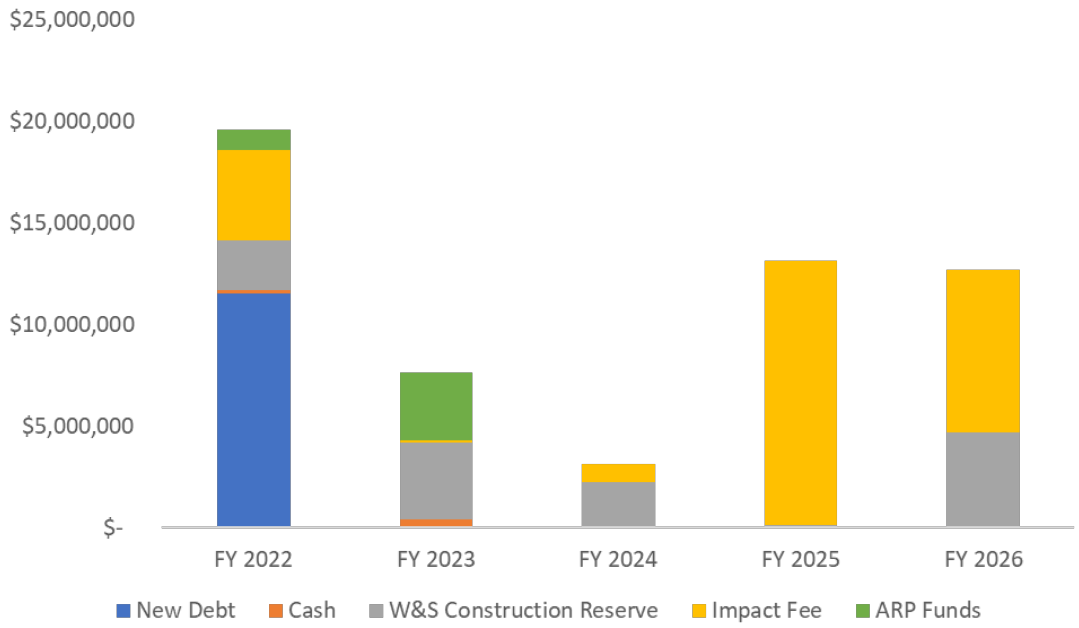


Figure 2 – Capital Improvement Projects By Funding Source

Water Purchases

The second key issue reviewed in this Study is the change in water source. The City purchases water from SSLGC, which has provided the City water from the Gonzales plant. The City Council had previously approved moving forward on building the Guadalupe Plant and using it for part of the water purchase from SSLGC. This plant is expected to come on-line in FY 2023 and the City is projected to have an approximately 10% increase to their water purchase costs in FY 2023. Table 3 shows the projected water purchase cost estimates from SSLGC, which were provided by SSLGC during a March 2021 presentation.

Table 3
SSLGC Projected Water Purchases

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Gonzales Plant					
Volumetric Rate (per 1,000 gal)	$1.64	$1.68	$1.74	$1.82	$1.89
Volumes (1,000 gal)	2,047,974	1,384,867	1,384,867	1,384,867	1,384,867
Gonzales Projected Cost	$3,358,677	$2,326,576	$2,409,668	$2,520,457	$2,617,398
Guadalupe Plant					
Volumetric Rate (per 1,000 gal)	$0.00	$2.47	$2.49	$2.53	$2.53
Volumes (1,000 gal)	0	704,164	745,873	788,559	831,898
Guadalupe Projected Cost	$0	$1,739,285	$1,857,224	$1,995,055	$2,104,701
Debt Payments	3,880,592	3,956,615	4,010,590	4,065,444	4,185,412
Total Projected Cost	$7,239,268	$8,022,476	$8,277,482	$8,580,957	$8,907,511
Variance, $		*$783,208*	*$255,055*	*$303,475*	*$326,554*
Variance, %		*10.82%*	*3.18%*	*3.67%*	*3.81%*

Estimated Rates

In evaluating the performance of existing water and wastewater rates and to project future water and wastewater rates, some estimation of billed water consumption and wastewater flow is required. In making this estimation, it is necessary to consider a period of normal precipitation. If data involving abnormal weather patterns is utilized (i.e., unusually low or excessive precipitation), then the resulting revenue estimates could be too high or too low. For purposes of this Study, the Project Team reviewed consumption data from October 2018 through December 2020. The data was examined for accuracy and trends as well as reviewed for impacts from COVID-19. It was determined the pandemic did not appear to have a measurable impact on consumption data. As a result of the analysis, the Project Team selected a 12-month period based on the last 12 months reviewed as the "Test Year." **The City's actual experienced consumption and flow should be compared annually to the figures utilized and projected within this Study. To the extent significant variances exist, the rates presented herein may need to be amended.**

Current Rates

The City's water rates were last amended in October 2018, and the City's wastewater rates were last amended in October 2019. Both rate structures currently consist of a two-part rate design composed of a minimum monthly charge for all customers with a volumetric rate structure.

Standards promulgated by the American Water Works Association (AWWA) and general industry best practices are used in evaluating the adequacy of the City's existing rate design. The Project Team reviewed the City's existing rate structure and noted that the minimum charges do increase based on meter size. It is industry best practice to increase the minimum charge with larger meter sizes. Larger water meters can place greater demands on the water system, and thus should pay a greater fixed charge to compensate the utility for the infrastructure put into service to accommodate this increased demand. Another industry best practice is to have an inclining volumetric block rate structure because it encourages conservation based on the Texas Water Conservation Implementation Task Force's Best Management Practices (TWCITF BMP). The City currently has a 10 block inclining rate structure that differs for each meter size.

In reviewing rates, the Project Team not only considered the overall cost of providing utility service, but also considered the City's financial policies. It is the Project Team's understanding that the City has a debt service coverage ratio (DSC) policy of 1.00. Additionally, it is our understanding that the City has a fund balance reserve goal of 26% of Operating Expenditures.

Water Rates

Table 4 below presents the anticipated financial performance of the City's current water rates for the term of the Study. Please note that the variation in revenue requirement is due to the fluctuation in needed transfer to the capital construction reserve to pay for capital.

Table 4
Projected Water Revenue Performance Under Current Rates

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Rate Revenue Under Current Rates	$12,460,984	$12,656,010	$12,851,037	$13,046,064	$13,241,090	$13,436,117
Rate Revenue Requirement	12,647,740	13,687,604	15,562,391	14,450,163	12,770,229	17,545,946
Over / (Under) Recovery ($)	($186,756)	($1,031,594)	($2,711,354)	($1,404,100)	$470,861	($4,109,829)
Over / (Under) Recovery (%)	-1.48%	-7.54%	-17.42%	-9.72%	3.69%	-23.42%

As displayed in Table 4, the current water rates are not anticipated to generate sufficient revenue to recover the costs of providing water service in each of the fiscal years included in the Study. In reviewing water rates, the Project Team found the primary factors of the insufficiency were due to the increase in wholesale water purchases and capital.

Wastewater Rates

Table 5 below presents the anticipated financial performance of the City's current wastewater rates for the term of the Study. As shown, the current wastewater rates are not anticipated to generate sufficient revenue to recover the costs of providing wastewater service in each of the fiscal years included in the Study.

Table 5
Projected Wastewater Revenue Performance under Current Rates

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Rate Revenue Under Current Rates	$8,293,747	$8,420,000	$8,556,254	$8,692,507	$8,828,760	$8,965,013
Rate Revenue Requirement	8,921,633	8,242,121	9,015,249	8,732,167	8,974,607	9,184,044
Over / (Under) Recovery ($)	($637,886)	$177,880	($458,996)	($39,660)	($145,847)	($219,030)
Over / (Under) Recovery (%)	-7.15%	2.16%	-5.09%	-0.45%	-1.63%	-2.38%

Combined Utility

Table 6 below presents the combined anticipated financial performance of the City's current rates for the term of the Study. As shown, on a combined basis, the rates are not anticipated to generate sufficient revenue to cover costs or the Fund Balance Reserve target.

