Utilities Finances Overview

Presentation to Environmental Services Commission

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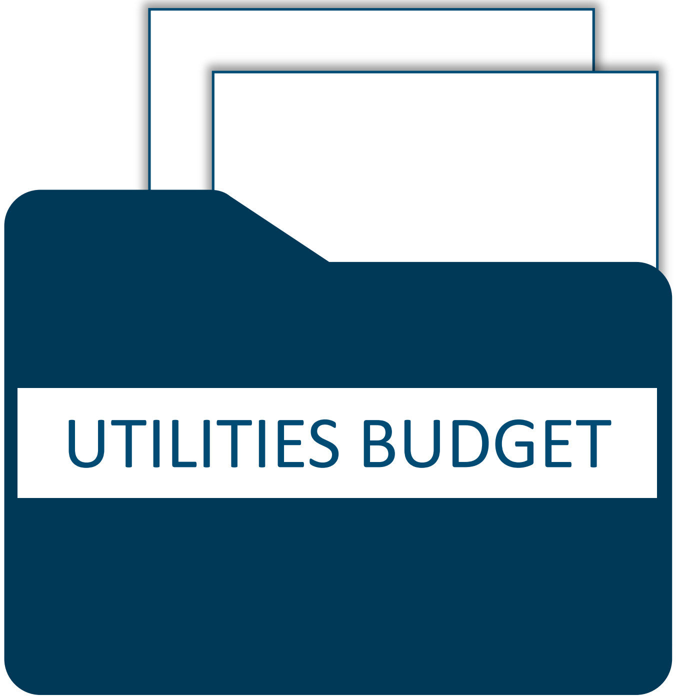
February 06, 2020

Direction Needed from Commission

- No action required
- Informational briefing on Utilities finances

Agenda

- **Sources of Revenues**
- **Uses of Revenues**
- **Financial Policies:**
    1. **Rates and Rate Levels**
    2. **Reserves Management**
    3. **Capital Investment**
- **Rate Setting**

