



City of Calistoga City Council Workshop

Review of Water and Wastewater Funds Financial Health and Options to Improve

January 22, 2012



SPILMAN & Associates
Municipal Consulting Services

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Workshop Objectives

- ▶ Overview of 2010 Water & Wastewater Rate Studies
- ▶ Role of Development in utility operations, facilities and finances
- ▶ Impact of operations and economy over last two years to financial health of utility operations
- ▶ Options to correct
- ▶ City Council Direction

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Overview of Water & Wastewater Funds

- ▶ Both funds in financial distress with operating deficits
- ▶ Auditor concerned over continuing General Fund cash flow subsidy of both funds
- ▶ Significant changes in actual usage, development, revenues and costs to rate study projections
- ▶ Current rates, as adopted, are inadequate to meet the financial needs of both systems and the rate study objectives
- ▶ Reliance on development and connection fees to repay part of current debt service and fund needed capital improvements & new debt.

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What Happened

- ▶ Rates were developed and applied correctly, however the assumptions are no longer valid
- ▶ Water usage is significantly lower than projected mainly due to conservation and reduced economy
- ▶ Wastewater flows are higher than projected
- ▶ Operating revenues for both systems are lower than projected
- ▶ Operating costs mixed, but generally lower

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What Happened, continued

- ▶ Operating deficits continue mainly due to lower connection fee revenues to partially offset debt payments and capital improvements
- ▶ Critical Capital Improvements delayed due to funding
- ▶ Stalled Development has reduced and delayed connection fee revenues
- ▶ No Operating Reserves being generated for cash flow or emergencies
- ▶ General Fund cash flow subsidies needed to maintain the cash flow in the funds

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Role of Development in Setting Rates

- ▶ The City's adopted General Plan identifies new development at the appropriate level for the city.
- ▶ Development allows for replacement of worn out or inadequate facilities to be replaced at a lower cost to the rate payer
- ▶ New development will bring added operating revenues to the water and wastewater funds
- ▶ Improvements to both systems will add reliability and capacity to the systems to meet the community needs and regulatory standards
- ▶ Improvements to both systems over the last ten years were required to;
 - Replacement of failing infrastructure
 - Compliance with specific State orders to maintain reliability of the systems for water supply, fire protection and treatment capacity
 - Compliance Federal and State environmental and health regulations

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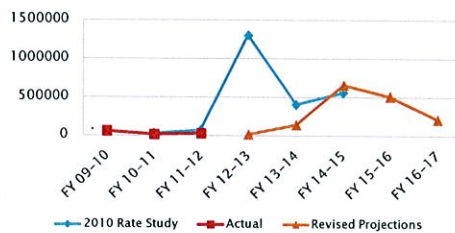
Role of Development in Setting Rates, continued

- ▶ New development will directly pay for the improvements related to increased capacity and share the improvement costs for replacement and upgrading.
- ▶ Existing residences and businesses have a higher quality up-to-date water and wastewater systems that are more reliable, complies with health and environmental standards which new development has paid a fair share.
- ▶ Changes in the usage, due to new development, will shift allocation of costs between users and likely benefit existing residents
- ▶ New development is charged a one-time connection fee to repay portion of costs for past and future improvements and for a portion of the debt service related to improvements

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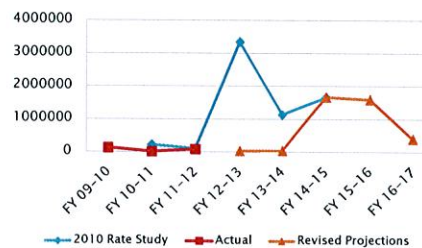
Development Projections

Water Development Connection
Fee Revenue



Stalled Development now projected at a lower level and delayed by two years

Wastewater Development Connection Fee Revenue



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**City of Calistoga
Water and Wastewater Connection Fees
Update to Rate Studies**

**Development Projections By
Project and Acre Feet of Use**

	Water Use					
	FY 12-13 to FY 16-17	FY 13	FY 14	FY 15	FY 16	FY 17
Roman Spa Resort	2.40			0.80	0.80	0.80
Indian Springs Resort	7.20		3.60	3.60		
Enchanted Resorts	-					
Silver Rose	25.90			12.95	12.95	
Vineyard Oaks Subdivision	3.66					3.66
Growth Management	0.47	0.13	0.13			0.21
Residential	0.91					0.91
Commercial	0.98			0.90	0.08	
Deferred Agreements	0.49	0.14	0.14	0.12	0.09	
Estimated Development Projections	42.01	0.27	3.87	18.37	13.92	5.58