Table 6
Projected Revenue Performance under Current Rates

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Rate Revenue Under Current Rates	$20,744,731	$21,076,011	$21,407,291	$21,738,570	$22,069,850	$22,401,130
Rate Revenue Requirement	21,569,373	21,929,725	24,577,640	23,182,330	21,744,836	26,729,990
Over / (Under) Recovery ($)	($824,642)	($853,714)	($3,170,350)	($1,443,759)	$325,014	($4,328,860)
Over / (Under) Recovery (%)	-3.82%	-3.89%	-12.90%	-6.23%	1.49%	-16.19%
Debt Service Ratio w/ Wholesale Debt	1.30	1.26	1.15	1.11	1.07	1.05
Additional Funds to Meet Target DSC	$0	$0	$0	$0	$0	$0
Fund Balance:						
O&M Expenditures Including Solid Waste	$27,487,341	$27,964,761	$30,732,647	$29,460,282	$28,148,782	$33,263,053
Ending Fund Balance	6,373,989	5,520,275	2,349,925	906,166	1,231,180	($3,097,680)
Fund Balance Reserve	23%	20%	8%	3%	4%	-9%
Over (Short of) Goal	($772,720)	($1,750,563)	($5,640,563)	($6,753,508)	($6,087,503)	($11,746,073)

Proposed Rates

When reviewing the proposed rates, the capital funded through the capital construction reserves for FY 2022 through FY 2026 was taken out of the rate revenue requirement for each year. Instead, it was looked at on a cumulative basis.

Two scenarios were reviewed when developing proposed rates for FY 2022 through FY 2026. The first was based on a 4% rate revenue increase each year, while the second was based on a 3% rate revenue increase. Both scenarios are shown in Appendix B. The 4% scenario was selected by Council as it was the closest to funding the capital on a cumulative basis over the next five years, as discussed further in the following sections.

Water Rates

In developing proposed water rates, the Project Team reviewed the tier structures and developed two new 5-tiered volumetric structures. The first structure is for meter sizes 1 ½" or less, while the second is for 2" or more meter sizes. Table 7 illustrates the expected revenue under the projected water rates as compared to the projected revenue requirement less the capital funded through reserves. The over-recovery produced go towards the fund balance reserve requirement and capital funded through the capital construction reserve.

Table 7
Projected Water Revenue Performance Under Proposed Rates

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Rate Revenue Under Proposed Rates	$12,460,984	$12,940,953	$13,618,481	$14,332,543	$15,076,748	$15,861,167
Rate Revenue Requirement	12,647,740	11,272,901	12,319,878	12,338,663	12,693,729	12,895,946
Over / (Under) Recovery ($)	($186,756)	$1,668,051	$1,298,603	$1,993,880	$2,383,018	$2,965,221
Over / (Under) Recovery (%)	-1.48%	14.80%	10.54%	16.16%	18.77%	22.99%

Wastewater Rates

Table 8 illustrates the expected revenue under the projected rates as compared to the projected revenue requirement less the capital funded through reserves. The over-recovery produced go towards the fund balance reserve requirement and capital funded through reserves.

Table 8
Projected Wastewater Revenue Performance Under Proposed Rates

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Rate Revenue Under Proposed Rates	$8,293,747	$8,970,828	$9,482,083	$10,011,568	$10,570,059	$11,160,072
Rate Revenue Requirement	8,921,633	8,242,121	8,469,763	8,700,667	8,943,107	9,184,044
Over / (Under) Recovery ($)	($637,886)	$728,707	$1,012,321	$1,310,902	$1,626,952	$1,976,029
Over / (Under) Recovery (%)	-7.15%	8.84%	11.95%	15.07%	18.19%	21.52%

Combined Utility

Table 9 below presents the combined anticipated financial performance of the Project Team's proposed rates for the term of the Study. Any overage of the fund balance reserve is assumed to be transferred to the capital construction reserve to fund capital.

Table 9
Projected Revenue Performance under Proposed Rates

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Rate Revenue Under Proposed Rates	$20,744,731	$21,911,781	$23,100,564	$24,344,112	$25,646,807	$27,021,240
Rate Revenue Requirement	21,569,373	19,515,022	20,789,640	21,039,330	21,636,836	22,079,990
Over / (Under) Recovery ($)	($824,642)	$2,396,759	$2,310,924	$3,304,782	$4,009,971	$4,941,250
Over / (Under) Recovery (%)	-3.82%	12.28%	11.12%	15.71%	18.53%	22.38%
Debt Service Ratio w/ Wholesale Debt	1.30	1.38	1.39	1.48	1.58	1.72
Additional Funds to Meet Target DSC	$0	$0	$0	$0	$0	$0
Fund Balance:						
O&M Expenditures Including Solid Waste	$27,487,341	$25,550,058	$26,944,647	$27,317,282	$28,040,782	$28,613,053
Ending Fund Balance	6,373,989	8,770,747	8,953,939	10,310,390	11,112,464	12,231,853
Fund Balance Reserve	23%	34%	33%	38%	40%	43%
Over (Short of) Goal	($772,720)	$2,127,732	$1,948,331	$3,207,897	$3,821,961	$4,792,459

In Figure 2 below, the cumulative capital over the 5-year period is shown under current rates and proposed rates for the 4% scenario.

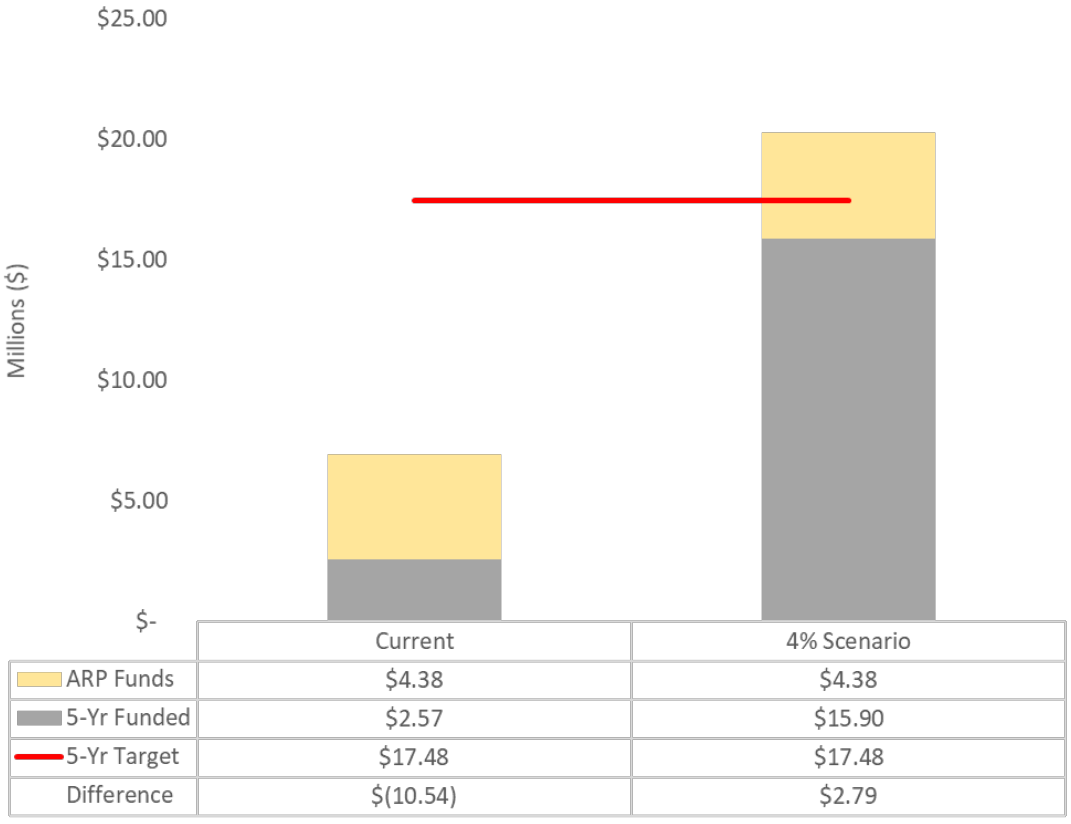


Figure 2 – Cumulative Capital Projects and Funding for FY 2022 Through FY 2026

Monthly impacts and a regional comparison of rates from different cities can be found in Appendix B. It is important to note that although comparisons between communities are very common, they may not tell the whole story. Each system is unique in geography, age of infrastructure, capital maintenance effort, and typical usage patterns, which makes this comparison not apples to apples. A utility is a business-type activity of government and should be operated in the same manner as a stand-alone, private business enterprise. Pricing decisions should be made at the community level, reflecting the unique needs of each City's own business enterprise.

Recommendations

1. In order to assist in maintaining the financial stability of the City's Utility Fund, sufficient rates should be put in place to ensure adequate cost recovery through user rate revenue. Further, we recommend that the City continuously monitor the financial performance of the Utility Fund and adjust rates as necessary to maintain the financial stability of the utility and to ensure available funding for the City's ongoing capital improvements program.
2. It is recommended that the City implement the rate adjustments recommended herein for the water system effective October 1, 2021, in order to maintain the financial stability of the utility. Delay in action now may result in more significant rate action later.