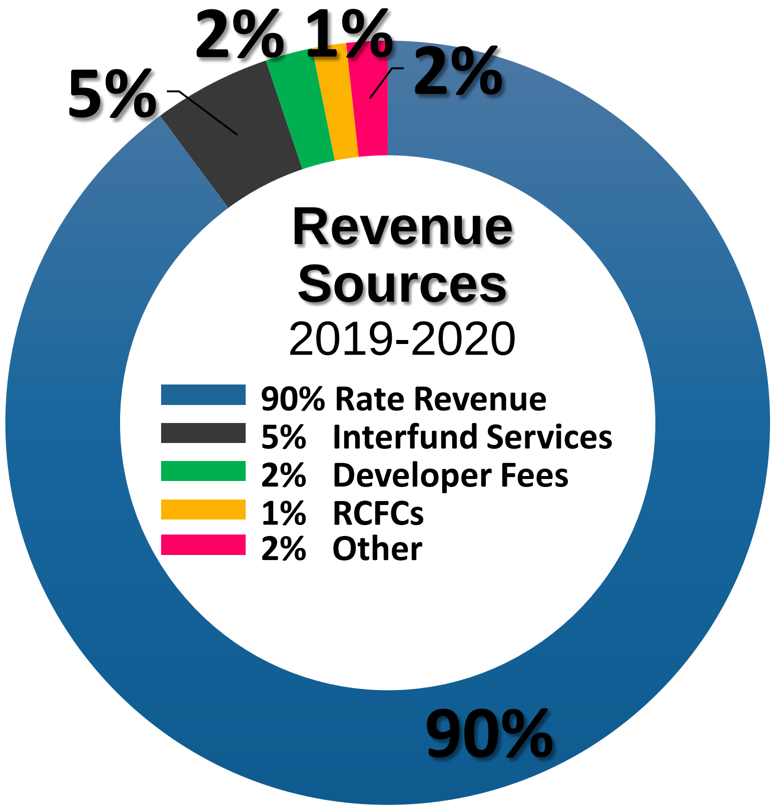


Sources of Revenue

Utilities Department is…

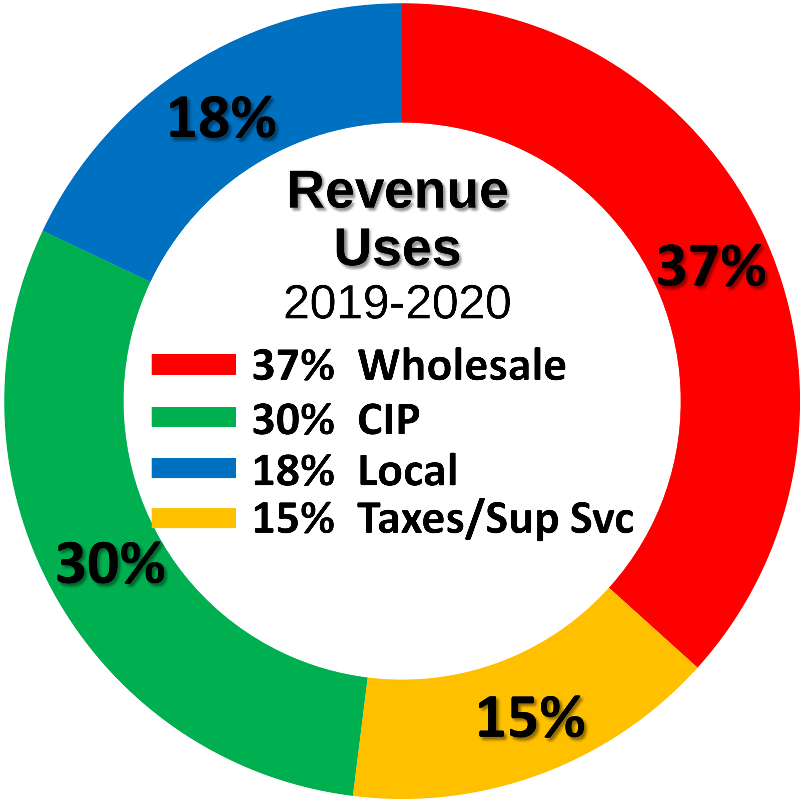
- Enterprise function
- Financially self-supporting
- Out of sight, out of mind
- Services are not scalable
- Fixed costs
- Long-term operating horizon
- Competitive rates

Rates are primary source of revenue



Uses of Revenues

Uses Driven by Wholesale & CIP Costs



Cost Drivers

- Whole sale costs increases
- System failure
- New regulations
- Inflation
- Growth
- Customer expectations & demographics
- Catastrophic events

Financial Policies - Rate Management

Governing Policies for Rates & Rate Levels

- Long term financial planning
- Sufficient to meet current and future expenses
- Gradual and uniform rates
- Wholesale costs passed through
- Equitably recover costs
- Use of savings/one-time revenues

Financial Policies – Reserves Management

Operating Reserves	Asset Replacement Reserves	Capital Renewal & Replacement Reserves
Working Capital Operating Contingency Plant Emergencies	Equipment Vehicles Major Software Systems	Infrastructure i.e. Sewer Lake Lines Water Reservoirs
Minimum & Target Levels	**Future Replacement**	**Intergenerational Equity**

