CITY OF ROSEVILLE CALIFORNIA

AGENDA
March 28, 2017

PUBLIC UTILITIES COMMISSION MEETING
7:00 p.m.
City Council Chambers
311 Vernon Street
Roseville, California

1. ROLL CALL

2. PLEDGE OF ALLEGIANCE

3. APPROVAL OF FEBRUARY 28, 2017 MINUTES

3.1. February 28, 2017 Minutes

4. ORAL COMMUNICATIONS/PUBLIC COMMENT

5. NEW BUSINESS

5.1. Roseville Electric Utility Monthly Update

Report by Electric Assistant Utility Director Todd White summarizing monthly status of Electric Utility issues, for information.

5.2. Roseville Electric Utility Residential Customer Satisfaction Survey Results

Presentation by Electric Customer Program Supervisor David Bradford on Roseville Electric Utility's 2016 Residential Customer Satisfaction Survey results, for information.

5.3. Environmental Utilities Monthly Update

Report by Acting Environmental Utilities Director Dale Olson summarizing monthly status of Environmental Utilities issues, for information.

5.4. Environmental Utilities Proposed Rate Increase

Presentation by EU Business Services Analyst Terri Shirhall on the Environmental Utilities Proposed Rate Increase for recommendation.

6. REPORTS - COMMISSION/STAFF

7. ADJOURNMENT

PUBLIC UTILITIES COMMISSION

Title:	February 28, 2017 Minutes

Meeting Date: 3/28/2017
Item #: 3.1.

ATTACHMENTS:

Description

February 28, 2017 Draft Minutes

CITY OF ROSEVILLE CALIFORNIA

MINUTES
Public Utilities Commission
February 28, 2017
7:00 p.m.

Council Chambers
311 Vernon Street
Roseville, CA 95678

1. Roll Call

PUC Commissioners Present:	Blandon Granger James McHan Kerry Schmitz John Speight John Vertido Jim Viele
PUC Commissioners Absent:	Gretchen Hildebrand
Staff Present:	Mike Bloom, Electric Assistant Utility Director Shawn Matchim, Electric Regulatory Compliance Administrator Sonny Person, Electric Assistant Utility Director David Bradford, Acting Electric Retail Services Supervisor Dale Olson, Acting Environmental Utilities Director Ken Glotzbach, Wastewater Utility Manager Devin Whittington, Refuse and Stormwater Manager George Hanson, Senior Engineer Mark Morse, Environmental Coordinator Joe Mandell, Senior Deputy City Attorney Cheryl Hammond, Recording Secretary

2. Pledge of Allegiance

3. Minutes of January 24, 2017

The minutes of January 24, 2017 were approved as presented.

4. Oral Comments/Public Comment

None

5. New Business

a. Roseville Electric Utility Monthly Update
Report by Electric Assistant Utility Director Mike Bloom summarizing monthly status of Electric issues, for information.

Public Comment: None

b. Roseville Electric Utility Ten-Year Energy Efficiency Goals
Presentation by Acting Electric Retail Services Supervisor David Bradford on Roseville Electric Utility's 10-Year Energy Efficiency Goals, for recommendation

Opening comments by Shawn Matchim, Electric Regulatory Compliance Administrator.

Public Comment: None

c. Environmental Utilities Monthly Update
Report by Acting Environmental Utilities Director Dale Olson summarizing monthly status of Environmental Utilities issues, for information.

Public Comment: None

d. Environmental Utilities Solid Waste Utility Overview
Presentation by Refuse and Stormwater Manager Devin Whittington on the Solid Waste Overview, for information

Public Comment: None

e. Pleasant Grove Wastewater Treatment Plan Expansion & Energy Recovery Project Environmental Document
Presentation by Senior Engineer George Hanson and Environmental Coordinator Mark Morse on the Pleasant Grove Expansion & Energy Recovery Project Environmental Document, for recommendation

Senior Engineer George Hanson introduced Gary Jakobs Principal from Ascent Environmental, Inc. to discuss the Wastewater Treatment Plan and Energy Recovery Project Environmental document and recognized Kevin Kennedy of Kennedy/Jenks Consultants for his contribution.

Public Comment: None

MOTION: Commissioner Vertido made the motion, which was seconded by Commissioner Granger, to recommend adoption of the Initial Study Mitigated Negative Declaration and approve the Pleasant Grove Wastewater Treatment Plant Expansion & Energy Recovery Project as described in the Initial Study.

Ayes:	Granger, McHan, Schmidt, Speight, Vertido, Viele
Noes:	
Absent:	Hildebrand

6. Reports – Commission/Staff

None.

7. Proposed Future Agenda Items

None.

8. Adjournment

Commissioner Viele moved for adjournment of the February 28, 2017 Public Utilities Commission meeting. Commissioner Vertido seconded the motion. The motion passed unanimously at 8:01 p.m.

John Speight
Chairperson

Cheryl Hammond
Recording Secretary

PUBLIC UTILITIES COMMISSION

Title:	Roseville Electric Utility Residential Customer Satisfaction Survey Results

Meeting Date: 3/28/2017
Item #: 5.2.

ATTACHMENTS:

Description

Electric Residential Customer Satisfaction Survey Results

CITY OF ROSEVILLE CALIFORNIA

Roseville Electric Utility 2016 Residential Customer Survey

PUC Presentation
March 28,2017

RKS

(www.RKSresearch.com)

1

2016 Residential Oversample

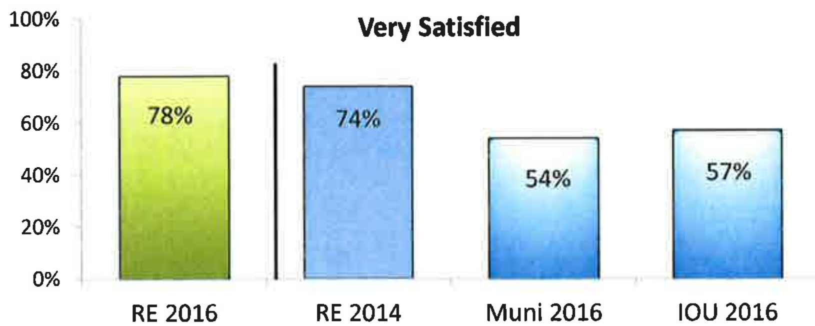
The Bottom Line

1. Customers offer superlative ratings on virtually all customer satisfaction, reliability, customer service and image dimensions
2. Roseville Electric Utility's scores exceed statewide Muni scores by large margins
3. Customer attitudes about having a community owned utility demonstrate a strong municipal utility advantage in Roseville
4. Opportunity exists in developing targeted communication strategies aimed at segments within the customer base

2

Customer Satisfaction Up From 2014; Greatly Exceeds Statewide Muni & IOU Scores

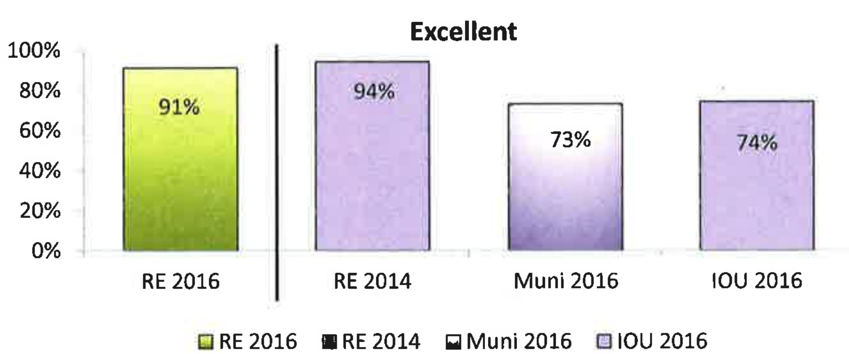
Overall Satisfaction (Responses 5-10) = 94%.



Base is all customers. Percents are 8,9,10 on 0 (not satisfied) to 10 (very satisfied) scale. (CS-1)

3

Reliability Scores Remain Strong Exceeding Statewide Ratings

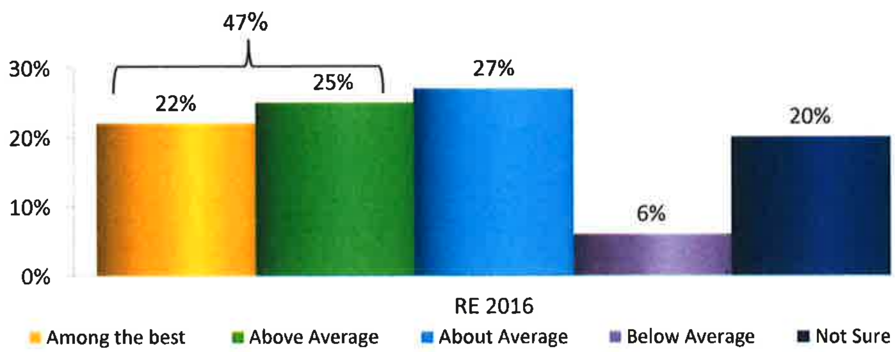


Base is all customers. Percent responding 8,9,10 on 0 (poor) to 10 (excellent) scale. (PD-1)

4

About Half Assess Customer Service Favorably Compared to Best in Class*

Customer Service Compared To Other* Services

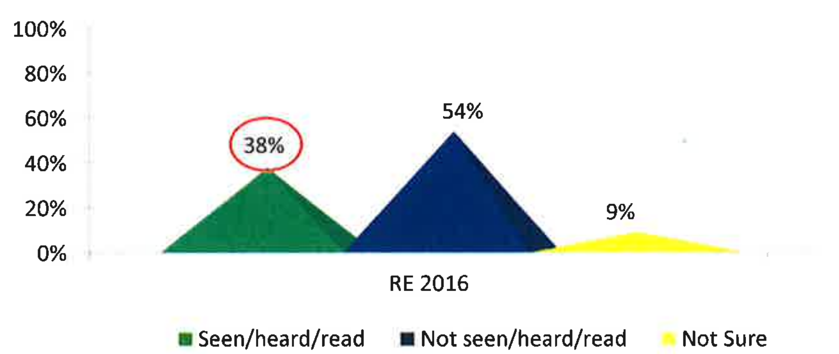


*Amazon, Netflix, Uber, Apple
Base is All customers. (C-4).