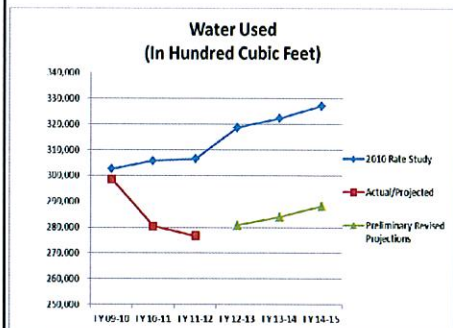
FY 12-13 to FY 16-17	Water Connection Fee					
	FY 13	FY 14	FY 15	FY 16	FY 17	
87,158	-	-	28,479	29,049	29,630	
253,802	-	125,645	128,157	-	-	
-	-	-	-	-	-	
931,242	-	-	461,011	470,231	-	
135,557	-	-	-	-	135,557	
16,763	4,448	4,537	-	-	7,778	
33,704	-	-	-	-	33,704	
34,944	-	-	-	-	-	
17,216	4,790	4,886	4,272	2,905	-	
1,510,387	9,239	135,068	653,959	505,453	206,669	

**Development Projections By
Project and Acre Feet of Use**

	Wastewater Use					
	FY 12-13 to FY 16-17	FY 13	FY 14	FY 15	FY 16	FY 17
Roman Spa Resort	2.13			0.71	0.71	0.71
Indian Springs Resort	-					
Enchanted Resorts	-					
Silver Rose	28.50			14.25	14.25	
Vineyard Oaks Subdivision	2.33					2.33
Growth Management	0.35	0.12	0.12			0.11
Residential	0.50					0.50
Commercial	0.90			0.90		
Deferred Agreements	0.49	0.14	0.14	0.12	0.09	
Estimated Development Projections	35.20	0.26	0.26	15.98	15.05	3.65

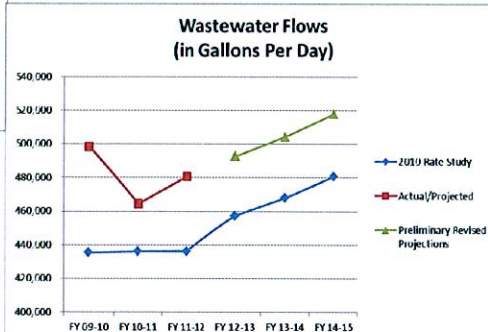
FY 12-13 to FY 16-17	Wastewater Connection Fee					
	FY 13	FY 14	FY 15	FY 16	FY 17	
225,843	-	-	73,795	75,271	76,776	
-	-	-	-	-	-	
-	-	-	-	-	-	
2,991,822	-	-	1,481,100	1,510,722	-	
251,957	-	-	-	-	251,957	
36,111	11,988	12,228	-	-	11,895	
54,068	-	-	-	-	54,068	
93,543	-	-	-	93,543	-	
50,266	13,986	14,266	12,472	9,541	-	
3,703,609	25,974	26,494	1,660,911	1,595,534	394,696	

Water Use & Wastewater Flows



Lower water use likely due to conservation and economic downturn in economy

Higher wastewater flows likely due to infiltration or increase in groundwater



Major Capital Improvements over next Five Years

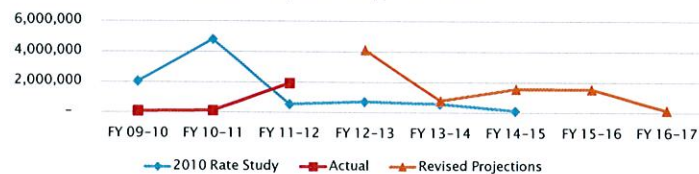
Water System Capital Improvements	FY 12-13 to FY 16-17 (\$000)	Possible Funding Sources
Mt. Washington Water Tank	4,008	Combination
Dwyer Rd NBA Pump Station	1,135	Financed
Main Replacements	350	
Fiege Water Tank Repair	1,100	Financed
Dredge Kimball Reservoir	260	Financed Or Meas A
Kimball Intake Tower Repair	400	Meas A
Master Plan	100	
Other Projects	721	
Total Water CIP	8,074	