Rate Stability & Minimize Service Disruptions

Financial Policies – Reserves Management

2020 Budgeted Year End Reserves ($M)

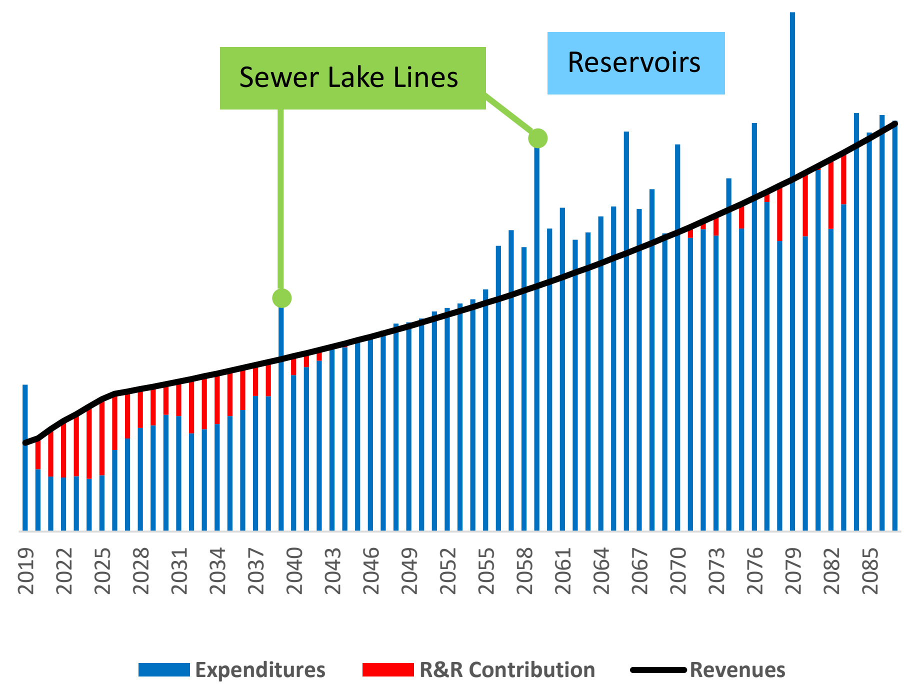
	Operating Reserves	Asset Replacement Reserves	Renewal and Replacement Acct
Water	$10.9	$4.5	$23.3
Sewer	$5.2	$3.3	$80.2
Storm	$1.8	$4.2	$70.5
Total	**$17.9**	**$12.0**	**$174.0**

Financial Policies – Capital Investments

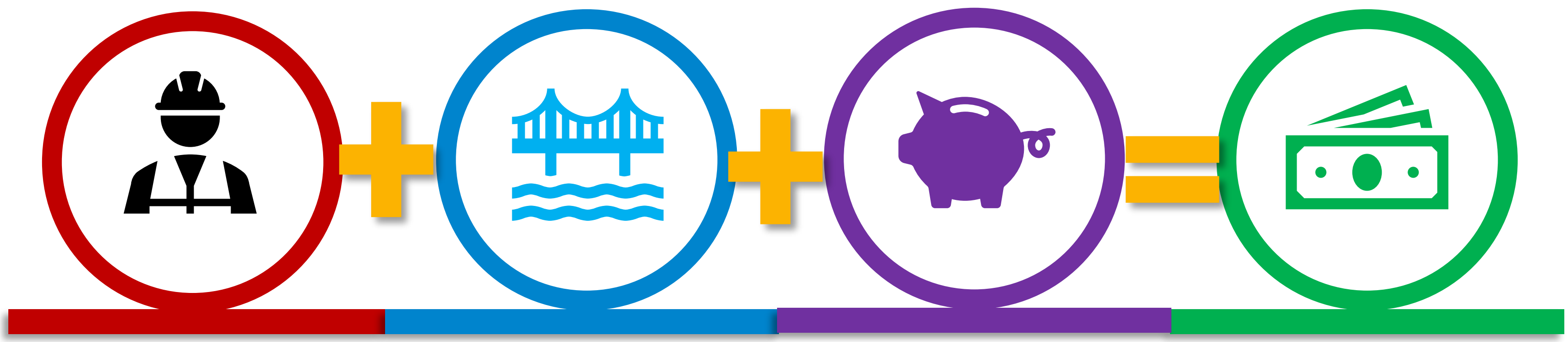
Governing Policies

- Take care of aging infrastructure
- Long-term planning
- Renewal & Replacement (R&R) Account – est. 1995
- Intergenerational Equity
- Avoid rate spikes
- Debt for changed circumstances

75 Year Renewal & Replacement Funding
All Funds



Rate Making – What to Recover



Operational Costs

- Sewage Treatment
- Water Supply
- Field Crew
- Customer Service
- Billing
- Etc.