5

Roseville Electric Utility's Trusted Solar Advisor– Over a Third are Aware

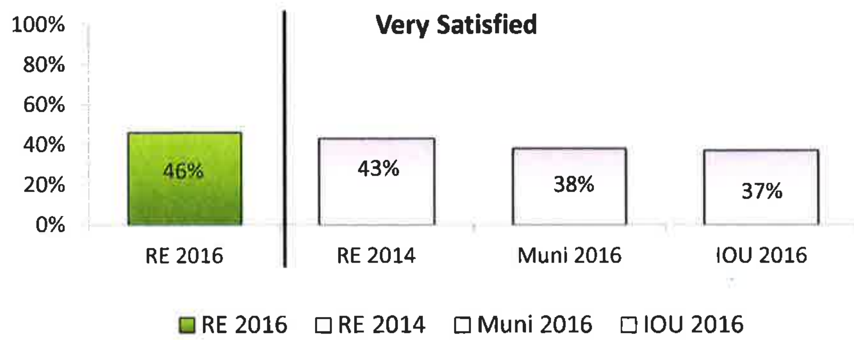
Awareness of Roseville Electric Utility's "Your Trusted Solar Advisor"



6

Base is all customers. (So-2c)

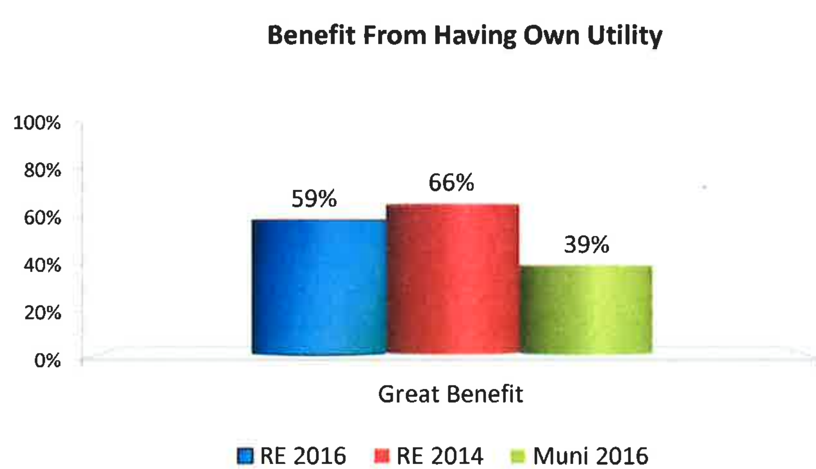
2016 Price Satisfaction Exceeds Statewide Muni and IOU Scores



(PV-1) Percent responding 8,9,10 on 0 (dissatisfied) to 10 (very satisfied) scale.

7

Well over Half of Customers See Great Benefit Of Having Their Own Utility In 2016

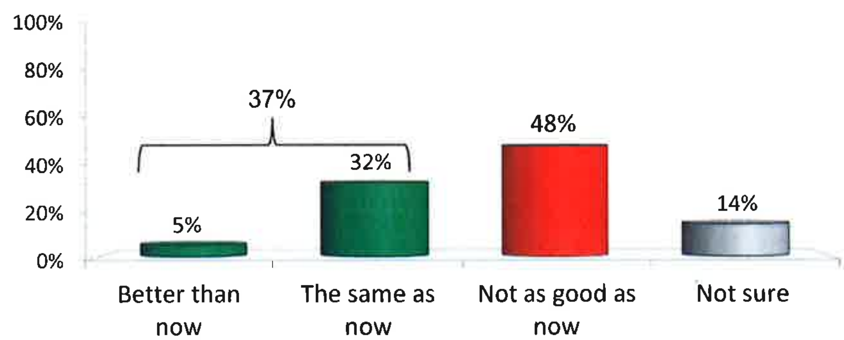


M-1Base is all customers. Percent responding 8,9,10 on 0 (No benefit) to 10 (Great benefit) scale.

8

If PG&E Provides Power to Roseville, What Would Happen to **Reliability…**

About half believe reliability would not be as good under PG&E.

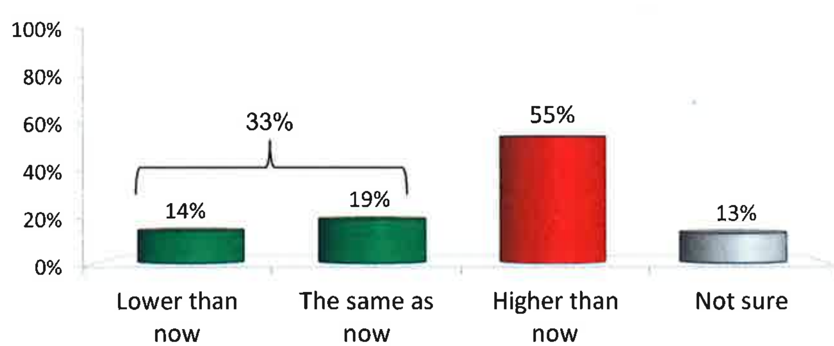


M-2a Base is all customers

9

If PG&E Provides Electricity to Roseville, What Would Happen to the **Price Charged…**

Over half expect price would be higher under PG&E.



M-2c. Base is all customers

10

CITY OF ROSEVILLE CALIFORNIA

Roseville Electric 2016 Residential Customer Survey Thank You

(www.RKSresearch.com)

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Objectives & Methodology

Objectives:

- Compare/trend Roseville Electric Utility 2016 vs. Roseville Electric Utility 2014
- Compare Roseville Electric Utility 2016 against 2016 statewide scores
- Address other areas of interest: the muni advantage, EV purchase, digital focus and community solar.

Methodology:

Roseville Electric Utility Residential Oversamples:

- 2016 (August-September) 229 interviews conducted
- 2014 (January '15) 326 interviews done

CMUA 2016 Statewide Residential Survey:

- 1,352 interviews conducted, August-September, 2016

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PUBLIC UTILITIES COMMISSION

Title:	Environmental Utilities Proposed Rate Increase

Meeting Date: 3/28/2017
Item #: 5.4.

ATTACHMENTS:

Description

EU Proposed Rate Increases Staff Report

CITY OF ROSEVILLE CALIFORNIA

STAFF REPORT

TO:	**Roseville Public Utility Commission**
FROM:	**Rich Plecker, Environmental Utilities Director** RP **Terri Shirhall, Business Services Analyst** TS
DATE:	**March 15, 2017**
RE:	**Recommendation re. Proposed Water, Wastewater and Solid Waste Utility Rate Increases for Fiscal Years 2018 and 2019**

Meeting Date: March 28, 2017

SUMMARY RECOMMENDATION

- Recommend City Council approve the proposed rate increases for water, wastewater, and solid waste, and modifications to the Roseville Municipal Code Sections 9.12.100, 14.08.090, 14.08.100, and 14.6.200 for adjustments to the water and wastewater rates and solid waste rate code as follows:
  - Two consecutive annual rate increases to the water utility (7% in FY17-18 and 7% in FY 18-19)
  - Two consecutive annual rate increases to the wastewater utility (6% in FY17-18 and 6% in FY18-19)
  - Two consecutive annual rate increases to the solid waste utility (2% in FY17-18 and 2% in FY18-19)

BACKGROUND

High quality and environmentally sound utility services (drinking water, recycled water, wastewater and solid waste services) are essential for public health and economic vitality. Consistent delivery of Roseville's Environmental Utility services requires continued top performance of our publicly owned facilities and related infrastructure systems and the expertise of professionals, including State-certified staff.

Based on City Council direction since 2005, smaller, incremental (e.g. annual) rate increases are preferred over larger periodic (e.g., every two to three years) increases. This biennial rate analysis was conducted in accordance with City Council's directive. This rates analysis concludes a year-long process consisting of a 10-year financial planning horizon from fiscal years 2017-18 through 2026-27. The study meets the legal requirement for setting rates that are proportionate to the cost of services provided. The proposed two-year rate implementation will meet the financial goals of generating sufficient revenues given the current assessment of future expenses and economic reserves

City Council adopted the previous adjustments to wastewater rates in April, 2015. The adjustments consisted of two annual increases, effective July 1, 2015 and July 1, 2016. In December 2015, Council approved the transition of the water rate structure from a tiered to uniform rate, and rate increases effective February and July 2016. The last solid waste rate increase was effective in July 2013.

Water, Wastewater, and Solid Waste Rate Increases
The analysis forecast considers the costs of utility operations, capital, rehabilitation, state and federal regulatory compliance, and adopted fiscal policies. Based on the financial analysis, staff is recommending adjustments to water and wastewater utility rates to remain fiscally sound by:

1) Collecting revenues sufficient to meet expenses. Utility rate model fund summaries are included in this report as Attachment A.

2) Compliance with Proposition 218 requirements, primary components including:
   - An agency cannot collect revenue beyond what is necessary to provide service.
   - No charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property.
   - Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed.
   - Fairness in apportionment of total costs of service amongst ratepayer classes (avoidance of subsidization within the rates

3) Reflect adopted fiscal policies for economic reserves (rate stabilization funds equivalent to 50% of operating expenses, and emergency reserve funds equivalent to 25% of operating expenses in the water and wastewater utilities, and 25% emergency reserve fund in the solid waste utility)

4) In the case of water and wastewater utilities, meet commitments made to bonding agencies. Specifically, this means maintaining a bond covenant requirement (ration of net revenues to expenses) of 1.20x for the water utility and 1.10x for the wastewater utility. Maintaining bond covenant requirements is crucial to maintaining the City's good credit rating.

To verify the integrity of the rates model, and appropriateness of the assumptions used in the model, the City contracted with the Reed Group, Inc. The peer review report is included in this report as Attachment B.

Public Outreach
Consistent with City Council's priority to provide public information to the community on a timely basis, an outreach plan was conducted. Information about the proposed utility rate increases has been presented through a number of different venues. A summary of outreach efforts referencing the proposed rate increases are included in this report as Attachment C. In compliance with Proposition 218, a California law since 1996, notices were sent to all utility customers on March 20, 2017. A copy of the notice is included in this report as Attachment D. The notice outlines the process for protesting the proposed rate increases. Protest ballots could be mailed or hand delivered to the City Clerk on or before the public hearing date, or in person at the public hearing on May 3. At the close of the Public Hearing, the City Clerk will announce the total number of protest responses. If written protests against the proposed rate increases are presented by a majority of the owners of identified parcels, City Council will not impose the adjustments.

This remainder of this report details the rates analyses process and conclusions necessitating water and wastewater rate increases.

Environmental Utilities Department

Environmental Utilities Department operates municipal water, wastewater, recycled water, and solid waste utilities for residential, commercial, and industrial customers. The Department also operates a Technical Services Division, which supports Environmental Utilities Engineering, Safety, and Asset Management groups. City ownership of these municipal utilities allows customers the benefit of reliable service while still having rates among the lowest in the region.

City of Roseville Charter

The Roseville City Charter mandates that each utility be financially self-sufficient, meet its financial obligations for debt service, and provide for ongoing maintenance and operation of the utilities. It also allows for utility reserve funds to be set aside for the replacement, betterment and extension of the utilities. Section 10.01 of the City Charter states:

“. . . Each city-owned utility shall be financially self-sufficient, and shall fully compensate the city general fund for all goods, services, real property and rights to use or operate on or in city-owned real property. (Amended by general municipal election on November 7, 2000.)”

The Charter further states in section 7.075:

“The Council shall annually set aside from the income of each of its revenue producing public utilities the following amounts and in the following order, to wit:
First: An amount fully sufficient for the payment of principal, interest, reserve fund and sinking fund requirements of any revenue bonds or general obligation bonds secured in whole or in part from such utility revenues, the proceeds of which bonds have been applied to the acquisition, construction or completion of such public utilities.
Second: An amount sufficient to pay or provide for the payment of maintenance and operation of such public utilities, including a reserve for maintenance and operation. . . . “

In conjunction with the City mandate to be financially self-sufficient, each utility within the Department is represented by an Enterprise Fund and, as such, accounts for “business type activities” similar to that of private industry. They do not make a profit and account for all expenses and revenues in funds completely separate from the City’s General Fund. Funding for utility operations is primarily from monthly utility charges.

UTILITY RATES ANALYSIS

The process to establish rates that support fiscal stability relies on long term financial planning and sound fiscal policies. Each utility continues to be subject to increases in regulatory, operational and rehabilitation costs. General cost increases for all utilities include:

➢ Debt Coverage Requirements. Water and wastewater utility net revenue calculation fiscal policy goal of $\geq$ 1.8.