NewGen appreciates the opportunity to assist Utility Engineering Group, PLLC and the City of Schertz in conducting this review. If you have any questions, please contact Chris Ekrut at (972) 232-2234 or cekrut@newgenstrategies.net.

Sincerely,

NewGen Strategies and Solutions, LLC

DocuSigned by:
Chris D. Ekrut
FB62F346CFA8440...

Chris D. Ekrut
Chief Financial Officer

APPENDIX A
PROPOSED RATES

SCHERTZ
COMMUNITY • SERVICE • OPPORTUNITY

Exhibit A

Water Rates

Residential		Commercial 1 1/2" or Less		Commercial 2" or More	
Minimum Charge		***Minimum Charge***		***Minimum Charge***	
5/8"	$ 24.61	5/8"	$ 24.61	2" Compound	$ 196.78
3/4"	36.89	3/4"	36.89	2" Turbine	246.96
1"	61.49	1"	61.49	3" Compound	393.55
1.5"	122.99	1.5"	122.99	3" Turbine	590.33
2" Compound	196.78			4" Compound	614.93
2" Turbine	246.96	***Volumetric Charge (per 1,000 gallons)***		4" Turbine	1,033.08
3" Compound	393.55	0-6,000	$ 3.04	6" Compound	1,229.86
3" Turbine	590.33	6,001-12,000	3.40	6" Turbine	2,262.93
4" Compound	614.93	12,001-18,000	3.98	8" Compound	1,987.74
4" Turbine	1,033.08	18,001-30,000	4.86	8" Turbine	3,975.48
6" Compound	1,229.86	30,001+	6.17	10" Compound	2,857.37
6" Turbine	2,262.93			10" Turbine	6,211.67
8" Compound	1,987.74			12" Turbine	8,199.42
8" Turbine	3,975.48				
10" Compound	2,857.37			***Volumetric Charge (per 1,000 gallons)***	
10" Turbine	6,211.67			0-18,000	$ 3.04
12" Turbine	8,199.42			18,001-36,000	3.40
				36,001-54,000	3.98
Volumetric Charge (per 1,000 gallons)				54,001-90,000	4.86
0-6,000	$ 3.04			90,001+	6.17
6,001-12,000	3.40				
12,001-18,000	3.98				
18,001-30,000	4.86				
30,001+	6.17				

Wastewater Rates

Residential		Commercial	
Minimum Charge	$ 14.43	***Minimum Charge***	$ 18.15
Volumetric Charge (per 1,000 gallons)		***Volumetric Charge (per 1,000 gallons)***	
0-12,000	$ 4.75	0-12,000	$ 4.87
City Line Maintenance Fee Plus Franchise Fee	0.56	City Line Maintenance Fee Plus Franchise Fee	0.68
User Charged	4.19	User Charged	4.19
12,001+	10.79	12,001+	10.89
Housing Authority		**YMCA**	
Minimum Charge	$ 1,500.61	***Minimum Charge***	$ -
Volumetric Charge (per 1,000 gallons)	-	***Volumetric Charge (per 1,000 gallons)***	3.20

APPENDIX B
NEWGEN COUNCIL PRESENTATION (JULY 13th, 2021)
PLUS ADDITIONAL SLIDES BASED ON COUNCIL FEEDBACK

July 13, 2021

SCHERTZ, TEXAS
WATER & WASTEWATER RATE STUDY

NewGen Strategies & Solutions

IMPORTANCE OF LOCAL OFFICIALS IN UTILITY MANAGEMENT

Utilities operate like a business, though the product being sold is a vital resource shared by all members of the community

Just like any business, Council is the “Board of Directors” who must be able to address complex industry challenges including rising costs, aging infrastructure, and customer affordability

The Board must ensure the viability of the business by ensuring revenues match or exceed expenses and financial metrics are met

HISTORICAL RATE ACTIVITY

2018

- 3% Water Increase
- 5% Wastewater Increase

2019

- 3% Water Increase
- 7% Wastewater Increase

2020

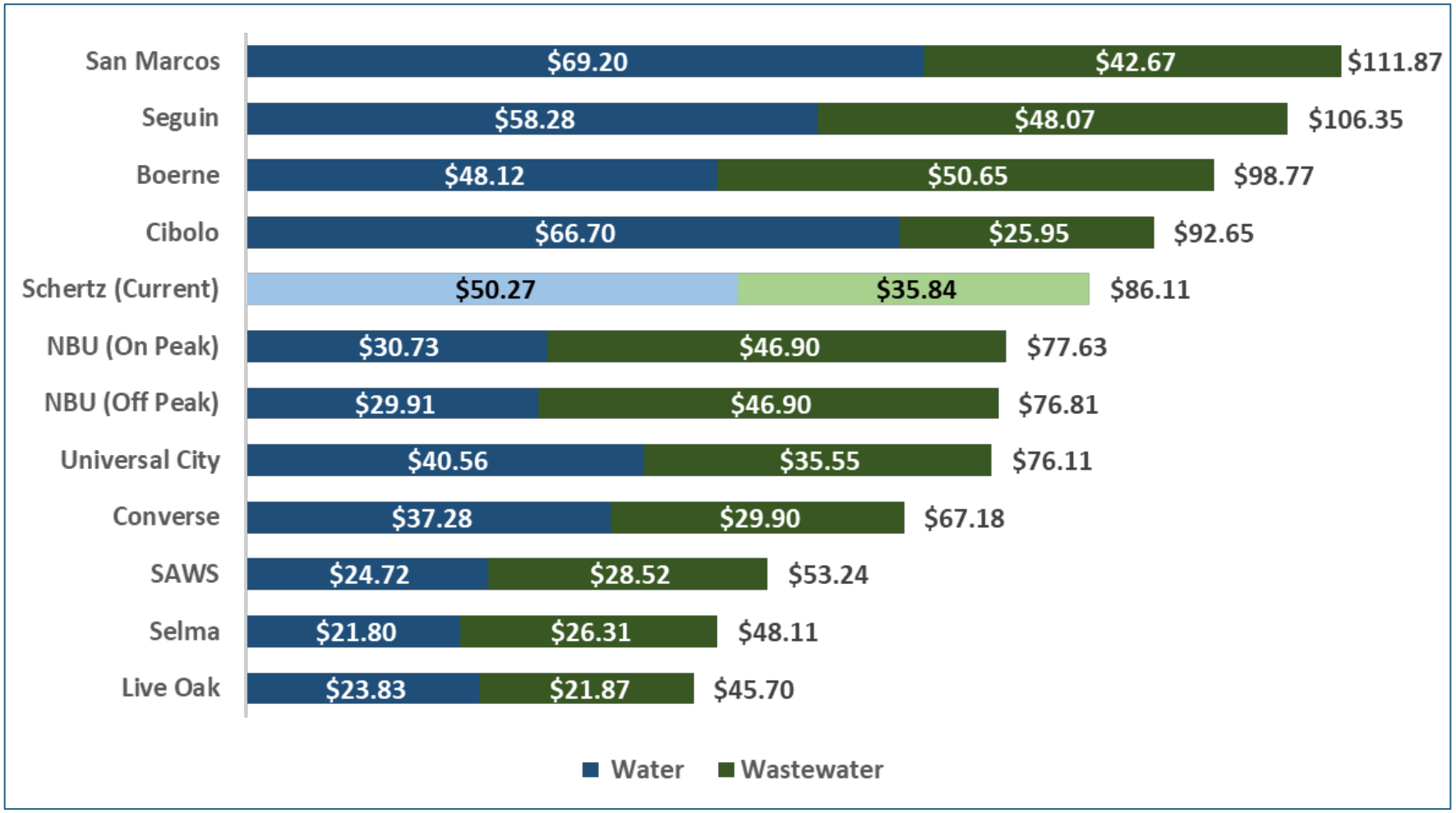
- 0% Water Increase
- 8% Wastewater Increase