Major Capital Improvements over next Five Years

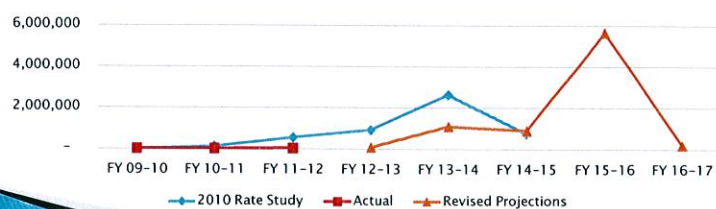
Wastewater System Capital Improvements	FY 12-13 to FY 16-17 (\$000)	Possible Funding Sources
Main Collection Line Upgrade	5,000	Financed
Lift Stations Repair	250	
Inflow & Infiltration Repairs	360	
Grit Removal Unit	350	Financed
New Storage Pond	500	Financed
Riverside Pond Bank Repair	350	Financed
Master Plan	400	
Other Projects	613	
Total Wastewater CIP	7,823	

Changes in Capital Improvement Project Costs

Water Capital Improvements

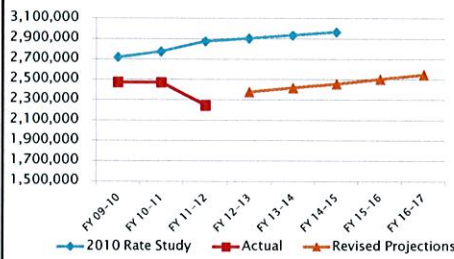


Wastewater Capital Improvements



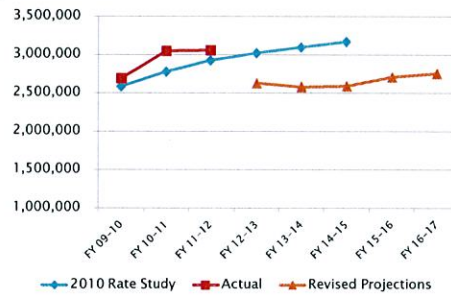
Water

Water Operating Revenues



- Reduced revenues reflect lower usage
- Does **not** include connection fees to partially pay debt service
- Includes Measure A funds for debt payment
- Revenue projections include adopted rates
- Allowed CPI est. at 2% for last two years

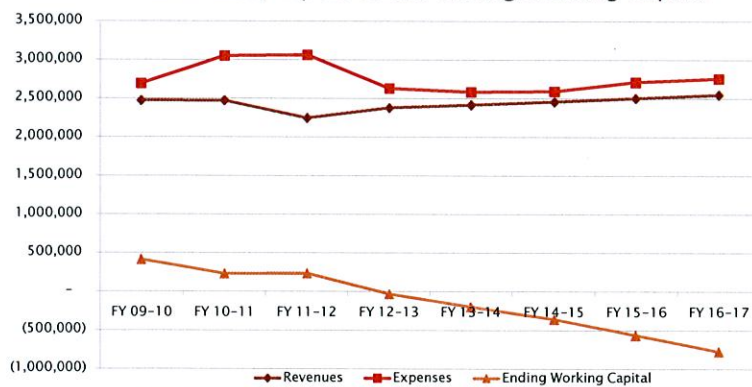
Water Operating Expenses & Debt Service



- Increased actual expenses due to optional added debt payment
- Lower projected expenses due to reduced staffing and lower costs
- No funding of capital improvements
- No added debt payments

Water Fund Issues

Water Operating Revenues, Expenses and Ending Working Capital



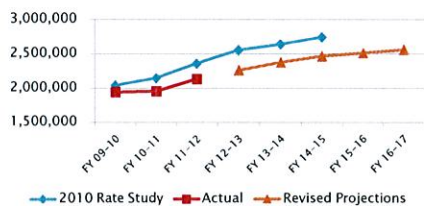
- Gap in revenues and expenses create negative working capital
- No cash reserves for operations, critical repairs/replacement of facilities or emergencies
- Will need est.. \$1.2 million to maintain operations and create a 20% reserve

Water Fund Issues, continued Funding Options

1. Operations without connection fee revenue, capital improvement costs or added debt:
 - 2.2% annual added rate increase
 - Or \$308,700 annual General Fund subsidy
2. Operations, connection fee revenue, capital improvements and added debt
 - 1.3% annual added rate increase
 - Or \$189,400 annual General fund subsidy
3. Operations, minimal connection fee revenue, capital improvements and added debt
 - 3.7% annual added rate increase
 - Or \$541,900 annual General fund subsidy

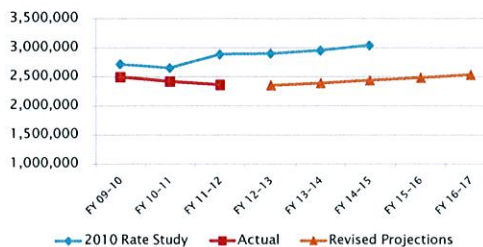
Wastewater

Wastewater Operating Revenues



- Reduced revenues reflect lower usage
- Revenue projections include adopted rates
- Allowed CPI est. at 2% for last two years