➢ Inflation. All utilities have seen costs increase in general. An inflation factor of 2.0% (based on the Consumer Price Index) was used in the rate model.

➢ Cost of City Services. As a City Department, Environmental Utilities pays costs for administrative and support services (Information Technology, Human Resources, City Attorney, etc.); these indirect costs were assumed to increase by 10% in FY 15/16, then 5% ongoing.

➢ Power, Chemical and Fuel Costs. The water treatment and two wastewater treatment plants are particularly impacted by chemical costs (increasing on average by 3%). Energy costs were assumed to increase 2+% at the Barton Road Water Treatment Plant, which is within PG&E service territory. Fuel costs were assumed to increase by approximately 2%.

➢ Salaries. 2% labor increases were assumed based on negotiated employee contracts.

➢ Regulatory Requirements. Water, wastewater, and solid waste utilities are highly regulated. On average, 20 percent of utility expenses are associated with regulatory compliance. New requirements, such as unfunded mandated programs, increasingly stringent reporting requirements, or compliance with updated standards, are routine.

Water, Wastewater and Solid Waste Rehabilitation Costs
The City of Roseville has over $1.1 billion in water and wastewater infrastructure assets. In 2003, the City Council adopted a financial policy to set aside funds for rehabilitation and replacement of aging utility infrastructure. An initial assessment of the infrastructure enabled staff to determine the annual amount to set-aside with the goal of having sufficient funds to complete the anticipated projects. In 2015, MWH, Inc., was retained to conduct a review and update of the rehabilitation capital plan. In the period covered by the proposed rate adjustment, the level of funding for the Water Rehabilitation fund would increase from $3 million to $3.5 million in FY2018 and FY2019 in support of the updated plan. The contribution for Wastewater Rehabilitation would remain at $7.5 million in FY18 and increase to $7.75 million in FY19. Rehabilitating aging pipes, equipment and other aspects of the water and wastewater system is vital in order to maintain system reliability.

Environmental Utilities has made it a priority to proactively set aside revenue for infrastructure rehabilitation. The benefit of this approach is that, in the event of a major system failure, such as a breakdown at the water or wastewater treatment plant, funds would be available to make repairs quickly. An effective rehabilitation program includes evaluations of facilities and proactive repairs and replacements, thus avoiding expenses associated with infrastructure failure. Setting funds aside also allows the utilities to build an emergency reserve that provides an immediate cash source to respond to potential emergency situations. Alternatively, the utilities would be obligated to seek bond financing or emergency loan funds to pay for the repairs, with associated high interest rates.

The Solid Waste utility has an inventory of approximately 70,000 bins and cans, with varying useful lifetimes, and replacement costs ranging from $60 to $4,000. A rehabilitation fund is in place to repair and replace cans and bins when necessary. Over the next two years the level of funding for the Solid Waste Rehabilitation fund is projected to increase from $ 0.2 million, to $0.2 million in FY2018 and $0.3 million in FY2019.

Economic Reserves
Utility economic reserves are an essential part of the utilities' operating procedures and ensure the utilities can continue to provide services during budget shortfalls or unforeseen circumstances. Staff is recommending consistency with fiscal policy that would, over time, achieve minimum emergency reserve levels for the water and wastewater utilities to 25% of annual operating expenses, with 50% rate stabilization funds. The fiscal policies are included in this report as Attachment E. The policies reflect the need to supplement rate stabilization and economic reserve levels, which would:

- Improve assurance of adequate available funding in the event of a future drought or other event that results in increased expenses or reduced revenues.
- Protect the City's credit rating.
- Address City Council direction to preclude the need for a drought rate surcharge in future water shortage years.
- Proceed closer to consistency with industry standards for reserve funding levels.

It should be noted that, if reserves were maintained at the 10% level, rate increases would still be needed in the short-term to avoid rapid declines in the target reserves in all three utilities. Without a rate increase, the overall economic reserves in the water utility would decline rapidly; from an approximate 51.2% in FY16/17 to 28.1% in FY17/18 and 11.7% in FY18/19. Absent a rate increase for the wastewater utility, the reserve would decline steadily from approximately 58.5% in FY16/17 to 36.6% in FY17/18, to 15.7% in FY18/19.

Debt Service Coverage
In addition to increased costs, the City is also obligated to meet debt service coverage related to long-term debt as part of a rate covenant made to bondholders. The current rate covenant for debt issued on water capital improvement projects requires a minimum debt service coverage ratio of 1.20. For wastewater, the debt service coverage requirement is 1.10. Although rates are not used for payment of debt service, utility revenue is the ultimate security for repayment of debt. Connection fees are the primary funding source for payment of debt service.

Water Utility
Two consecutive annual rate increases are proposed for the water utility (7% in FY17-18 and 7% in FY18-19). The proposed rates reflect an increase to the average residential water customer of $2.54 per month for the first year and $2.74 per month for the second year. Even with the increases, Roseville water customers will still be paying less than half a penny a gallon for water delivered on demand each and every hour of the day, 365 days a year.

The proposed water rates are forecasted to fund operational and maintenance of the utility and provide for needed investments in technological upgrades and infrastructure rehabilitation and replacement. During the next two years, rehabilitation funds will be used to fund an upcoming "Water Delivery/Fire Flow Upsizing Project" costing approximately $1,000,000 annually for several years. The project includes identification and analysis of areas in the City (i.e., most likely in the older neighborhoods) that may require larger pipelines to provide fire flows more consistent with current standards. In short, the project will upgrade the fire service and replace pipelines that have reached their service life. The 2 million gallon tank at the water treatment plant is also scheduled for rehabilitation.

Staff recognizes that rate increases can create a financial hardship for some customers. Since a significant portion of water utility bills are based on consumption, a reduction in water use is the best way customers can minimize the financial impact of higher water rates. Water Efficiency staff will continue to work with customers to promote effective water conservation strategies such as identifying and repairing leaks and managing outdoor water use.

Wastewater Utility
Two consecutive annual rate increases are proposed for the wastewater utility (6% in FY17-18 and 6% in FY18-19). The proposed rate increase for wastewater equates to an increase to the average residential wastewater customer of $2.08 per month for the first year and $2.21 per month for the second year.

Similar to the water utility, wastewater collection and treatment is subject to myriad regulatory programs, power supply and chemical costs. In the next two years, rehabilitation funds will be used to extend the life of facilities at the Dry Creek Wastewater Treatment Plant (WWTP) and in the City's wastewater collection system. In response to new water quality permit limits, the biological treatment process at the DCWWTP will undergo significant construction during the next two years to allow the process to meet more stringent nitrate removal requirements. Also, work to replace the Supervisory Control and Data Acquisition (SCADA) system at both Pleasant Grove and Dry Creek WWTP's that has been ongoing over the past two years should be completed by the end of the year. This is a significant milestone that updates a major system vital to the successful operation of the WWTP's. In addition to treatment plant improvements, a project is planned each year to repair or replace portions of the wastewater collection system that have sustained damage due to age, tree root intrusion, or other natural forces.

Solid Waste Rate Structure Modifications
Two consecutive annual rate increases are proposed for the solid waste utility (2% in FY17-18 and 2% in FY18-19). The proposed rate increases equate to an increase of $0.47 per month for the first year and $0.48 per month the second year. Four years have elapsed since the last Solid Waste rate increase. In the interim the utility has been using healthy financial reserves to meet expenses, however that is not sustainable, and a rate increase is needed to adjust revenues to meet actual expenses.

FISCAL IMPACT
The proposed rate increases would result in a cumulative average increase on all three utility bills of about 5.4% percent as of July 1, 2018 and 5.5% as of July 1, 2019. With the proposed rate increase, residential customers would see an estimated increase to their combined utilities bill of $5.09 per month in the first year, and $5.42 per month in the second year. The proposed increases in Roseville's water, wastewater, and solid waste rates are still among the lowest in the region, an indicator that the Environmental Utilities Department is accomplishing its mission.

The proposed rate adjustment will result in additional combined revenue of approximately $6 million to the water utility over the next two fiscal years, approximately $3.2 million to the wastewater utility, and $1.1 million to the solid waste utility over the same period.
The proposed rate adjustment maintains the City's position as one of the lowest cost overall service providers in the region; strengthens the City's rehabilitation program; and maintains economic reserves, helping to ensure fiscal soundness and resiliency in the face of upcoming unfunded mandates and regulatory requirements.

ECONOMIC DEVELOPMENT/JOBS CREATED

New positions assumed in the proposed rate increase include, in FY 17/18: one Refuse Truck Driver, two Business Services Senior Analyst positions, one Solid Waste Billing Technician, one Street Sweeping Operator, one Administrative Analyst, one Industrial Waste Technician, one Preventative Maintenance Supervisor, one Preventative Maintenance Superintendent, and one Interpretive Services Specialist. For FY 18/19, the model assumes one Safety Specialist, one Refuse Truck Driver, one Senior Automation Engineer, and one Administrative Technician.

ENVIRONMENTAL REVIEW

Approval of the proposed utility rates is considered statutorily exempt from CEQA (State CEQA Guidelines section 15273). The project involves the modification, of rates, by a public agency for the purpose of (1) Meeting operating expenses, including employee wage rates and benefits, (2) Purchasing or leasing supplies, equipment, or materials, (3) Meeting financial reserve needs and requirements, and (4) Obtaining funds for capital projects, necessary to maintain service within existing service areas. No further CEQA action is required.

Attachments to Staff Report:

A: Rate Model Fund Summaries
B: Peer Review Report
C: Outreach Calendar
D: Proposition 218 Notice
E: Environmental Utilities Fiscal Policies