Infrastructure Costs

<u>Construction & Repair of:</u>

- 1,600 miles of pipe
- 24 reservoirs
- 68 pump stations
- 63 pressure zones
- 19,000 storm drains
- 13,000 manholes

Reserves

- Operating
- Asset Replacement
- Capital

Cost to Recover

- Total cost of Utility
- Allocate cost to customer base
- Determine rates

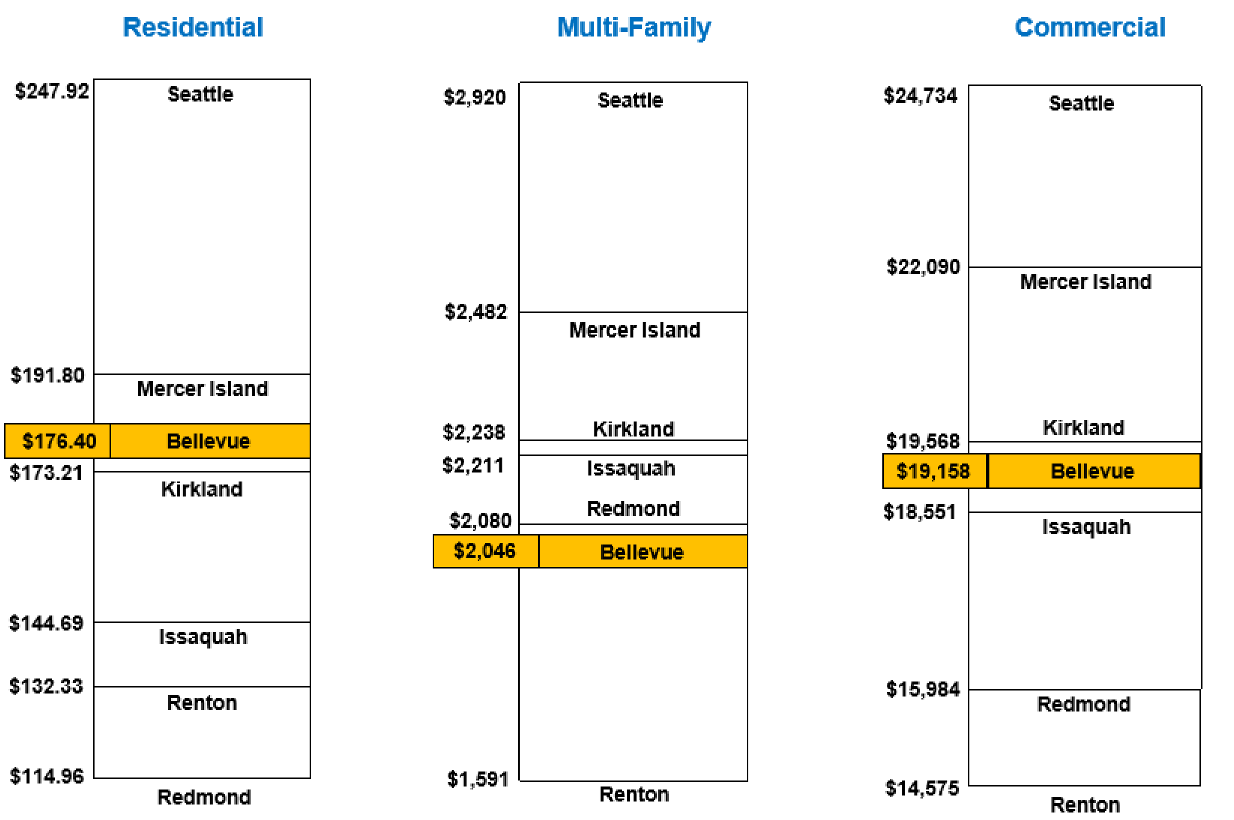
Rate Making – How to Recover

Governing Policies for Rate Structure

- **Cost-of-Service**
- **Full Cost Recovery**
- **Rate Equity**
  - *Between customer classes*
  - *Between generations that use system*
- **Rate Uniformity**
- **Rate Assistance**
- **Other Policy Objectives**

Competitive Utility Rates

Water, Sewer, and Storm & Surface Water Utilities
2019 Combined Monthly Bill Comparison



Source: All rate information was obtained from municipality websites