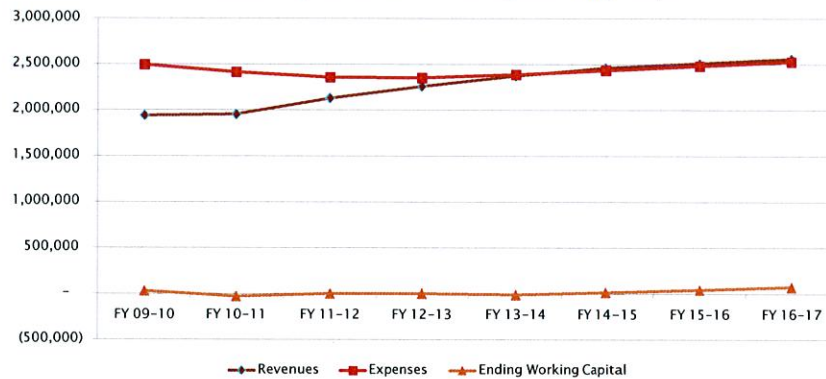
Wastewater Operating Expenses & Debt Service



- Lower projected expenses due to reduced staffing and lower costs
- No funding of capital improvements
- No added debt payments

Wastewater Fund Issues

Wastewater Operating
Revenues, Expenses and Ending Working Capital



- Gap in revenues and expenses create negative working capital
- No cash reserves for operations, critical repairs/replacement of facilities or emergencies
- Will need est.. \$648,000 to maintain operations and create a 20% reserve

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Wastewater Fund Issues, continued Funding Options

1. Operations without connection fee revenue, capital improvement costs or added debt:
 - 1.2% annual added rate increase
 - Or \$161,900 annual General Fund subsidy
2. Operations, connection fee revenue, capital improvements and added debt
 - 0% annual added rate increase
 - Or \$0 annual General fund subsidy
3. Operations, minimal connection fee revenue, capital improvements and added debt
 - 4.8% annual added rate increase
 - Or \$691,000 annual General fund subsidy

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Example of 2 Mth Water & Wastewater Costs for Single Family Residence

	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Adopted Rates	317.10	322.04	328.46	334.96
	2.2%	1.6%	2.0%	2.0%
Option 1	322.84	327.87	334.41	341.02
Added Two Month Cost	5.74	5.83	5.95	6.06
% Increase from Prior Year	4.1%	3.4%	3.8%	3.8%
Option 2	319.61	324.60	331.07	337.62
Added Two Month Cost	2.51	2.56	2.61	2.66
% Increase from Prior Year	3.0%	2.4%	2.8%	2.8%
Option 3	330.19	335.34	342.02	348.79
Added Two Month Cost	13.09	13.30	13.56	13.83
% Increase from Prior Year	6.4%	5.8%	6.2%	6.2%

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Summary

- ▶ Estimated financial need for both water and wastewater systems over next seven year ranges from \$757,600 to \$4.9 million depending on capital improvement projects, development connection revenues and operating costs
- ▶ Option 1 is a conservative projection of \$1.9 million shortfall in Operations, without development, added debt or CIP funding,
- ▶ The conservative projection will require either an est 2% annual rate additional increase for water and wastewater – water rates would increase by 4% each year and wastewater rates by 3%
- ▶ Or an annual general fund subsidy of \$470,000
- ▶ Or a combination of both

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City of Calistoga

Water & Wastewater Rates

	Adopted Rates					Adopted CPI Change	
	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17

Single Family Rates

	1/1/2012	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017
Water Service Charge per month	18.65	19.78	20.26	20.71	21.16	22.01
Water Use per hcf (748 gallons)	6.2%	6.1%	2.4%	2.2%	2.0%	2.0%
Wastewater charge per month	5.05	5.27	5.35	5.43	5.51	5.73
	9.5%	4.4%	1.5%	1.5%	2.0%	2.0%
	51.08	56.63	59.94	61.82	62.72	65.25
	17.7%	10.9%	5.8%	3.1%	1.5%	2.0%

Average Single Family Water and Wastewater Bill - every two months - Adopted Rates