ATTACHMENT A

WATER OPERATIONS FUND

	BUDGET 2016-2017	PROJECTED 2017-2018	PROJECTED 2018-2019
ESTIMATED OPERATING REVENUES			
Water Sales and Services	$ 25,613,000	27,680,000	29,914,000
Other Water Sales and Services	30,000	30,000	30,000
Inspection and Plan Check Fees	3,000	3,000	3,000
Recycled Water Services	-	580,750	586,558
Interest	157,095	52,735	52,735
Other Revenue	7,500	7,500	7,500
Contribution from Water Construction Fund	310,000	-	-
Wastewater Operations Fund	39,667	60,350	61,557
Solid Waste Fund	39,667	60,350	61,557
Indirect Cost (from EU Technical Services Fund)	214,164	427,293	438,709
Indirect Cost (From Wastewater, Solid Waste and EU Technical Services Funds)	251,912	421,591	425,827
Indirect Cost (From Wastewater and Solid Waste Operations Funds)	1,033,090	2,142,170	2,206,430
Total Estimated Operating Revenues and Transfers In	**27,699,094**	**31,465,739**	**33,787,872**
LESS ESTIMATED OPERATING EXPENDITURES			
Administration	2,174,810	3,570,283	3,677,383
Asset Management	418,911	702,651	709,711
Water Treatment And Storage	3,314,067	3,354,786	3,423,386
Purchased Water	1,871,526	1,718,061	1,752,422
Water Administration	1,158,799	1,427,827	1,537,093
Water Distribution	6,185,570	6,353,169	6,486,849
Water Efficiency	2,181,156	1,988,720	2,019,420
EU Outreach	280,500	349,350	356,337
Recycled Water	-	549,069	567,952
Debt Service	-	350,000	350,000
Utilty Exploration Center - Operations	120,798	142,257	171,468
Utilty Exploration Center - Program Tours	7,000	8,000	9,000
Water Rate Stabilization Fund	1,150,000	500,000	500,000
Water Rehabilitation Fund	3,000,000	3,500,000	3,500,000
Utility Impact Reimbursement Fund	736,100	754,503	754,503
Rent Payment	362,598	361,391	359,771
Post-Retirement Insurance/Accrual Fund	309,771	355,000	400,000
Indirect Cost - EU Technical Services	1,145,869	1,473,430	1,560,198
Indirect Cost	2,425,728	2,547,014	2,674,365
Automotive Replacement Fund	349,727	-	-
Contingency	-	1,127,661	1,199,896
General Fund Nexus Study (If approved)	-	912,152	936,768
Total Estimated Operating Expenditures	**27,192,930**	**32,045,323**	**32,946,522**
ESTIMATED CAPITAL, DEBT, AND NON-RECURRING REVENUES			
Installation Tap	85,000	111,000	111,000
Backflow Device Repair and Test	35,000	35,000	35,000
New Water Meter Installation	298,300	298,300	298,300
Total Estimated Non-Operating Revenues	**418,300**	**444,300**	**444,300**
LESS ESTIMATED CAPITAL, DEBT, AND NON-RECURRING EXPENDITURES			
Capital Improvement Projects .	1,200,000	816,000	832,320
Utility Exploration Center Fund	16,667	16,667	33,333
Water Rehabilitation Fund - General Fund CIP Rehab	98,402	99,609	101,229
Water Technology Replacement	250,000	250,000	250,000
Wastewater Operations	100,000	666,667	666,667
Water Construction Fund	108,350	113,350	113,350
Total Estimated Capital Expenditures	**1,773,419**	**1,962,293**	**1,996,899**
Increase (Decrease) from Operations	**(848,955)**	**(2,097,577)**	**(711,249)**
Estimated Beginning Fund Balance Without Inventory	**9,791,694**	**8,942,739**	**6,845,163**
Plus Estimated Inventory	**449,790**	**449,790**	**449,790**
Total Estimated Beginning Fund Balance	**10,241,484**	**9,392,529**	**7,294,953**
Increase (Decrease) from Operations	**(848,955)**	**(2,097,577)**	**(711,249)**
Less Operating Carryover	-	-	-
Less CIP Carryover	-	-	-
Estimated Ending Fund Balance Before Emergency Reserve	**9,392,529**	**7,294,953**	**6,583,704**
Less Emergency Reserve	**(6,798,200)**	**(7,294,953)**	**(6,583,704)**
Estimated Unrestricted Ending Fund Balance	**$ 2,594,329**	**$ -**	**$ -**

WASTEWATER OPERATIONS FUND

	BUDGET 2016-2017	PROJECTED 2017-2018	PROJECTED 2018-2019
ESTIMATED OPERATING REVENUES			
Inspection and Plan Check Fees	$ 60,000	$ 60,000	$ 60,000
Industrial Wastewater Treatment Charges	170,000	170,000	170,000
Reimbursed Wastewater Operating Costs	6,975,105	6,976,478	7,054,539
Wastewater Services	26,426,000	28,292,000	30,289,000
Recycled Water Services	575,000	-	-
Wastewater Rehabilitation Fund	1,321,906	416,160	424,483
From Other Agencies	130,143	-	-
Interest	172,728	172,728	172,728
Miscellaneous	7,500	-	-
Total Estimated Operating Revenues and Transfers In	**35,838,382**	**36,087,366**	**38,170,751**
LESS ESTIMATED OPERATING EXPENDITURES			
Wastewater Administration	911,916	1,158,782	1,246,734
Dry Creek Wastewater Treatment Plant	7,110,777	7,318,781	7,415,859
EU Maintenance	1,687,891	1,490,406	1,758,627
Industrial Treatment	386,662	412,418	534,113
Environmental Treatment Lab	698,280	949,241	872,593
Pleasant Grove Wastewater Treatment Plant	6,838,837	6,944,572	7,077,931
Wastewater Collection	5,245,157	5,278,294	5,564,688
Recycled Water	537,110	-	-
EU Outreach	63,500	89,250	90,984
Utility Exploration Center - Operations	120,798	142,257	171,468
Utility Exploration Center - Program Tours	7,000	8,000	9,000
Post-Retirement Insurance/Accrual Fund	384,046	468,000	538,000
Wastewater Rate Stabilization Fund	975,000	1,250,000	1,250,000
Wastewater Rehabilitation Fund	6,500,000	7,500,000	7,750,000
Utility Impact Reimbursement Fund	669,800	686,545	686,545
Rent Payment	39,327	39,196	39,021
Automotive Replacement Fund	447,720	-	-
Indirect Cost	2,186,211	2,295,522	2,410,298
Indirect Cost - EU Asset Management	125,956	210,795	212,913
Indirect Cost - Environmental Utilities	516,545	1,071,085	1,103,215
Indirect Cost - EU Technical Services	920,191	1,379,771	1,461,023
Contingency	-	816,000	832,320
General Fund Nexus Study (If approved)		1,209,751	1,263,264
Total Estimated Operating Expenditures	**36,372,724**	**40,718,666**	**42,288,597**
ESTIMATED CAPITAL, DEBT, AND NON-RECURRING REVENUES			
Installation Tap	44,000	18,000	18,000
Solid Waste Operations Fund	100,000	666,666	666,666
Water Operations Fund	100,000	666,667	666,667
Wastewater Rehabilitation Fund	494,052	-	-
Total Estimated Non-Operating Revenues	**738,052**	**1,351,333**	**1,351,333**
LESS ESTIMATED CAPITAL, DEBT, AND NON-RECURRING EXPENDITURES			
Capital Improvement Projects	1,080,000	-	-
General Fund - CIP Contribution	47,515	-	-
Wastewater Rehabilitation Fund - General Fund CIP Rehab	10,673	10,804	10,979
Wastewater Technology Replacement	250,000	250,000	250,000
Water Operations Fund	39,667	60,350	61,557
Utility Exploration Center Fund	16,667	16,667	33,333
Total Estimated Capital Expenditures	**1,444,522**	**337,821**	**355,870**
Increase (Decrease) from Operations	**(1,240,812)**	**(3,617,788)**	**(3,122,383)**
Estimated Beginning Fund Balance Without Inventory	**17,199,401**	**15,958,589**	**12,340,801**
Plus Estimated Inventory	**4,695**	**4,695**	**4,695**
Total Estimated Beginning Fund Balance	**17,204,096**	**15,963,284**	**12,345,496**
Increase (Decrease) from Operations	**(1,240,812)**	**(3,617,788)**	**(3,122,383)**
Less Operating Carryover	**-**	**-**	**-**
Less CIP Carryover	**-**	**-**	**-**
Estimated Ending Fund Balance Before Emergency Reserve	**15,963,284**	**12,345,496**	**9,223,113**
Less Emergency Reserve	**(9,093,200)**	**(10,179,700)**	**(9,223,113)**
Estimated Unrestricted Ending Fund Balance	**$ 6,870,084**	**$ 2,165,797**	**$ -**

SOLID WASTE OPERATIONS FUND

	BUDGET 2016-2017	PROJECTED 2017-2018	PROJECTED 2018-2019
ESTIMATED OPERATING REVENUES			
Rental Revenue	1,875	1,836	1,873
Refuse Services	21,328,000	21,972,000	22,636,000
Other Refuse Service Charges	41,620	40,800	47,031
Recycling Revenue	320,000	303,000	306,030
State Bonds and Grants	15,000	15,000	-
Interest	180,272	-	-
Miscellaneous	3,000	3,000	3,000
Other	-	-	2,319
Total Estimated Operating Revenues and Transfers In	**21,889,767**	**22,335,636**	**22,996,253**
LESS ESTIMATED OPERATING EXPENDITURES			
Solid Waste Administration	919,719	1,180,725	1,208,618
Solid Waste Collection and Disposal	7,918,724	8,258,702	8,380,001
Tipping Fee	6,650,000	6,716,500	6,716,500
Recycling	691,678	700,324	869,769
Green Waste Program	1,744,993	1,764,826	1,795,126
Organic Waste Program	236,150	473,253	480,371
Street Sweeping	1,203,185	1,320,327	1,338,282
EU Outreach	135,000	150,450	153,408
Utility Exploration Center - Operations	120,798	142,257	171,468
Utility Exploration Center - Program Tours	7,000	8,000	9,000
Post-Retirement Insurance/Accrual Fund	212,041	506,000	564,000
Utility Impact Reimbursement Fund	294,100	301,453	301,453
Rent Payment	145,511	145,027	144,377
Solid Waste Rehabilitation Fund	200,000	200,000	300,000
Solid Waste Rate Stabilization Fund	200,000	350,000	100,000
Indirect Cost	1,653,083	1,735,737	2,199,823
Indirect Cost - EU Asset Management	125,956	210,795	212,913
Indirect Cost - Environmental Utilities	516,545	1,071,085	1,103,215
Indirect Cost - EU Technical Services	146,469	248,104	262,715
Automotive Replacement Fund	560,364	-	-
General Fund Nexus Study (If approved)	-	369,978	377,299
Total Estimated Operating Expenditures	**23,681,316**	**25,853,543**	**26,688,337**
ESTIMATED CAPITAL, DEBT, AND NON-RECURRING REVENUES			
Total Estimated Non-Operating Revenues	-	-	-
LESS ESTIMATED CAPITAL, DEBT, AND NON-RECURRING EXPENDITURES			
General Fund - CIP Contribution	14,940	-	-
Solid Waste Rehabilitation Fund - General Fund CIP Rehab	39,489	39,973	40,623
Utility Exploration Center Fund	16,666	16,667	33,334
Wastewater Operations	100,000	666,666	666,666
Water Operations Fund	39,666	60,350	61,557
Solid Waste Technology Replacement	225,000	225,000	225,000
Interfund Loan Principal Payment to Wastewater Rehabilitation Fund	57,817	-	-
Total Estimated Capital Expenditures	**493,578**	**1,008,656**	**1,027,180**
Increase (Decrease) from Operations	**(2,285,127)**	**(4,526,563)**	**(4,719,264)**
Estimated Beginning Fund Balance Without Inventory	**15,584,123**	**13,298,996**	**8,772,433**
Plus Estimated Inventory	**123,786**	**123,786**	**123,786**
Total Estimated Beginning Fund Balance	**15,707,909**	**13,422,782**	**8,896,219**
Increase (Decrease) from Operations	**(2,285,127)**	**(4,526,563)**	**(4,719,264)**
Less Operating Carryover	-	-	-
Less CIP Carryover	-	-	-
Estimated Ending Fund Balance Before Emergency Reserve	**13,422,782**	**8,896,219**	**4,176,954**
Less Emergency Reserve	**(5,920,300)**	**(6,463,400)**	**(4,176,954)**
Estimated Unrestricted Ending Fund Balance	**$ 7,502,482**	**$ 2,432,819**	**$ -**

ATTACHMENT B

THE REED GROUP, INC.

