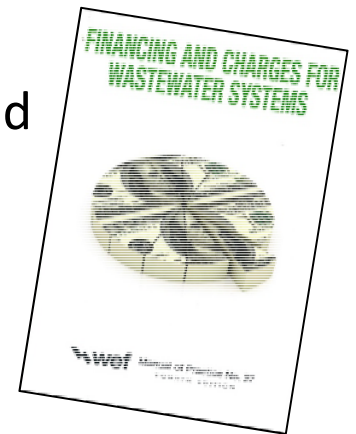


COUNCIL WATER COMMITTEE

WASTEWATER RATE STUDY OVERVIEW
DECEMBER 13, 2018

PURPOSE OF RATE STUDY

- Provides Sufficient Revenue to Operate and Maintain City's Wastewater Infrastructure
 - Capital Improvement Projects
 - RWCF Plant Modifications Project
- Develop Equitable And Cost-Based Rates
- Meets Standard for Proposition 218 for Any Proposed Rate
- Reflect Prudent Financial Planning Criteria
 - Maintain Target Debt Service Coverage Ratio
 - Rate Funding Capital Projects
 - Meet Target Reserve Balances
- Develop the study using generally accepted methodologies tailored to the City's system and customer characteristics



WHAT THE RATES CURRENTLY SUPPORT

- CUSTOMERS
 - 112,260 Residential
 - 2,069 Commercial & Institutional
 - 31 Industrial
- COLLECTIONS
 - 1454 Miles of Gravity Pipe
 - 30 Miles Pressurized Pipe
 - 27 Pump Stations
- TREATMENT
 - 55 Million Gallon/Day (MGD) Permitted Wastewater Treatment Plant
 - Currently Treating An Average Of 29 MGD Of Wastewater
 - Meets Stringent Water Quality Requirements
 - Provides Source Of Water For Delta Water Treatment Plant (DWTP)
- CAPITAL REPAIRS
 - On-Going List of Repair and Maintenance Projects
 - Annual Capital Improvement Project (CIP) Repairs
- RATE FUNDED CAPITAL PROJECTS

APPROACH TO ESTABLISHING COST-BASED RATES

Revenue Requirement

Compares the revenue of the utility to the expenses to evaluate the level of overall rates



Cost of Service

Equitably allocates the revenue requirement between the various customer classes of service



Rate Design

Design rates for each class of service to meet the revenue needs of the wastewater utility, along with any other rate design goals and objectives

OVERVIEW OF THE REVENUE REQUIREMENT

Compares utility revenues to expenses

- Determines the level of revenue (rate) adjustment necessary

Uses prudent financial planning criteria

- Maintaining sufficient ending reserve balances
- Attaining target debt service coverage (DSC) ratio

Reviews a specific time period

- Typically a five to ten year period

Utility is analyzed on a “stand-alone basis”

- No transfer of funds from other City funds
- Rates need to support operations and capital

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

OVERVIEW OF THE COST OF SERVICE

What is cost of service?

- Analysis to equitably allocate the revenue requirement to the customer classes of service

Why cost of service

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues reflect costs
- Meets the proportionality requirements of Proposition 218

Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

RATE DESIGN

Reflect the findings
of the revenue
requirement and
cost of service
analyses

Meet the rate
design goals and
objectives of the
City

Produce sufficient
revenues to meet
the target revenues
of the utility, and
each class of service

Are cost-based and
equitable

2010 RATE STUDY

- Purpose of Study
 - Fund Operations And Maintenance Activities
 - Fund Construction of Capital Improvement and Energy Management Plan
 - Correct Legal Bond Coverage Requirement
 - Fund California Sportfishing Protection Alliance (CSPA) Consent Decree Programs

CIEMP PROJECT – 1.0

- Capital Improvement and Energy Management Plan (CIEMP)
 - Replace Aging Treatment Processes
 - Meet 2009 NPDES Permit Requirements
 - Improve Working Conditions
 - Develop Energy Efficiencies
- Estimated Construction Costs of \$150M

2010 RATE INCREASES

- Phased Rate Increase in Effect 2010 Through June 2017
 - 2010-2015 Revenue Requirement Increases of 16%, 16%, 9%, 9%, 9%
 - 2015-16 CPI of 1.8%
 - 2016-17 CPI of 1.6%
 - No Increases in Past 2 Years
 - Required to Prepare Rate Study Every 5 Years

HOW THE MONEY WAS USED

- Debt Service Coverage Corrected
- CSPA Consent Decree Programs Funded and Successfully Completed
- Asset Investment and Maintenance Activities
- Cash Reserves Funded
- Additional Monies Used To Offset:
 - Increased Labor Costs
 - No CPI for 2 Years
 - Connection Fee Losses

CIEMP PROJECT SINCE 2010

- CIEMP Project Proceeded
 - 46 Near Term Projects Identified for Construction
 - Initial Project Construction Completed (Safety & Essential Repairs)
 - Funding Plan Approved by Council in July 2012
 - Design Contracts Released for Individual Projects

CIEMP PROJECT SINCE 2010

- Project Put On Hold
 - City Filed Bankruptcy in 2013
 - Staff Resources Drawn Away From Project
 - New NPDES Permit Issued In 2014
 - Lower Nitrate + Nitrite Discharge Limits To San Joaquin River
 - Permit Compliance Schedule with 2024 Deadline
 - Current Treatment Processes Cannot Meet Lower Limit
- Necessary to Redesign Full Project

CIEMP 2.0 – RWCF MODIFICATIONS PROJECT

- Original Project Focused on Upgrade of Old Infrastructure
- Now Includes Meeting New Discharge Requirements
- Necessitated Redesign of Entire Project
- Ensures City Able to Support Growth and New Industry in Stockton

| RWCF Modifications Project Component/Unit Process | Changes from CIEMP, Phase 2 Near Term Projects | Differential from \$150M CIEMP Budget | Comments |
|--|--|---|---------------------------------------|
| Preliminary Treatment | Modified new headworks, repurposed screening facility in lieu of new headworks with new screens | +\$8M | Necessary for useful life |
| Primary Treatment | Replace mechanical mechanisms in addition to structural rehab | +\$14M | Necessary for useful life |
| Secondary Treatment | New secondary process in lieu of upgrading existing biotowers and existing secondary clarifiers; repurpose biotower pump station | +\$46M | Necessary to comply with permit |
| Tertiary Treatment | New filtration and disinfection in lieu of existing tertiary plant rehab | -\$8M | |
| Personnel Buildings | Add Stores, Engineering and Admin Building | +\$8M | Necessary for staff and public safety |
| Solids Handling | Remove FOG, digester rehab, sludge lagoon modifications, gas dryer | -\$25M | Postpone to a later project |
| Site Improvement | Similar | \$0 | |
| New Total Project with Changes* | | \$193M | |

MAIN PLANT OUTFALL – NOT IN CIEMP, ~\$8M

*BASED ON 50% DESIGN

2018 RATE STUDY

- Revenue ~\$20M Less Than Projected in 2010 Due to Stagnant Growth
 - 2010 Projected 2018 Rate Revenue at ~ \$80M
 - Actual 2018 Revenue ~ \$65.2M
 - No CPI since FY 2016-17
- Revisit Funding for RWCF Modifications Project
- Review Rates For CPI
 - No Increase Since 16-17
 - Rates Haven't Kept Up with Costs
- Ensures Rates Can Fund Capital Construction, Operations and Maintenance
- Provides Framework For Responsible Management
- Meets Standard for Proposition 218 for Any Proposed Rate