



*****REVISED ITEM*** Water Capital Improvement Plan Alternatives**

This report provides the Transportation, Infrastructure and Innovation Subcommittee with an update on the Water Services Department's financial plan for Fiscal Years 2021-25. Additionally, it addresses rehabilitation of aging infrastructure, as well as the impact of these costs on the community water system's financial plan.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Summary

Five-year financial plans for both the City's water and wastewater utilities have been prepared by the Water Services and Finance Departments which reflect both the capital infrastructure requirements and financial requirements of the water and wastewater systems.

The City Council has taken the necessary actions to meet the needs of a rapidly growing city, maintain the infrastructure for existing residents and meet federal standards for safe drinking water.

These plans:

- Provide for rehabilitation, replacement, and development of infrastructure necessary to ensure deliveries of safe, clean water and safe removal and treatment of wastewater;
- Provide all resources needed by water and wastewater to continue to operate efficiently and effectively;
- Maintain reasonable rates for water and wastewater customers; and
- Maintain high bond rating to minimize financing costs in the future.

The following sections outline the financial requirements for proposed rate adjustments and the three Capital Improvement Plan Alternatives requested by the Transportation, Infrastructure and Innovation Subcommittee at the Dec. 2, 2020 meeting.

Capital Improvement Program

The water and wastewater capital improvement programs are the largest cost components in the Water Services Department and therefore significant drivers of the

rate increases periodically necessary to maintain financially viable water and wastewater utilities.

Given the impact of COVID-19, the CIP budgets were carefully developed to minimize costs in the current Fiscal Year (FY) while upholding the Department's mission to provide safe and reliable water and wastewater services that meet or exceed regulatory requirements.

Water and Wastewater Financial Plans

The financial plans forecast minimal inflationary adjustments necessary to support future operational and maintenance costs and CIP costs of the system based on the following assumptions:

- Normal weather conditions with impacts from wildfires on watershed;
- Slowing of account growth due to COVID-19 impacts;
- Refinancing of debt to reduce current bond costs; and
- Adjustment of the Capital Program to slow infrastructure investment.

Capital Improvement Plan Alternatives

Option 1: FY 2021 - Zero percent; and FY 2022 - 6.5 percent

Option 2: CY 2021 - Three percent; and CY 2022 - 3.5 percent

Option 3: FY 2021 - Zero percent; and FY 2022 - 3.5 percent

Staff will present information regarding the impacts of each alternative on the water utility's CIP and service delivery.

Concurrence/Previous Council Action

The Citizens' Water/Wastewater Rate Advisory Committee recommended:

- A zero percent wastewater revenue increase for FY 2021, based upon the five-year financial plan that includes zero percent wastewater revenue increases in each of FYs 2021-25 on Oct. 20, 2020, by a vote of 6-2; and
- A three percent water revenue increase effective October 2021 and a 3.5 percent increase in revenue effective March 2022; based upon the five-year financial plan that includes 3.5 percent increases in revenue for each of FYs 2023-25 on Jan. 21, 2021, by a vote of 6-0.

At its Dec. 2, 2020 meeting, the Transportation, Infrastructure, and Innovation Subcommittee requested three Capital Improvement Plan Alternatives be evaluated.

Staff Recommendation

The Water Services Department requests that the Transportation, Infrastructure and Innovation Subcommittee recommend City Council approval of the Citizens' Water/Wastewater Rate Advisory Committee's recommendation of:

- Water revenue increases of three percent, effective October 2021, and 3.5 percent, effective March 2022; and
- Wastewater revenue increases of zero percent for FYs 2021 and 2022.

Responsible Department

This item is submitted by Deputy City Manager Karen Peters and the Water Services Department.