2021

- No Increase

REGIONAL BILL COMPARISON

5/8” Residential – Average: 8,400 Gallons Water and 5,000 Gallons Wastewater



SUMMARY OF ISSUES FACING UTILITIES

Growth

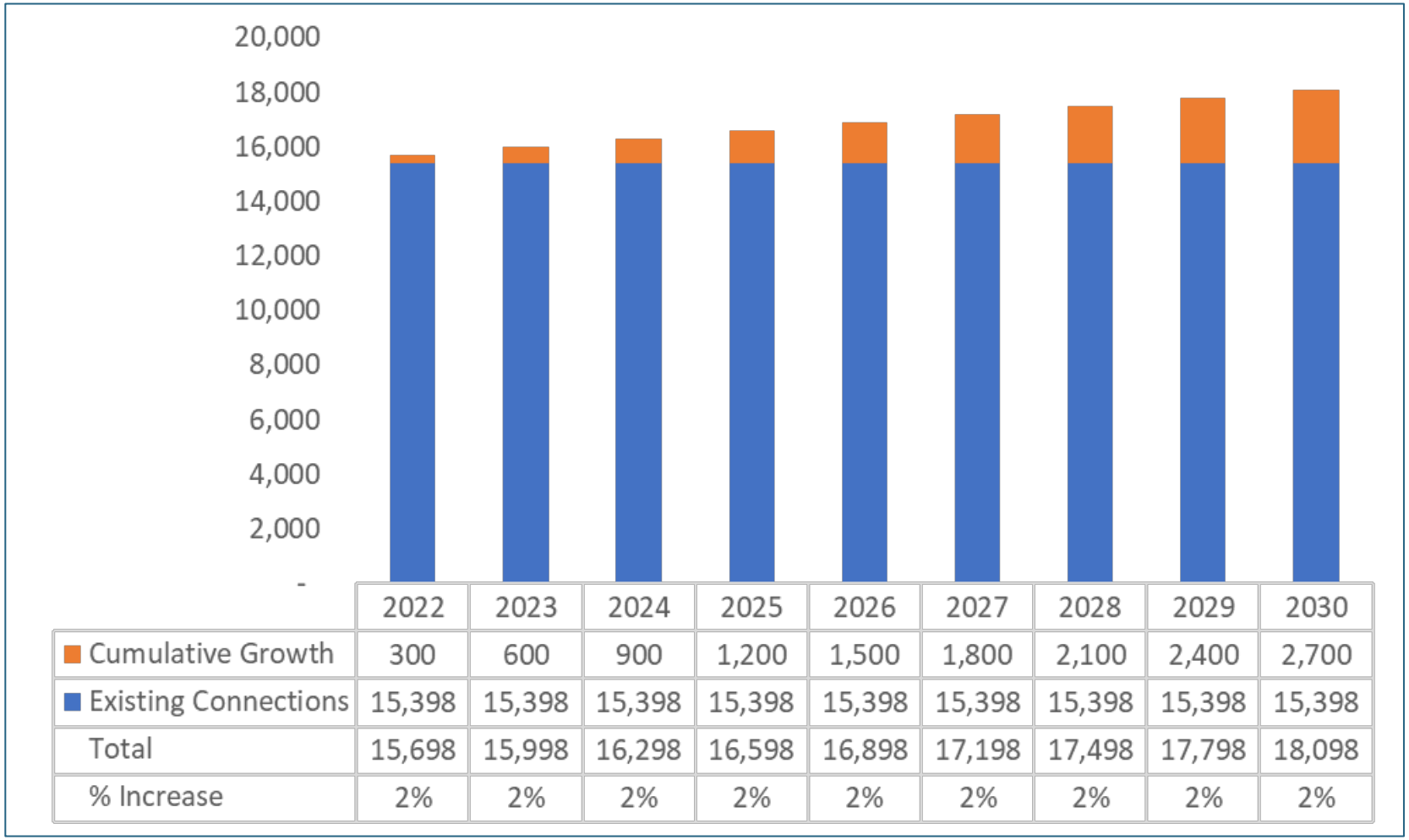
Capital Improvement Projects

SSLGC Water Purchases (Guadalupe Plant)

Simplify Rate Structure

KEY ASSUMPTIONS

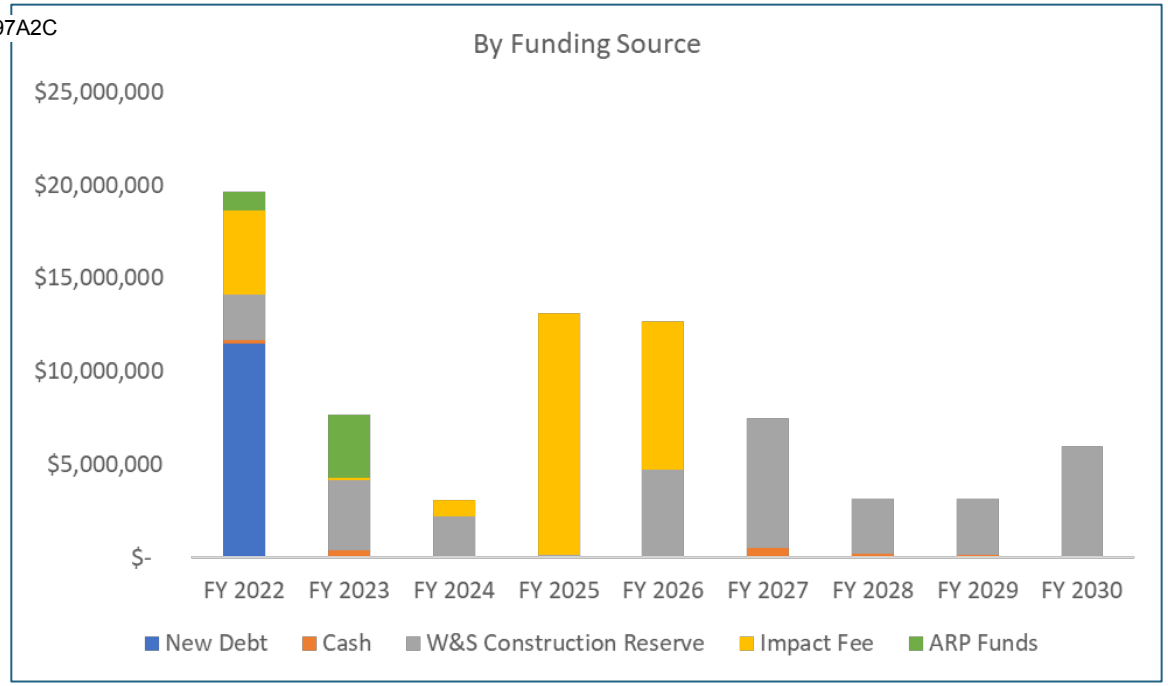
Water Account Growth

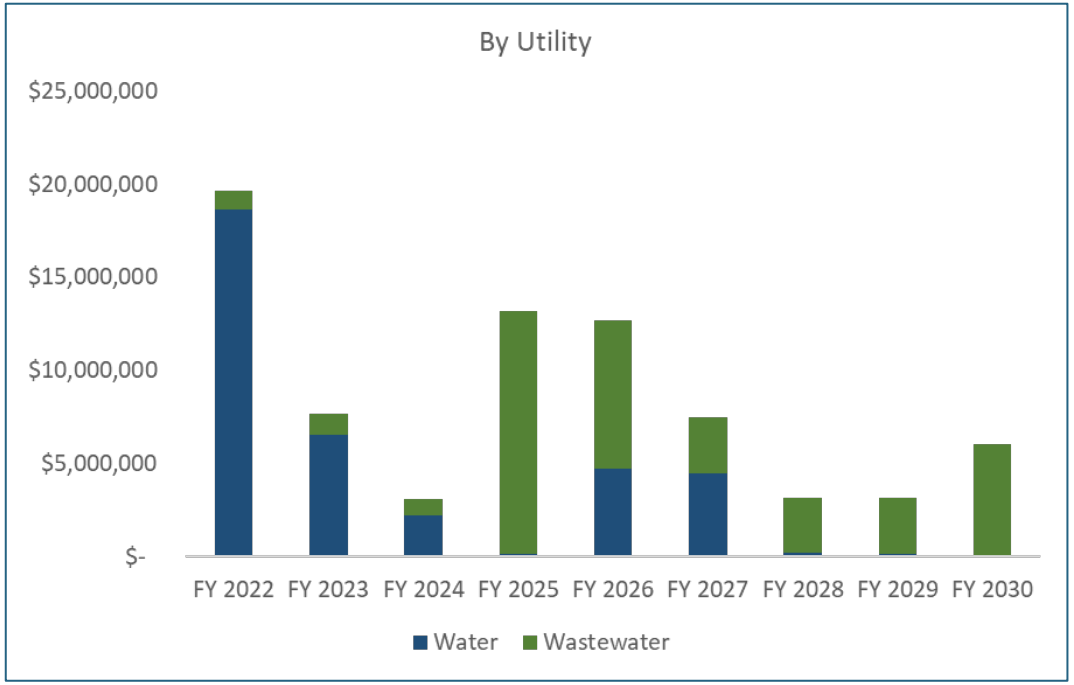


	2022	2023	2024	2025	2026	2027	2028	2029	2030
Cumulative Growth	300	600	900	1,200	1,500	1,800	2,100	2,400	2,700
Existing Connections	15,398	15,398	15,398	15,398	15,398	15,398	15,398	15,398	15,398
Total	15,698	15,998	16,298	16,598	16,898	17,198	17,498	17,798	18,098
% Increase	2%	2%	2%	2%	2%	2%	2%	2%	2%