December 7, 2016

Terri Shirhall
Department of Environmental Utilities
City of Roseville
2005 Hilltop Circle
Roseville, CA 95747

Subject: Environmental Utilities Rate Update – Peer Review

Dear Terri,

As you know, since 1999 The Reed Group, Inc. has assisted the Environmental Utilities Department with a variety of utility rate and cost of service studies. Most often, The Reed Group has assisted Department staff with the biennial review and update of water, wastewater, and solid waste rates. Because staff members have complete capability in financial planning and determination of revenue needs, our role has often been one of peer review. Departmental staff members have developed sophisticated models for evaluating current and estimated future costs, assessing the potential financial impact of various rate scenarios, and developing specific rate recommendations.

This letter is intended to summarize the results of the peer review for the 2017 rate setting process related to water, wastewater, and solid waste services.

Financial Analyses and Rate Recommendations

The City's budget and financial planning model has been extended to cover a 10-year planning period from FY 17-18 through FY 26-27. This planning period enables the City to anticipate and evaluate the longer-term needs of the utilities, limit rate increases, and plan for the future. Even though rate recommendations cover just a two-year period, it is helpful and informative to have the longer planning horizon in assessing the impacts of near-term decisions. One of the goals of the current financial planning process is to provide a path for gradually building financial reserves consistent with the Environmental Utilities' Financial Management Policy adopted in April 2015. It is staff's desire to gradually build the reserves for each utility so as to limit annual rate adjustments.

Based on budgetary and financial analyses for each of the utilities, the following annual rate adjustments have been developed using the rate model for the next five years. As with past practice, the City plans to only adopt new utility rates for a two-year period, and the focus of analysis has been on a five-year planning period (rather than the complete ten-year planning period). Typically, conditions change sufficiently within a few years such that estimates toward the end of the planning period become less reliable.

	Estimated Annual Rate Increases			
	Water	Wastewater	Solid Waste	Aggregate[1]
FY 17-18	**7.0%**	**6.0%**	**2.0%**	**5.6%**
FY 18-19	**7.0%**	**6.0%**	**2.0%**	**5.5%**
FY 19-20	3.0%	7.0%	7.5%	5.4%
FY 20-21	1.0%	7.0%	8.0%	4.5%
FY 21-22	1.0%	3.0%	9.0%	3.5%

In aggregate, the proposed utility rate adjustments will result in utility bills that increase by about 5.5 percent each year. While it may be desirous to limit rate increases to the pace of general inflation, it is important to recognize (and remind customers and decision makers) that utility operations are heavily regulated and utility services are capital intensive. As a result, changes in utility costs generally bear little resemblance to general inflation. Allowing a perception that utility costs can or should be related to general inflation sets the stage for misguided expectations.

Utility Costs, Revenue Needs, and Financial Stability

The anticipated financial needs of the water, wastewater, and solid waste utilities over the ten-year planning period are summarized as follows:

- Total water system operating costs and transfers are estimated to increase from about $33.9 million in FY 17-18 to $41.0 million in FY 26-27, an average increase of 2.1 percent per year.

- Total wastewater system operating costs and transfers are estimated to increase from about $40.3 million in FY 17-18 to $53.1 million in FY 26-27, an average increase of 3.1 percent per year.

- Total solid waste operating costs and transfers are estimated to increase from about $26.7 million in FY 17-18 to $36.4 million in FY 26-27, an average increase of 3.5 percent per year.

1 Reflects the increase of a monthly utility bill combining water, wastewater, and solid waste services for a typical single family residential customer using 19 CCF of water per month.

The utilities are being affected by significant and rapidly growing indirect and administrative costs as well as post-retirement benefit obligations. The Department will also be gradually adding to financial reserves as it works to reach the target thresholds contained in the Financial Management Policy adopted by the City in April 2015.

The Environmental Utilities Department continues to increase funding for capital replacement and rehabilitation needs in the wastewater utility. The amount of the transfer is based on the long-term replacement needs of the utility. The annual transfer for the wastewater utility is planned to grow from $6.5 million in FY 17-18 to $8.5 million in FY 26-27. Funding for long-term capital replacement has reached a plateau in the water utility at $3.5 million per year; the solid waste utility is not as capital-intensive as the water and wastewater utilities, and replacement/rehabilitation needs are not as significant a financial factor for the utility.

Cost of Service Analysis Supporting the Utility Rate Structures

California courts have determined that water, wastewater, and solid waste rates are property related fees, as defined in the California Constitution under Article XIIID, Section 6, which was passed by voters in 1996 as part of Proposition 218. Section 6(b) of Article XIIID established cost of service requirements for existing, new, or increases fees and charges. The specific requirements in Section 6(b) include:

1. Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.

2. Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.

3. The amount of the fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

4. No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential use or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4 of this Article.

5. No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library service where the service is available to the public at large in substantially the same manner as it is to the property owner.

The legal environment affecting utility rates continues to be in a state of flux due to recent and continuing court decisions related to Proposition 218. It is advised that the City monitor these developments and regularly review the cost of service justification for the overall rate structure and individual rate components. As part of this peer review of the City's water, wastewater, and solid waste rates for FY 17-18 and FY 18-19, The Reed Group offers the following comments[2]:

- ***Water Rates*** – In 2015, The Reed Group conducted a water rate study and assisted the City in adopting new water rates consistent with legal requirements and a recent court decisions. Staff's proposed water rates for FY 17-18 and FY 18-19 continue the same water rate structure that was developed in 2015. The entire rate schedule has been adjusted to meet anticipated revenue needs, based on the City's financial analysis. As such, it is our opinion that the proposed water rates continue to meet the cost of service requirements contained in Article XIIID of the California Constitution and related court decisions.

- ***Wastewater Rates*** – This peer review of included a review of the City's wastewater rate structure, and compliance with cost of service requirements. The City's current wastewater rate structure includes a fixed monthly service charge for residential customers (up to four dwelling units), and monthly wastewater charges based on water usage for multi-family and non-residential customers. The charges for residential customers are based on estimated average wastewater flow attributable to each residential customer. The charges for multi-family and non-residential customers are subject to a minimum charge equivalent to the charge for single family homes. There are also a small number of non-residential accounts subject to a 20 percent high strength surcharge due to the characteristics of waste discharges. It appears, from this cursory review, that the City's wastewater rates generally reflect an allocation of wastewater costs based on estimated wastewater flow generated by each customer in compliance with legal requirements.

- ***Solid Waste Rates*** – Environmental Utilities staff have historically analyzed the costs of providing solid waste services and in developing appropriate charges for various types of solid waste services. In past peer reviews, The Reed Group reviewed staff's analyses and found that the City's solid waste rates reflected a reasonable distribution of costs to customers based on the various types of service provided. While such a review was not repeated during this peer review, The Reed Group believes Environmental Utilities staff are adept at determining appropriate solid waste rates in compliance with legal requirements.

* * * * *

Once again, in general the proposed utility rate recommendations for FY 17-18 and FY 18-19 appear both sound and reasonable. Proposed rates should provide sufficient revenues to meet each utility's financial and service obligations, and proposed rate schedules appear consistent with cost of service requirements and reasonable rate-setting practices.

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2 The Reed Group, Inc. is not a law firm, and comments provided herein are based on knowledge and experience as a utility rate consultant. Information in this review should not be interpreted as legal opinion or advice, and the City's legal counsel should review study recommendations.

As always, I enjoy working with the Environmental Utilities Department on utility rate and financial issues. The task is made easier by the thoroughness of the financial analyses performed by Departmental staff.

I appreciate the opportunity to be of continued service to the City.

Sincerely,

Robert Reed
The Reed Group, Inc.

EU Proposed Rates Outreach for FY 2018 & FY 2019

Outreach Event		Date/Timeframe
Website/Social Media/Email/Media Relations		March and Ongoing
Proposition 218 Notice		Sent March 1 (45 days+ prior to scheduled public hearing)
Met with Largest Customers (including Kaiser Permanente, Westfield Galleria, TSI Semiconductors)		Month of February 2017
RCONA Board		February 16, 2017
Downtown Merchants Assoc.		February 22, 2017
Sun City Governmental Affairs Committee		March 14, 2017
Public Workshops		March 14 and March 16
PUC		March 28, 2017
City Council (Public Hearing)		May 3, 2017

ATTACHMENT D

CITY OF ROSEVILLE CALIFORNIA

Environmental Utilities

CUSTOMER NOTIFICATION OF TWO-YEAR RATE INCREASES

PROPOSITION 218

NOTIFICATION TO PROPERTY OWNERS OF PUBLIC HEARING ON PROPOSED WATER, WASTEWATER, AND SOLID WASTE RATE INCREASES.

NOTICE IS HEREBY GIVEN that the City of Roseville will hold a public hearing on Wednesday, May 3rd, 2017 at 7:00 p.m. in the City Council Chambers at 311 Vernon Street, Roseville, California, to consider adoption of proposed increases to rates for water, wastewater, and solid waste utility services. Reasons for the proposed rate increases, and instructions for protesting the rate increases are described in more detail below.

WHAT DO WATER, WASTEWATER, AND SOLID WASTE RATES FUND?

The City provides water, wastewater (sewer), and solid waste (refuse) service to over 40,000 customers (residential and commercial). The City Charter requires all the City's utilities to be financially self-sufficient. Monthly rates paid by customers are the primary source of revenue. Revenue is not used for other general government purposes. Revenue is used solely to fund operational costs of the utilities, such as purchasing raw water, energy, chemicals, rehabilitation and replacement of infrastructure, maintenance, regulatory compliance, and salaries. Utility rates are calculated based on the cost to provide services.

For more information about water, wastewater, and solid waste rates and services, please call (916) 774-5300.

PROPOSED CHANGES TO WATER, WASTEWATER AND SOLID WASTE RATES:

An increase in the rates is necessary to recover sufficient revenues to operate and maintain the water, wastewater, and solid waste utilities. The proposed rate increases are needed due to the increasing operational costs of maintenance, technology, rehabilitation, labor, energy, fuel, chemicals, regulatory compliance, and building optimal financial reserves. If approved, rate increases would become effective on July 1, 2017 and subsequently July 1, 2018.

An example of the impact to utility bills for a typical single family home is shown in Table 1: Proposed Rate Increases 2017-2019 - Impact on Typical Residential Customer.

COMPLIANCE WITH PROPOSITION 218:

In 1996 California voters approved Proposition 218, which amended the state constitution relating to passage of property related fees. Proposition 218 requires the City to inform property owners and rate payers that 1) proposed rate increases are being considered; 2) clearly demonstrate the basis on which the rates are calculated; and 3) hold a public hearing at least 45 days after public notification. Utility rate increases are subject to majority protest. If a majority of impacted property owners submit written protests, the proposed rate increases cannot be adopted. Written protests must include the owner name and address of the impacted property (or Assessor's Parcel number), which proposed utility service rate adjustment is being protested, and property owner signature.

Written protests can be hand delivered or mailed to the **City of Roseville City Clerk, 311 Vernon Street, Roseville CA 95678** on or before the public hearing date, or in person at the public hearing on the date and time specified above.

COMPLETE RATE SCHEDULES AND PROPOSED INCREASES FOR EACH APPLICABLE UTILITY ARE SHOWN ON THE NEXT PAGE

FOR MORE INFORMATION ABOUT WATER, WASTEWATER, AND SOLID WASTE RATES AND SERVICES, VISIT ROSEVILLE.CA.US/EU OR CALL (916) 774-5300.