	28	28	28	28	28	28
Average Water use in hcf	28	28	28	28	28	28
Water Service Charge - 3/4 Meter	37.3	39.56	40.52	41.42	42.32	43.16
Water Use per HCF	141.4	147.56	149.8	152.04	154.28	157.36
Total Water	178.7	187.12	190.32	193.46	196.6	200.52
Wastewater - Fixed	102.16	113.26	119.88	123.64	127.94	130.5
Total Water and Wastewater	280.86	300.38	310.2	317.1	322.04	328.46
	11.9%	7.0%	3.3%	2.2%	1.6%	2.0%

Option 1 - Operations \$1.8 million in needed Revenue

Est Additional Water Rate increases	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Est Additional Wastewater Rate increases	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Estimated Water Bill	178.70	187.12	190.32	197.72	200.93	208.96
Estimated Wastewater Bill	102.16	113.26	119.88	125.12	126.95	129.48
Total Water and Wastewater	280.86	300.38	310.20	322.84	327.87	334.41
Increase to Water & Wastewater Bill	-	-	-	5.74	5.83	6.06
				1.8%	1.8%	1.8%

Option 2 - Ops, CIP & Dev \$757K in needed Revenue

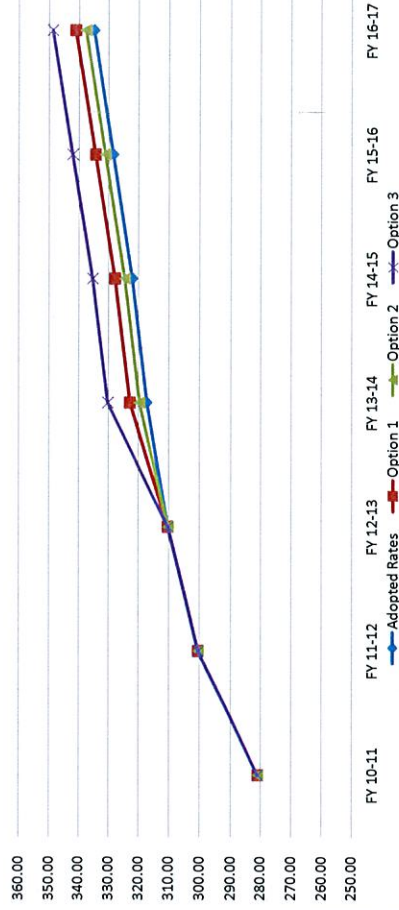
Est Additional Water Rate increases	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
Est Additional Wastewater Rate increases	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Estimated Water Bill	178.70	187.12	190.32	195.97	199.16	203.13
Estimated Wastewater Bill	102.16	113.26	119.88	123.64	125.44	127.94
Total Water and Wastewater	280.86	300.38	310.20	319.61	324.60	331.07
Increase to Water & Wastewater Bill	-	-	-	2.51	2.56	2.66
				0.8%	0.8%	0.8%

Option 3 - Ops & CIP, No Dev \$4.9 million in needed Revenue

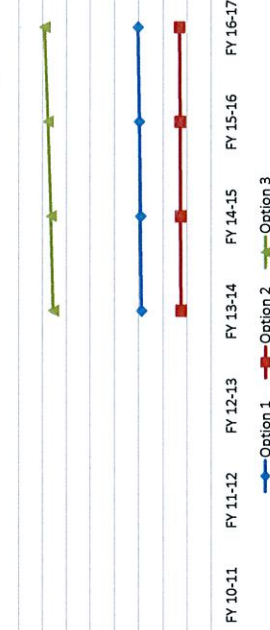
Est Additional Water Rate increases	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Est Additional Wastewater Rate increases	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Estimated Water Bill	178.70	187.12	190.32	200.62	203.87	207.94
Estimated Wastewater Bill	102.16	113.26	119.88	129.57	131.46	134.08
Total Water and Wastewater	280.86	300.38	310.20	330.19	335.34	342.02
Increase to Water & Wastewater Bill	-	-	-	13.09	13.30	13.83
				4.1%	4.1%	4.1%

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Adopted Rates	280.86	300.38	310.20	317.10	322.04	328.46	334.96
Option 1	280.86	300.38	310.20	322.84	327.87	334.41	341.02
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City of Calistoga
Average Single Family Water & Wastewater
Two Month Billing



City of Calistoga
Additional Est Cost for Average Single Family
Water & Wastewater Two Month Bill from Adopted Rates



Next Steps

- ▶ Proceed as directed by City Council to implement necessary changes, which may include:
 - Review FY 12-13 Mid-year budget status and possible adjustments
 - Develop process for General Fund subsidy at some level over next several years
 - Amendment of application of provisions of Water and Wastewater ordinance (Prop 218 process)
 - Revision to water and wastewater rates and extension to FY 16-17 (Prop 218 process)