KEY ASSUMPTIONS

Capital Improvement Projects





KEY ASSUMPTIONS

SSLGC Water Purchases – Guadalupe Plant

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Gonzales					
Volumetric Rate[1,2]	$ 1.64	$ 1.68	$ 1.74	$ 1.82	$ 1.89
Projected Volumes[1,3]	2,047,974	1,384,867	1,384,867	1,384,867	1,384,867
Projected Cost	$ 3,358,677	$ 2,326,576	$ 2,409,668	$ 2,520,457	$ 2,617,398
Guadalupe					
Volumetric Rate[1,2]	$ 0.00	$ 2.47	$ 2.49	$ 2.53	$ 2.53
Projected Volumes[1,3]	0	704,164	745,873	788,559	831,898
Projected Cost	$ 0	$ 1,739,285	$ 1,857,224	$ 1,995,055	$ 2,104,701
Debt Payments	$ 3,880,592	$ 3,956,615	$ 4,010,590	$ 4,065,444	$ 4,185,412
Total Projected Cost	**$ 7,239,268**	**$ 8,022,476**	**$ 8,277,482**	**$ 8,580,957**	**$ 8,907,511**
Variance, $		$ 783,208	$ 255,055	$ 303,475	$ 326,554
Variance, %		10.82%	3.18%	3.67%	3.81%

Notes:
1 – Projection from SSLGC
2 – Per 1,000 Gallons
3 – Volumes in 1,000 Gallons

REASONS FOR SIMPLIFYING RATE STRUCTURE

- Complexity of rate structure challenges customer understanding and administration
  - 10 block volumetric structure that varies by meter size
  - 15 different volumetric rate structures depending on customer
  - 3-5 block volumetric structures more common
- Continue conservation pricing signal with inclining block rate
- Eliminate outside city multiplier
  - Outside city rates subject to potential review from PUC, change reduces City's risk
  - Change reduces overall revenue by less than 1%

WATER RATE STRUCTURE CHANGES

- Detailed analysis of customer usage employed to determine new rate blocks
- Restructured rates for all meters and classes

Tier	Usage	Residential Customers Impacted			
		% Impacted	# Impacted	% Stop	# Stop
1	0 – 6,000 gal	100%	14,084	49%	6,925
2	6,001 – 12,000 gal	51%	7,159	28%	3,943
3	12,001 – 18,000 gal	23%	3,216	12%	1,684
4	18,001 – 30,000 gal	11%	1,532	8%	1,144
5	30,001+ gal	3%	388	3%	388

Notes:
"Impacted" indicates the average amount of customers that reach each block.
"Stop" indicates the average amount of customers that stop in each block.

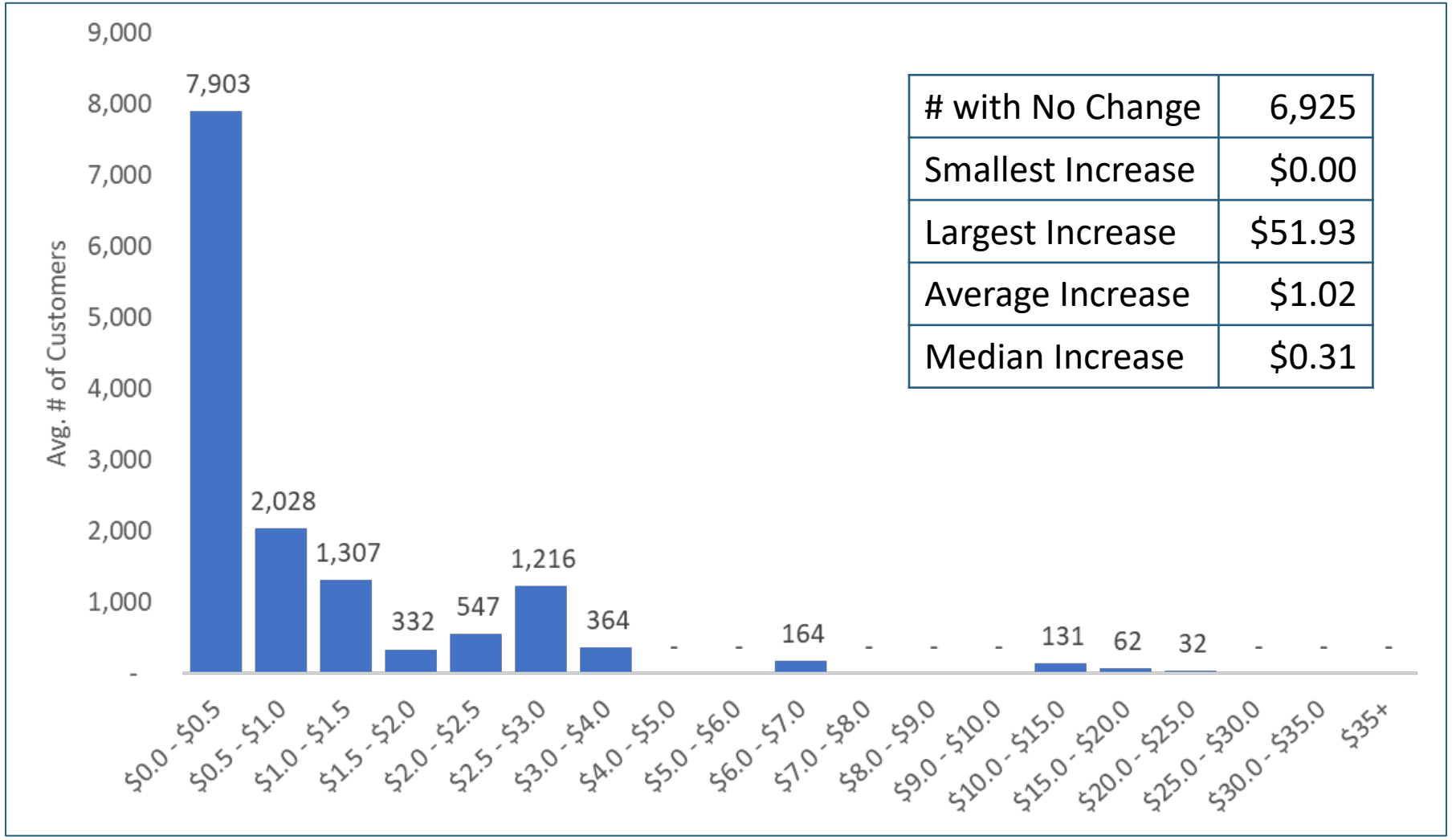
WATER RATE STRUCTURES CHANGES

Residential & Commercial 1” or Less	Current	Proposed
0-6,000	$ 3.04	$ 3.04
6,001-9,000	3.09	3.40
9,001-12,000	3.34	
12,001-15,000	3.61	3.98
15,001-18,000	3.82	
18,001-30,000	4.81	4.86
30,001-45,000	5.46	6.17
45,001-60,000	5.81	
60,001-75,000	6.03	
75,001+	6.15	

Commercial 2” Compound	Current	Proposed
0-18,000	$ 3.04	$ 3.04
18,001-24,000		3.40
24,001-36,000	3.09	
36,001-48,000		3.98
48,001-54,000	3.34	
54,001-72,000		4.86
72,001-90,000	3.61	
90,001-96,000		6.17
96,001-120,000	3.82	
120,001-160,000	4.81	
160,001-200,000	5.46	
200,001-240,000	5.81	
240,001-280,000	6.03	
280,001+	6.15	