LONG-RANGE UTILITY PLANNING HELPS ROSEVILLE BOTH NOW AND INTO THE FUTURE

When you turn the tap for water, flush your toilet, or pull the garbage can out for pick-up, these essential utility services started with a thoughtful plan years ago to identify system requirements and funding needs to keep those services going. A key component of maintaining service reliability is Environmental Utilities' long-range utility planning. This effort ensures that current infrastructure remains well-kept and we grow that same system over time to handle future service demands.

Environmental Utilities runs a major multi-million dollar capital improvement and utility rehabilitation program – a compilation of infrastructure and major maintenance projects designed to enhance, expand, and preserve the infrastructure so that you receive reliable utility services daily.

In any given year, Environmental Utilities manages dozens of projects, which includes planning studies, condition assessments, and engineering design. Staff also constructs new facilities and rehabilitiates or replaces infrastructure across all three utility services.

Staff prioritizes these projects based on meeting public safety objectives, preventing extensive and costly maintenance requirements, replacing infrastructure that has gone beyond its useful life, and refurbishing or improving utility systems to maintain reliable services. This proactive approach keeps the integrity of Roseville's utility systems high and your utility rates low.

HOW WE FUND PROJECTS

Environmental Utilities fund these projects using a variety of sources, including:

- A portion of your monthly utility bill for rehabilitation of existing infrastructure
- Developer impact fees that increase capacity for new development and new service demands
- Grants and long-term debt financing to either offset other funding sources or finance large improvement projects over time

By planning and budgeting for these long-term projects over a 10 year horizon, we can create a savings account and secure grant funding to pay for many of the projects without having to borrow money with interest.

OUR PLANNING STARTS EARLY

We contemplate projects years or decades before we need to implement them because many of these projects are costly and we want to pay for them without incurring debt. As part of this effort, we also identify needed infrastructure improvements based on analysis and assessment to ensure that rehabilitation projects mitigate against undisrupted service and expansion projects are completed in time for increased service demands.

FOR MORE INFORMATION ABOUT WATER, WASTEWATER, AND SOLID WASTE RATES AND SERVICES, VISIT ROSEVILLE.CA.US/EU OR CALL (916) 774-5300.

TABLE 1: PROPOSED RATE INCREASES 2017-2019 – IMPACT ON TYPICAL RESIDENTIAL CUSTOMER [1]							
	Current FY 16/17 Bill	Approximate Proposed FY 17/18 Rate Adjustment [2]	FY17/18 Estimated Increase (eff.7/1/17)	FY 17/18 Estimated Bill	Approximate Proposed FY 18/19 Rate Adjustment [2]	FY18/19 Estimated Increase (eff.7/1/18)	FY 18/19 Estimated Bill
Water	$36.25	7%	$2.54	$38.79	7%	$2.74	$41.53
Wastewater	$34.70	6%	$2.08	$36.78	6%	$2.21	$38.99
Solid Waste	$23.40	2%	$0.47	$23.87	2%	$0.48	$24.35
Total[2]	$94.35	5.4%	$5.09	$99.44	5.5%	$5.42	$104.86

(1) Rates are for a typical residential customer who uses 1,200 cubic feet of water per month, flat rate sewer, single 90 gallon refuse bin, and single 90 gallon green waste bin.

(2) Rate adjustments are approximate. Actual charges may vary due to rounding.

WATER: In July 2017, an average single family home with typical water usage can expect their monthly water bill to increase about $2.54 a month, from about $36.25 to $38.79. An increase in July 2018 would increase the bill about $2.74 to $41.53. The proposed City of Roseville water rate adjustments do not apply to customers receiving water utility bills from the Placer County Water Agency or San Juan Water District. Water rate adjustments reflect increasing costs of regulatory requirements, power and chemicals, and maintaining financial reserves.

WASTEWATER: In July 2017, a typical single family home can expect their monthly wastewater bill to increase $2.08 a month, from $34.70 to $36.78. An increase in July 2018 would increase the bill $2.21 to $38.99. Wastewater rate adjustments reflect increasing costs of technological improvements, regulatory requirements, power and chemical costs, and organizational changes.

SOLID WASTE: In July 2017, the monthly rate for typical home service will increase from $23.40 per month to $23.87. An increase in July 2018 would increase the bill to $24.35. The Solid Waste utility has incurred increased costs due to increased tipping fees, and requirements to comply with unfunded state mandated organics collection, and storm water quality regulations.

IMPACT ON COMMERCIAL CUSTOMER BILLS: Commercial water and wastewater rates vary by type of customer. Water and wastewater rates will increase by the same proportion as increases in the residential category.

Residential Refuse Service	Current	Effective 7/1/2017	Effective 7/1/2018
Fixed refuse monthly charge (one trash container and one green waste container as identified in Section 9.12.100.A.2)	$23.40	$23.87	$24.35
Additional empty of a 60- or 90-gallon container	$15.30	$15.61	$15.92
Each additional green waste container	$8.50	$8.67	$8.84
Each additional 90-gallon refuse container	$16.00	$16.32	$16.65
Additional empty of a green waste container	$11.25	$11.48	$11.70
Refuse 60- or 90-gallon replacement charge	$68.37	$69.74	$71.13
Fixed fee for the return of a confiscated green waste container due to contamination	$109.30	$111.49	$113.72
Temporary removal of a residential service	$46.80	$47.74	$48.69
Move in box pick-up	$82.75	$84.41	$86.09
Temporary dumpster delivery and removal and per yard charge (6 yards only)	$57.10	$116.99	$119.33

Commercial Service: Frontloader and Rearloader*	Effective 7/1/2012	Effective 7/1/2017	Effective 7/1/2018
Frontloader and rearloader commercial dumpster and sidewalk can per yard charge	$9.60	$9.79	$9.99
Frontloader and rearloader compactor per yard charge	$17.30	$17.65	$18.00
Frontloader and rearloader dumpster extra pick-up per yard charge	$9.60	$9.79	$9.99
Frontloader cardboard dumpster and compactor per yard charge	$12.75	$13.01	$13.27
Frontloader cardboard dumpster and compactor extra pick-up per yard charge	$2.95	$3.01	$3.07

Roll-Off Commercial Open Top and Compactor Services*	Current	Effective 7/1/2017	Effective 7/1/2018
Minimum charge per haul (base rate) without tonnage* All sizes	$286.00	$291.72	$297.55
Roll-off 100% recycling bin	$156.60	$159.73	$162.93

*** Tonnage charges (tipping fees) vary by material type, and are determined by the Western Placer Waste Management Authority. With city department head approval, some entities may pay tonnage charges directly to Western Placer Waste Management Authority.***

Temporary Frontloader, Rearloader and Roll-Off Charges*	Current	Effective 7/1/2017	Effective 7/1/2018
Frontloader and rearloader temporary dumpster delivery and removal charge	$57.10	$58.24	$59.41
Frontloader and rearloader temporary dumpster per yard charge	$9.60	$9.79	$9.99
Frontloader and rearloader temporary dumpster rental fee per week	$54.45	$55.54	$56.55
Roll-off temporary dumpster minimum charge per haul (base rate)	$286.00	$291.72	$297.55
Tonnage (per ton charge)*			
Roll-off temporary dumpster rental fee per week	$98.70	$100.67	$102.69

*** Tonnage charges (tipping fees) vary by material type, and are determined by the Western Placer Waste Management Authority.***

Additional Commercial Service Rates*	Current	Effective 7/1/2017	Effective 7/1/2018
Standby service charge per occurrence	$47.30	$48.25	$49.21
Emergency after hours call out service charge per occurrence	$147.80	$150.76	$153.77
Fixed monthly commercial charge	$26.25	$26.78	$27.31
60- or 90-gallon automated container monthly charge**	$23.40	$23.87	$24.35
Commercial bin assistance charge per occurrence	$41.35	$42.18	$43.02
Fixed fee for additional pick-up of a city owned 60- or 90-gallon automated container	$15.30	$15.61	$15.92

*** The amounts billed to commercial customers will vary with the types of service and the number of pickups in a billing period.***
***** Green waste can available by request and available in limited areas.***

COMMERCIAL SHARED COMPACTOR RATES			
Current	**Effective 7/1/2017**	**Effective 7/1/2018**	
Tier 1: $5.48 per 1,000 square feet of building area or per dwelling unit	Tier 1: $5.59 per 1,000 square feet of building area or per dwelling unit	Tier 1: $5.70 per 1,000 square feet of building area or per dwelling unit	
Tier 2: $22.12 per 1,000 square feet of building area	Tier 2: $22.56 per 1,000 square feet of building area	Tier 2: $23.01 per 1,000 square feet of building area	
Tier 3: $46.72 per 1,000 square feet of building area	Tier 3: $47.65 per 1,000 square feet of building area	Tier 3: $48.61 per 1,000 square feet of building area	
Organic Waste Collection Rates	**Minimum Monthly Charge (Effective 5/1/2016)**	**Minimum Monthly Charge (Effective 7/1/2017)**	**Minimum Monthly Charge (Effective 7/1/2018)**
0-2 yards *	$75.00 (Effective 1/1/2017)	$76.50	$78.03
0-4 yards**	$149.95	$152.95	$156.01
5 yards	$187.45	$191.20	$195.02
6 yards	$224.90	$229.4	$233.99
7 yards	$262.50	$267.75	$273.11
8 yards	$299.90	$305.90	$312.02
9 yards	$337.35	$344.10	$350.98
10 yards	$374.85	$382.35	$389.99
11 yards	$412.45	$420.70	$429.11
12 yards	$449.80	$458.80	$467.97
Extra pickup for one yard bin or cart equivalent	$56.25	$57.38	$58.52
Extra pickup for two yard bin or cart equivalent	$75.00	$76.50	$78.03

Applies to customers subject to Roseville Municipal Code Section 9.12.100.B.3.b.
*****Applies to customers subject to Roseville Municipal Code Section 9.12.100.B.3.a.***

CURRENT AND PROPOSED WATER RATES			
Uniform Rate (Residential and Commercial)	Current	Effective 7/1/2017	Effective 7/1/2018
All Metered Water Use ($ per 100 cubic feet)	1.09	1.17	1.25
Non-metered or Flat Service Charges ($/month)	Current	Effective 7/1/2017	Effective 7/1/2018
Single family lots up to 4,900 s.f.	26.55	28.41	30.40
Single family lots 4,901 to 8,900 s.f.	34.70	37.13	39.73
Single family lots 8,901 to 12,000 s.f.	43.30	46.33	49.57
Single family lots 12,001 to 15,000 s.f.	51.45	55.05	58.91
Single family lots (pre 7/1/77) > 15,000 s.f.	50.80	54.36	58.16
plus for each 1,000 s.f. over 15,000 s.f.	2.70	2.89	3.09
Mobile Home Unit in Mobile Home Park	24.60	26.32	28.16
Metered Rates (1)	Current	Effective 7/1/20217	Effective 7/1/2018
Monthly Service Charges ($/month)			
3/4" meter	23.17	24.79	26.53
1" meter	36.92	39.50	42.27
1 1/2" meter	70.96	75.93	81.24
2" meter	111.99	119.83	128.22
3" meter	207.77	222.31	237.88
4" meter	344.58	368.70	394.51
6" meter	686.28	734.32	785.72
8" meter	1096.20	1173.26	1255.38
10" meter	1575.21	1685.47	1803.46

CURRENT AND PROPOSED WASTEWATER RATES			
Wastewater Rates	Current	Effective 7/1/2017	Effective 7/1/2018
Residential (per month) (1)	34.70	36.78	38.99
Commercial Accounts Per Sewer Unit (2)	34.70	36.78	38.99
Commodity Rate ($/CCF) (3)	3.47	3.68	3.90
Recycled Water ($/CCF) (4)	.55	.59	.63

(1) Customers outside the City limits pay rates 10% higher than rates shown above.
(2) The number of sewer units for each account is determined as specified in Chapter 14.16 of the Municipal Code.
(3) Applies to water use in excess of 10 CCF/month for metered commercial customers.
(4) Customers outside the City limits are charged an additional 60% on the above water rates.

CITY OF ROSEVILLE
CALIFORNIA

Environmental Utilities

2005 Hilltop Circle
Roseville, CA 95747
(916) 774-5770

WHERE YOUR MONEY GOES

MAINTAINING FINANCIAL RESILIENCY:

To protect the City's good credit rating, Environmental Utilities has a reserve policy that will maintain credit worthiness and allow the utilities to readily respond to unexpected and costly situations.

KEEPING SOUND AND STABLE UTILITIES:

To ensure high levels of customer satisfaction and reliable utility services, it takes a healthy staffing level, quality programs and needed infrastructure to deliver services that customers have grown to rely on and appreciate.

COMPLYING WITH CHANGING REGULATORY CLIMATE:

State and federal mandates result in unfunded programs and services. Environmental Utilities has implemented new programs as a result of recent laws, and are responding to additional mandates moving forward.

FOR MORE INFORMATION ABOUT WATER, WASTEWATER, AND SOLID WASTE RATES AND SERVICES,
VISIT ROSEVILLE.CA.US/EU OR CALL (916) 774-5300.

ATTACHMENT E

CITY OF ROSEVILLE CALIFORNIA

Environmental Utilities

Financial Management Policy

April 2015

PFM

Table of Contents

1. Executive Summary

The Roseville Environmental Utilities Department (the "EUD" or the "Department") manages the city's water, wastewater and solid waste utilities (the "Utilities"). The Utilities are separately managed financial entities and as such, each faces different constraints and environments and must manage its finances accordingly. With this notion in mind, the Utilities developed this Financial Management Policy (the "Policy") with the intent of giving each Utility a set of guidelines with which it can successfully and prudently manage its finances.

The Policy affirms the currently used Rehabilitation and Enterprise Fund guidelines, clarifies and adjusts targets for cash flows available for debt service and operating costs, and establishes targets for sizing Reserves (previously 10% of Operating Expenses).

Specifically, the Policy sets cash flow management guidelines for both the debt holding and non-debt holding enterprises and recommends reserve levels based on each Utility's respective risk profile. To the extent that a Utility holds public debt, the Policy establishes Debt Service Coverage ("DSC") targets to ensure the Utility's ability to meet both its operating and debt service obligations; otherwise, the Policy recommends managing cash flow by targeting an Operating Ratio (Operating Income divided by Operating Expenses). The Policy then sets recommends reserve levels in order to help the Utilities manage exposure to operating risks, critical failures, and rate volatility. The Policy also provides recommended conditions for rate actions when cash flows and/or Reserves deviate from their prescribed targets.

2. Introduction

The Utilities are publicly-owned community assets for the City of Roseville ("Roseville" or the "City") that provide safe, reliable, competitively-priced water, wastewater, solid waste, and recycled water services to all of their customers. The Utilities prepared the Policy with the intent of establishing guidelines for managing the financial profiles of each Utility.[1]

The Policy is divided into six sections: Purpose, Defining Financial Strength, Enterprise Fund Fees and Rates, Rehabilitation Funds, Recommended Debt Service Coverage and Operating Ratio Policies, Recommended Reserve Policies, and Interaction between Coverage and Reserves.

It is intended that to maintain relevance, the Utilities will revisit the Policy periodically if there is a material change in risk exposures or conditions.

[1]The Policy focuses on the Water, Wastewater, and Solid Waste Utilities as the Recycled Water Utility does not keep independent financial records but is currently part of the Wastewater Utility.

3. Purpose

The purpose of this Financial Management Policy is to provide a set of guidelines for prudently managing the financial profiles of the Utilities. In practice, this Policy will discipline the budgeting and rate setting practices, establish guidelines to improve the financial health of each Utility over the long term, and seek to balance the need for capacity growth while maintaining competitively low rates.

Like all enterprises, the Utilities manage cash flow to cover expenditures and hold reserves to address anticipated and unanticipated funding requirements.

The Policy is based upon the understanding that the following factors are important and should serve as the relevant goals of the Policy. These goals establish that each Utility should:

1. Manage rates to avoid significant year-over-year rate adjustments.
2. Strive to maintain and invest in its respective system.
3. Maintain reserves for financial exposures.
4. Cost-effectively obtain funds to maintain and invest in its respective system.

The Policy is further intended to offer the Roseville City Council (the "City Council") guiding directives to staff for decisions and recommendations related to the financial profile of each Utility.

The Policy is not prescriptive in terms of how the Utilities set rates; however, there is a nexus between the rates that each Utility charges and its respective financial profile. While the Policy attempts to recognize the balance between each enterprise's risk management, financial risk management and rate setting, the Policy cannot resolve conflicts between competing objectives and so it instead provides guidelines for the financial management of each Utility to be considered by the City Council and staff in coordination with other considerations.

4. Defining Financial Strength and Credit Considerations

The Utilities' businesses are subject to a number of significant environmental, market, and regulatory considerations on national, state, and local levels. The determination of financial strength is subjective, but it ultimately relates to the expectation that the Utilities can continue to meet their primary financial goals in the context of the macro considerations that each Utility faces.

Anticipated and Unanticipated Financial Considerations

One characteristic of financial strength is the ability to prepare for anticipated events and obligations including, but not limited to:

- Operation and maintenance expenses (O&M).
- Debt service payments.
- Exposure to weather related events such as droughts.
- Response to existing or impending regulations.

Another characteristic of financial strength is the ability to address unanticipated considerations including, but not limited to:

- Unanticipated general reduction in customer demand.
- One or more operational events (natural disaster or other events including force majeure, etc.) that could dramatically increase costs or reduce resource options, the loss of one or more large customers.
- Market disruption that increases the cost of borrowed funds.
- Counterparty's inability to perform on a contract.
- Change in regulatory or environmental regulations.
- Unanticipated increase in compensation costs.

While such considerations are by nature, unanticipated, the Policy recognizes that the financial strength of each Utility is at least partially related to the ability to address such considerations should they arise.

Ratings as Indicators of Financial Strength

While credit ratings are important yardstick indicators of financial strength, the Policy is not focused on maintaining credit ratings but rather the overall financial strength of the Utilities as only some of the Utilities have or will have ratings. It is expected, however, that by following the guidelines of the Policy, the Utilities will maintain strong credit ratings. Specifically, it is expected that the Water Utility will be able to maintain A+ category ratings and will be able to make a strong case for AA- category ratings while the Wastewater Utility will be able to support the South Placer Wastewater Authority ("SPWA") in maintaining AA-, or higher, category ratings. SPWA issues debt on behalf of the City of Roseville, Placer County and South Placer Municipal Utility District for regional wastewater treatment facilities to be used by these agencies.

5. Enterprise Fund Rates and Fees

Environmental Utilities are 100% self-sufficient. The primary revenue streams for the Utilities are rates and fees established by the City Council. This Policy identifies the manner in which rates and fees are set and the extent to which they cover the cost of services provided. A revenue system that requires the identification of both the cost of the programs and the portions of the cost that will be recovered through those revenues allow the Department and its utility customers to develop a better understanding of the cost of services and to consider the appropriateness of established rates and fees.

Policy

The City will set rates and fees at levels related to cover the reasonable cost of providing services which includes direct and indirect costs such as operating and maintenance, overhead, infrastructure rehabilitation, and debt service. The Department will review these rates and fees annually in the budget process and will recommend rates that are expected to produce revenues sufficient to fully fund the reasonable costs of providing services. Further,

- All rates and fees shall be adopted in accordance with the provisions of Prop 218 and AB1600.
- The City will examine utility rates through the cost of service process every two years or as otherwise determined in an effort to avoid the rate shock that occurs when rates are evaluated less frequently.
- Revenue and expenses will be projected using conservatism.
- Revenue requirements will be based on long-term planning objectives.

During the rate and fee setting process, the City will consider the rates and fees of other agencies as comparing the City's rates and fees to other agencies' provides useful background information because:

- Other agencies' rates and fees reflect in some ways the current "market's" rates for similar services provided by the Utilities and can assist the City is assessing the reasonableness of proposed rate and fee changes.
- They can serve as a benchmark for how cost-effectively the Utilities are providing their services.

Rates and fee comparisons, however, should never be the sole or primary criteria used in the City's rate and fee setting process. The City should also place under consideration:

- What level of cost recovery is the rate and/or fee intended to achieve?
- What costs are considered in the computation of rates and fees?

- Timing: When was the last time the other agencies' fees were comprehensively evaluated?
- What level of service do the other agencies provide compared to the City's?
- Are other agencies' rate structures significantly different than the City's and what is each entities' rate structure intended to achieve?

6. Rehabilitation Funds

The Utilities have established Water, Wastewater and Solid Waste Rehabilitation Funds (the "Rehabilitation Funds". The Water and Wastewater Rehabilitation Funds administer the capital rehabilitation and replacement of existing infrastructure assets. Solid Waste Rehabilitation Funds are used for the rehabilitation and replacement of bins and cans.

Policy

Sources of Revenue

The primary source of revenue for the Rehabilitation Funds is Utility rates. City Council adopted Utility rate schedules include an amount for the rehabilitation or replacement of infrastructure assets or capital assets for each utility. The rates are collected in the Operations Funds and transferred to the Rehabilitation Funds.

The Wastewater Rehabilitation Fund also includes local wastewater connection fees. These fees are collected for the specific purpose of purchasing and/or replacing capital equipment required for the maintenance of wastewater facilities. Other sources of revenue for the Wastewater Rehabilitation Fund include:

- Interest earned on unexpended funds or reserves that will remain in the Rehabilitation Funds and be available for approved expenditures.
- Any grant, loan, or other source of revenue obtained for the purpose of capital rehabilitation or replacement or infrastructure assets will be included in the Rehabilitation Fund, made available for approved expenditures, and accounted for as required by the grant, loan, or other source.

Expenditures

Rehabilitation Funds may only be used for Water and Wastewater infrastructure asset or Solid Waste capital asset capital rehabilitation or replacement expenditures. These expenditures:

- Must serve the purpose of benefiting the existing Water, Wastewater, or Solid Waste Utility customers.
- Must be approved by City Council.

- Must be included in the Rehabilitation Plan unless needed for unanticipated utility emergency purposes.
- May include updates necessary to comply with changes to regulatory requirements.
- Must be necessary to maintain the existing level of service which may include technological advancements.
- Must not increase capacity or conduct improvements beyond the scope described above.
- May be approved to pay for the respective utilities' debt service.
- If incurred in conjunction with an outside source of revenue (i.e. grant), must be accounted for as required by the outside revenue source.

Investments

Investments must be made in accordance with City investment policies.