WATER RATE MONTHLY BILL IMPACTS

Residential



# with No Change	6,925
Smallest Increase	$0.00
Largest Increase	$51.93
Average Increase	$1.02
Median Increase	$0.31

5-YEAR OUTLOOK

Water Revenue Requirement

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
O&M	$ 3,425,286	$ 3,504,843	$ 3,587,041	$ 3,673,679	$ 3,762,240
Wholesale	7,239,268	8,022,476	8,277,482	8,580,957	8,907,511
Capital	200,000	390,000	68,000	40,000	42,000
Debt	1,245,904	1,240,115	1,243,697	1,236,650	1,021,751
Non-Rate Revenues	(837,556)	(837,556)	(837,556)	(837,556)	(837,556)
Revenue Requirement	$11,272,901	$12,319,878	$12,338,663	$12,693,729	$12,895,946
Capital Funded Through Reserves	$ 3,414,703	$ 6,131,500	$ 2,111,500	$ 76,500	$ 4,650,000
Total Revenue Requirement	$14,687,604	$18,451,378	$14,450,163	$12,770,229	$17,545,946

5-YEAR OUTLOOK

Wastewater Revenue Requirement

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
O&M	$ 2,669,567	$ 2,736,351	$ 2,805,339	$ 2,878,143	$ 2,952,495
Wholesale	4,937,669	5,096,227	5,258,956	5,426,979	5,597,726
Capital	0	0	0	0	0
Debt	993,697	995,997	995,184	996,797	992,634
Non-Rate Revenues	(358,812)	(358,812)	(358,812)	(358,812)	(358,812)
Revenue Requirement	$ 8,242,121	$ 8,469,763	$ 8,700,667	$ 8,943,107	$ 9,184,044
Capital Funded Through Reserves	$ 0	$ 1,031,500	$ 31,500	$ 31,500	$ 0
Total Revenue Requirement	$ 8,242,121	$ 9,501,263	$ 8,732,167	$ 8,974,607	$ 9,184,044

RATE REVENUE SCENARIOS

- 4% Scenario – 4% Rate Revenue Increase Each Year

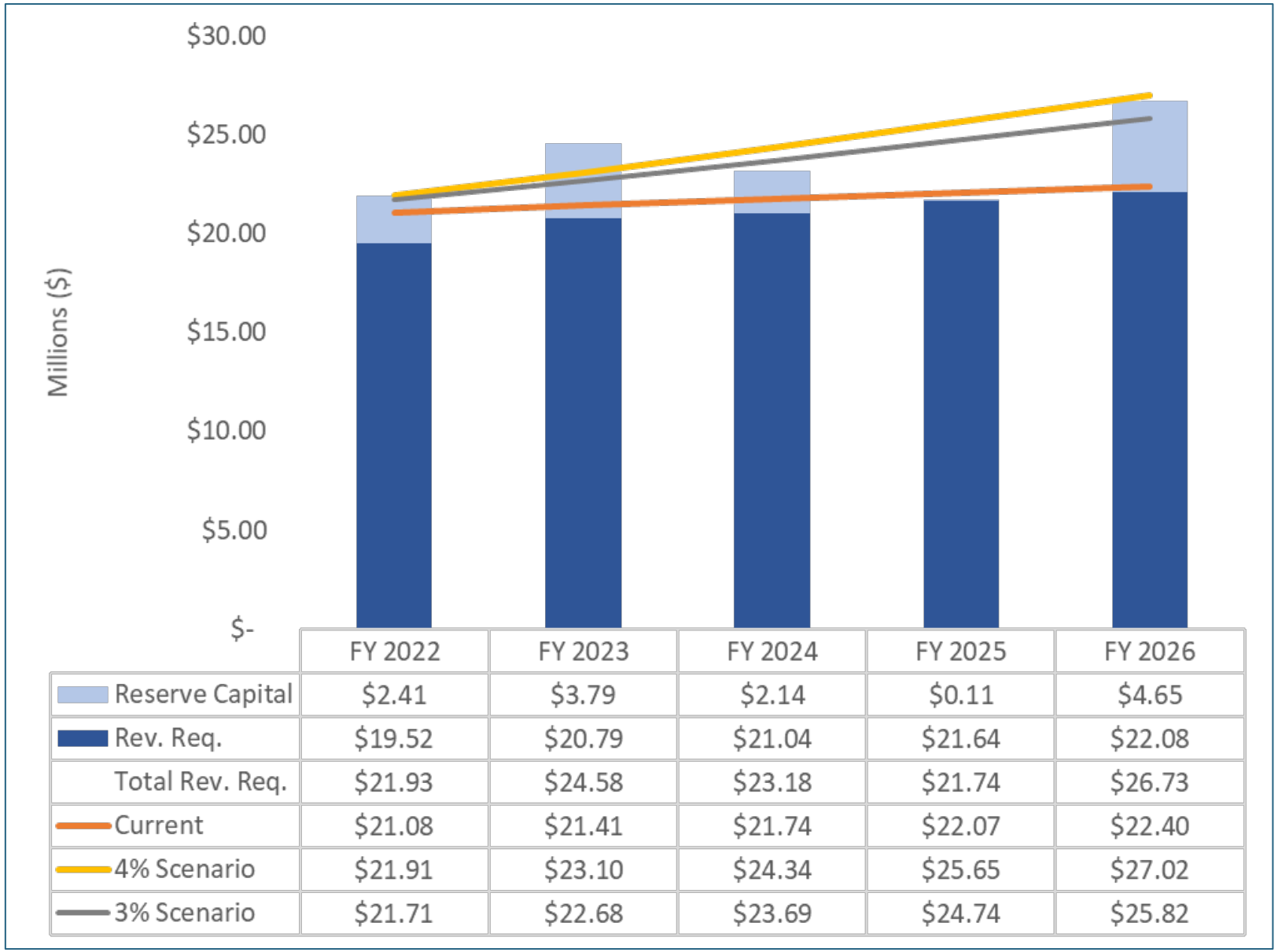
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Water	Tier Change Only	4%	4%	4%	4%
Wastewater	6.60%	4%	4%	4%	4%

- 3% Scenario– 3% Rate Revenue Increase Each Year

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Water	Tier Change Only	3%	3%	3%	3%
Wastewater	4.18%	3%	3%	3%	3%

5-YEAR OUTLOOK

Revenues from Scenarios



	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Reserve Capital	$2.41	$3.79	$2.14	$0.11	$4.65
Rev. Req.	$19.52	$20.79	$21.04	$21.64	$22.08
Total Rev. Req.	$21.93	$24.58	$23.18	$21.74	$26.73
Current	$21.08	$21.41	$21.74	$22.07	$22.40
4% Scenario	$21.91	$23.10	$24.34	$25.65	$27.02
3% Scenario	$21.71	$22.68	$23.69	$24.74	$25.82

5-YEAR OUTLOOK

Cumulative Capital Reserve Funding

4% Scenario funds capital needs over 5 years with the ARP funds

3% Scenario is slightly insufficient over 5 years by approximately $0.6 million with the ARP funds

	Current	4% Scenario	3% Scenario
ARP Funds	$4.38	$4.38	$4.38
5-Yr Funded	$2.57	$15.90	$12.50
5-Yr Target	$17.48	$17.48	$17.48
Difference	$(10.54)	$2.79	$(0.60)

MONTHLY BILL IMPACTS FOR FY 2022

Residential

	Current	4% Scenario	3% Scenario
5/8" Meter Size			
6,000 Gallons – Approximately 975 Customers (7% of Residential)			
Water	$ 42.85	$ 42.85	$ 42.85
Wastewater	40.30	42.93	41.95
Total	$ 83.15	$ 85.78	$ 84.80
Variance, $		*$ 2.63*	*$ 1.65*
Variance, %		*3.16%*	*1.98%*
12,000 Gallons – Approximately 368 Customers (3% of Residential)			
Water	$ 62.14	$ 63.25	$ 63.25
Wastewater	67.06	71.43	69.79
Total	$ 129.20	$ 134.68	$ 133.04
Variance, $		*$ 5.48*	*$ 3.84*
Variance, %		*4.24%*	*2.97%*

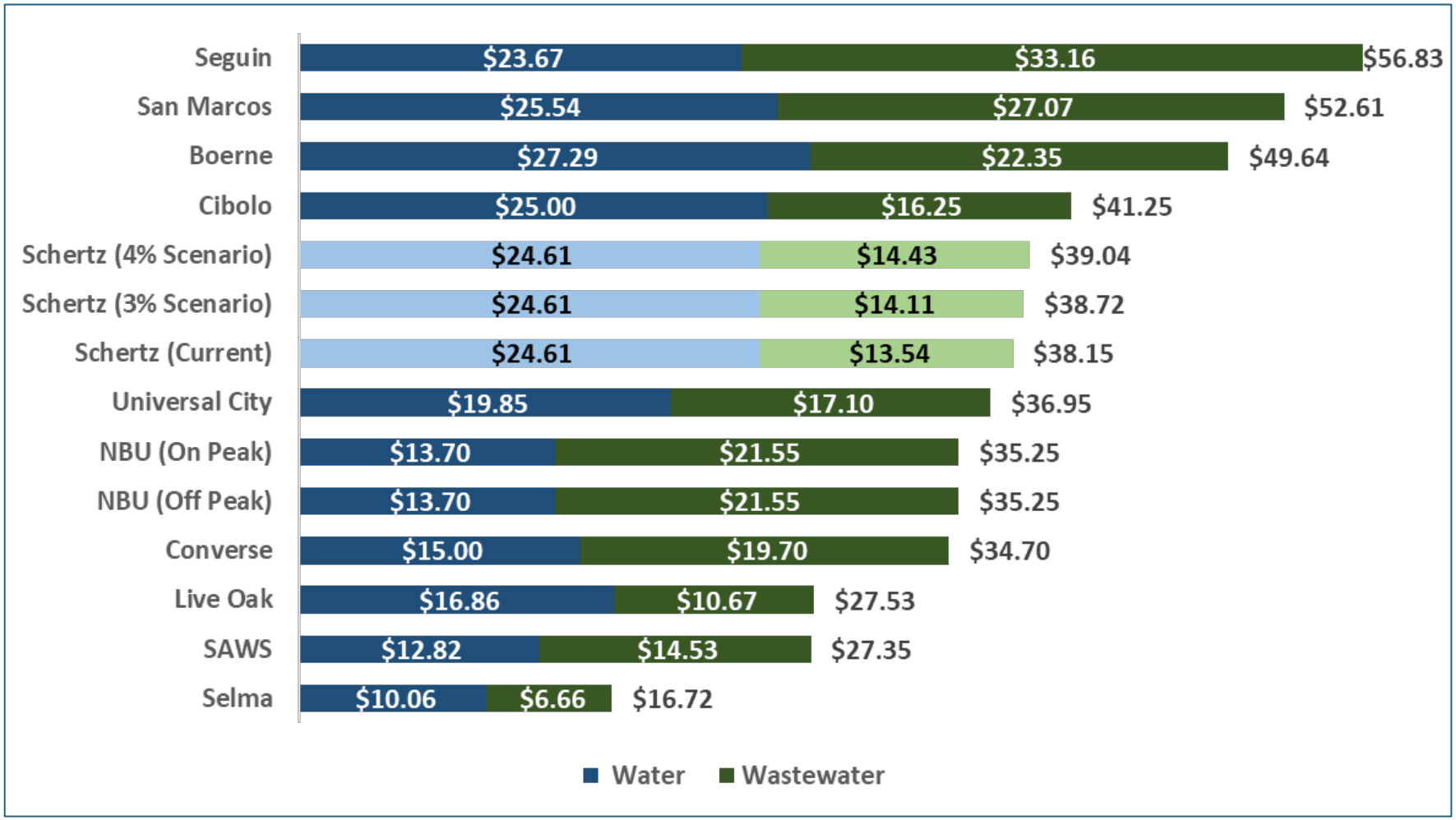
MONTHLY BILL IMPACTS FOR FY 2022

Commercial

	Current	4% Scenario	3% Scenario
5/8” Meter			
15,000 Gallons – Class/Meter Group Average			
Water	$ 72.97	$ 75.19	$ 75.19
Wastewater	102.53	109.26	106.81
Total	$ 175.50	$ 184.45	$ 182.00
Variance, $		*$ 8.95*	*$ 6.50*
Variance, %		*5.10%*	*3.70%*
2” Compound Meter			
100,000 Gallons – Class/Meter Group Average			
Water	$ 525.98	$ 621.00	$ 621.00
Wastewater	971.23	1,034.91	1,012.06
Total	$ 1,497.21	$ 1,655.91	$ 1,633.06
Variance, $		*$ 158.70*	*$ 135.85*
Variance, %		*10.60%*	*9.07%*

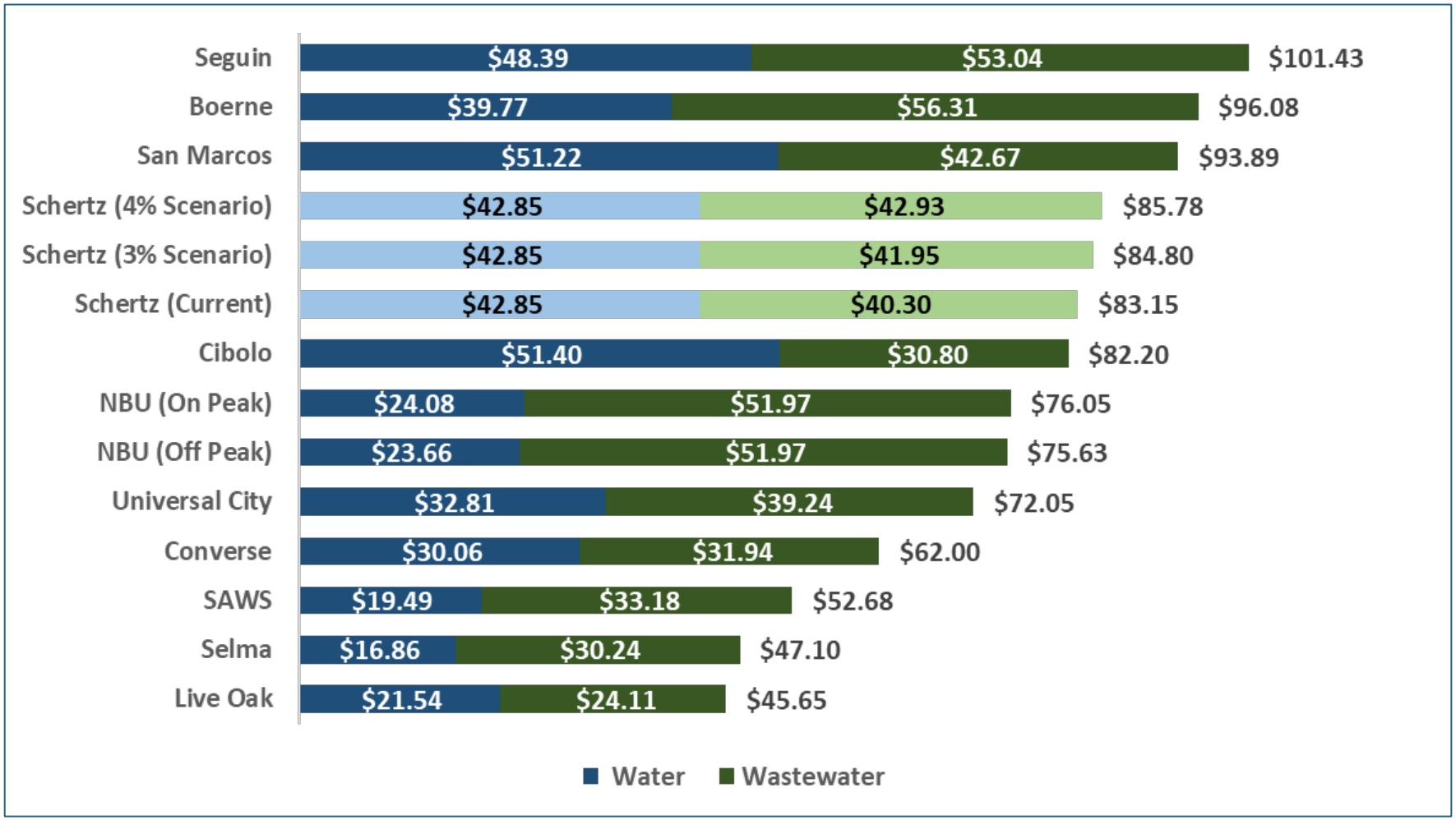
REGIONAL BILL COMPARISON

5/8” Residential – Minimum Charge



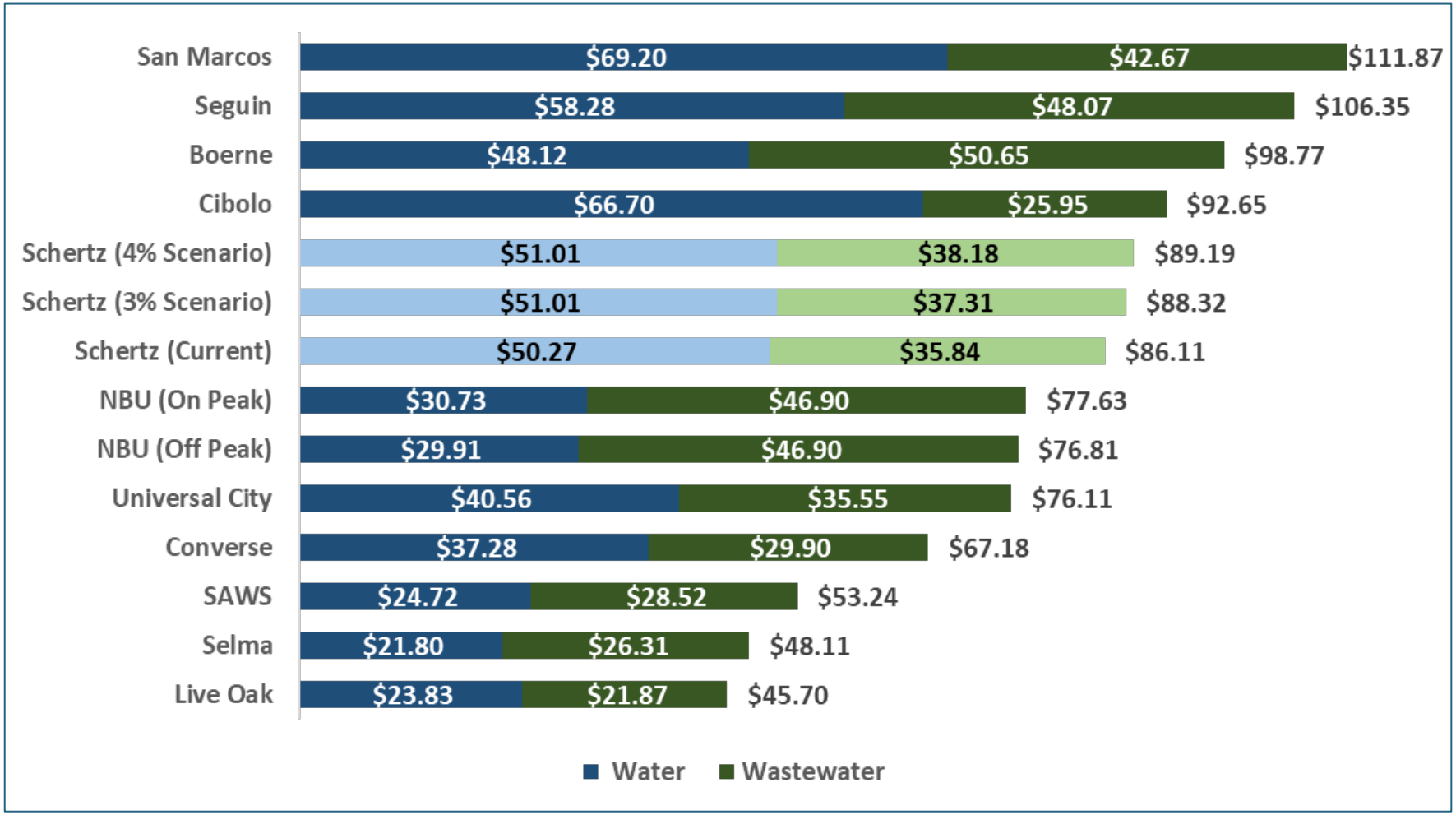
REGIONAL BILL COMPARISON

5/8” Residential – 6,000 Gallons Water and Wastewater



REGIONAL BILL COMPARISON

5/8” Residential – Average: 8,400 Gallons Water and 5,000 Gallons Wastewater



	FY 2018	FY 2019	FY 2020	Projected FY 2021	Proposed FY 2022*
Rate Revenue Increase	8.42%	5.08%	11.58%	1.20%	4.00% or 3.00%

*FY 2022 percentages do no include growth.

PATH FORWARD

- Staff Recommendation
  - 4% Scenario
- Policy Directions
  - Rate Structure
  - Overall Increase
- Next Steps
  - Rate Action Anticipated in October 2021 Commensurate with Budget Adoption

QUESTIONS AND DISCUSSION

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ADDITIONAL INFORMATION

Per Council Feedback

MONTHLY BILL IMPACTS FOR FY 2022

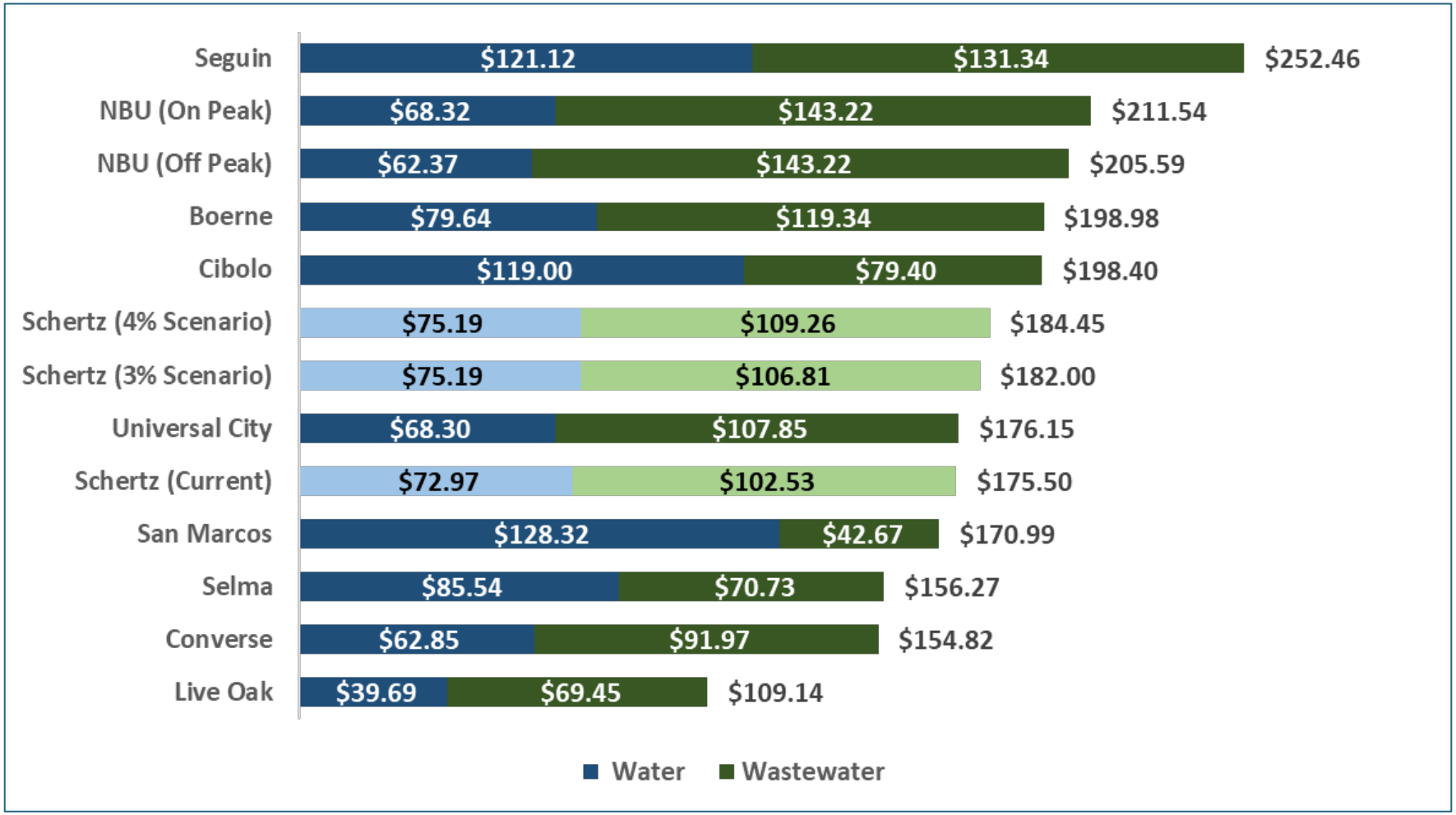
Commercial

	Current	4% Scenario	3% Scenario
2” Compound Meter			
96,000 Gallons			
Water	$ 510.70	$ 596.32	$ 596.32
Wastewater	930.35	991.35	969.46
Total	$ 1,441.05	$ 1,587.67	$ 1,565.78
Variance, $		*$ 146.62*	*$ 124.73*
Variance, %		*10.17%*	*8.66%*

Notes:
-Approximately 5% (89 customers) of all commercial customers reach 96,000 gallons.
-Approximately 15% (48 customers) of 2” or more commercial customers reach 96,000 gallons.

REGIONAL BILL COMPARISON

5/8” Commercial – 15,000 Gallons



REGIONAL BILL COMPARISON

2” Compound Commercial – 100,000 Gallons