Fund Balances

The Rehabilitation Funds will be administered independent of each other and of any other funds within the Utilities or the City. Lending of funds to or from the Rehabilitation Funds must be approved by City Council, must be considered only for the benefit of the respective water, wastewater, and solid waste systems and utility funds, and only for the benefit of the respective water, wastewater, and solid waste customers. Interest will be paid at the then prevailing interest rate for city-pooled investments. Further, the majority of each Utility's Rehabilitation Fund balances should be invested or held in "liquid" assets (e.g. cash, money market accounts, treasuries, etc.) in order to ensure that immediate rehabilitation expenses can be met in a timely manner. Lending from the Rehabilitation funds will only be considered if they do not conflict with planned capital plan needs over the horizon of the repayment period.

Assessment of Capital Plan

The water and wastewater capital rehabilitation and replacement needs will be reevaluated periodically. Items to be considered include, but are not limited to:

- Asset lifetimes by class of asset
- Inflation rates for both operating and capital costs
- Unit costs for asset replacement
- Fund interest yield rates
- Condition, criticality, and operational usefulness of assets
- Desired levels of service
- Consequences when desired levels are not met
- Risk of asset failure and level of acceptable risk of failure
- Measurements of various asset attributes that indicate how well an asset performs

The amounts transferred from Operation Funds to Rehabilitation Funds will be adjusted as necessary to reflect changes in the rehabilitation and replacement funding requirements. The impact of such adjustments on utility rates will also be analyzed to determine if an adjustment to water, wastewater, or solid waste utility rates is necessary.

Roseville Public Utilities Commission

The Roseville Public Utilities Commission will provide recommendations on the implementation of these policies, as appropriate, consistent with their role as an advisory body to the Roseville City Council.

Rehabilitation Fund Policy Review

The Rehabilitation Fund Policies designate a reassessment of the policies from time to time to determine if any changes are necessary. Any changes must be approved by the City Council.

7. Recommended Debt Service Coverage and Operating Ratio Policies

This Policy recommends managing funds primarily to Debt Service Coverage ("DSC") or Operating Ratios while maintaining a focus on reserves as well in order to meet each Utility's management goals.

Policy

A practical minimum DSC is 1.00x without reserves because at 1.00x, the Utilities are paying operating costs and debt service on a cash flow basis. There are, however, below the line cash outflows that should also be considered.

Direct Debt Service Coverage and Operating Ratio Policy

This Policy recommends the Water and Wastewater Utilities maintain DSC of 1.80x. This level maintains a cushion above the bond covenant requirement of 1.10x for the Wastewater Utility and 1.20x for the Water Utility. At 1.80x DSC, the Water and Wastewater Utilities can reliably use cash flow to pay for their operations including related depreciation expenses. The 1.80x DSC would leave adequate cash funding available to invest in general system improvements; however, significant capital improvements or additions would probably have to be financed with debt. This strikes a balance between funding capital through higher rates paid by current customers and funding capital through bond financing paid by future customers.

The Solid Waste Utility has historically enjoyed stable Net Operating Revenues. Due to the lack of volatility and overall lack of depreciable assets, it is recommended that the Solid Waste Utility maintain an Operating Ratio of 1.30x. The 1.30x Operating Ratio would leave sufficient cash funding available to invest in any necessary capital improvements on a pay-go basis.

Using Reserves to Meet Coverage

The Policy recommends that the Utilities calculate DSC and Operating Ratios without Reserves and without accounting for Rate Stabilization Fund draws. The use of rolling coverage in calculating DSC is very useful for legal compliance purposes but it is not recommended for operating and financial management purposes as it may give an inaccurate depiction of financial health.

8. Recommended Reserve Policy

Reserves are important to the Utilities because they help to:

- Ensure cash exists for the timely payment of bills.
- Maintain the short-term and long-term financial health of each Utility.
- Maintain stable rates for customers.
- Fund unanticipated cost contingencies.
- Ensure funds exist for system improvements.
- Act as a significant factor in bond ratings.
- Identify when financing should be procured.
- Identify the need for rate actions.

Policy

The most common approach to sizing Reserves is by number of days of expenses. Water and wastewater utilities of about equivalent size to the City of Roseville Water and Wastewater Utilities typically have reserves of at least 250 days. Reserves of approximately 365 Days' Cash would be more typical for AA-/A+ category rated utilities and would be more appropriate to match the risks that the Water and Wastewater Utilities manage. It is recommended that the Solid Waste Utility maintain Days' Cash of approximately 90 days for the reasons described below.

Operating Risk Management

The Utilities use reserves to handle fluctuations and adjustments in every day expenses.

It is recommended that each Utility maintains approximately 90 days' worth of Operating Expenses as one subcomponent of the Reserves. Such reserves would, amongst other things, be intended to cover timing issues with regard to payments, fluctuations in purchased water costs, and other operational issues. In consideration of these fluctuations in cost and cash requirement, 90 Days' Cash for regular operation management is a modest first component of the recommended Reserves.

System Critical Failure

Each Utility should consider maintaining a portion of the Reserves that is for a single emergency event (e.g. treatment facility closure, conveyance disruption, etc.). In total, it is recommended that the Reserves set aside for system critical failure be equivalent to approximately 1.0 - 2.0% of the Capital Assets belonging to each respective Utility. Due to the lack of Capital Assets possessed by the Solid Waste Utility, it is not recommended that the Solid Waste Utility keep any reserves for the event of a system critical failure.

This component of the Reserves may be forgone if it is determined that each Utility's exposure to critical failures is adequately covered through insurance.

Rate Stabilization

In addition to addressing operating and maintenance issues, Reserves serve two other important purposes:

1. Reserves act as a shock absorber for ratepayers.
2. Reserves offer security to each Utility's debt holders. If an unusual financial or operating event leaves a Utility short of cash, Reserves can be used to avoid an immediate increase in rates to cover the shortfall.

Keeping some Reserves for rate stabilization would allow the Utilities to ensure that under virtually no circumstance would an Event of Default situation occur within a single year, and that the City Council would have the year to contemplate ways to prevent investors from enforcing rate actions on the Utilities' customers.

For such reasons, it is advisable that the Water and Wastewater Utilities target Reserves sized for rate stabilization at approximately 50% of annual operating expenses or roughly 180 Days' Cash. Because the Solid Waste Utility does not hold any debt and has historically experienced very stable net revenues, it is recommended that the Solid Waste Utility not hold any reserves for the purpose of rate stabilization.

Other Uses for Reserves

The aforementioned categories are those that most clearly merit the allocation of Reserves but are by no means the only categories of financial exposure that the Utilities could manage with Reserves. For instance, the Utilities have significant Pension and Other Post-Employment Benefit liabilities that could generate a cash requirement. Further, to the extent that the Solid Waste Utility faces fees for the closure of a landfill or similar occurrence, it may be prudent to hold additional reserves for such an event. Other risk categories such as interest rate exposure are relatively small and do not need to be reserved for separately, but are real risks that could potentially be managed with Reserves.

Reserve Policy Summary

These recommendations would suggest that the following would be the appropriate Reserve levels for each Utility:

- Operating Risk Management: 90 Days' Cash
- System Critical Failure (Water and Wastewater Only): 1.0 - 2.0% of Capital Assets
- Rate Stabilization (Water and Wastewater only): ~180 Days' Cash
- Total Reserves: ~270 Days' Cash plus 1.0 - 2.0% of Capital Assets (Water and Wastewater); 90 Days' Cash (Solid Waste)

While these areas of consideration were evaluated in order to conceptualize the appropriate size of the Reserves, each Utility intends to maintain a single Reserve without separate buckets. These Reserve allocations are neither abnormally high nor low for industry standards. Each component of the Reserves is sized at less than the maximum possible exposure for each component because there is a recognition that it is unlikely several of the risks each Utility faces would materialize simultaneously.

Building and Drawing Upon Reserves

The Water and Wastewater Utilities are targeting Reserves of about 270 Days' Cash plus 1.0 - 2.0% of Capital Assets while the Solid Waste Utility is targeting 90 Days' Cash, however, there is no intention of setting rates to maintain Reserves equal to the levels prescribed above. The purpose of Reserves is to address the financial impacts of revenue and expense fluctuations and unanticipated events. Excess reserves can be used for several financial imperatives including but not limited to: financing capital improvements on a pay-go basis, paying down existing debt, or lowering rates. The general philosophy of the proposed range is that the Water and Wastewater Utilities should target 270 Days' Cash plus 1.0 - 2.0% of Capital Assets and the Solid Waste Utility should target reserves of 90 Days' Cash. Each of the Utilities should limit reserves to 130% of the respective reserve targets.

Each Utility's Reserves would increase or decrease depending upon many factors for a given year; however, to the extent that each Utility achieves its DSC or Operating Ratio Policy targets, Reserves would remain fairly stable. Reserves would increase or decrease under the following conditions:

- Net Revenues Available for Debt Service are higher or lower than budgeted/projected as a result of higher or lower Revenues and Expenses
- Debt Service is higher or lower than budgeted/projected
- Capital investment in the system from Net Revenues is higher or lower than budgeted/projected
- Debt issued for capital investment is greater or less than budgeted/projected

9. Interaction Between Coverage and Ratios, Reserves, and Rates

For reasons described in the sections above, the Policy prescribed specific targets for DSC and Operating Ratios and Reserves. However, the Policy anticipates that in practice there is a range of acceptable results and a balance between cash flow and reserve levels is warranted.

A rate increase should be considered by the City Council if any of the following conditions (the "Rate Increase Conditions") are projected in the five-year forecast:

- DSC without Reserves will be less than 1.80x
- Operating Ratios (Solid Waste Only) without Reserves will be less than 1.30x
- Any rate increase would be greater than six percent
- A major expenditure is expected

Rate increases indicated by the above conditions that would exceed six percent in any one year can be spread over multiple years.

No rate increase for the purpose of increasing reserves or DSC should be considered if DSC or Operating Ratios without Reserves are above their respective targeted levels and Reserves are projected to be greater than the targeted levels of 270 Days' Cash plus 1.0 – 2.0% of Capital Assets for the Water and Wastewater Utilities and 90 Days' Cash for the Solid Waste Utility.

Lastly, it is important to note that recommendations in the Policy are associated with projected financial conditions for the Fiscal Year End of future years. Actual results will vary based on weather, market conditions, etc. In addition, Reserves and cash flow may be more or less robust within a Fiscal Year, relative to the Fiscal Year End but considering such fluctuations within a year would overly complicate monitoring with only marginal benefit.

10. Conclusion

The Policy was drafted with the intent of providing guiding directives to the Utilities' management and staff for decisions and recommendations related to each Utility's financial profile.

The Policy is a fairly incremental change from existing policies. Specifically, the Policy affirms the currently used Rehabilitation and Enterprise Fund guidelines, clarifies and adjusts targets for cash flows available for debt service and operating costs, and adjusts targets for sizing Reserves (previously 40% of Operating Expenses).

In its most abbreviated form, the Policy targets 1.80x DSC without Reserves for the Water and Wastewater Utilities and an Operating Ratio of 1.30x for the Solid Waste Utility. It targets Unrestricted Reserves sized at 270 Days' Cash plus 1.0 – 2.0% of Capital Assets for the Water and Wastewater Utilities and 90 Days' Cash for the Solid Waste Utility and establishes tolerable maximums. The Policy also provides recommended conditions for rate actions when cash flows and/or Reserves deviate from the targets. The table below summarizes the policy targets described above.

Summary of Policy Targets

Utility	**Water**	**Wastewater**	**Solid Waste**
Debt Service Coverage or Operating Ratio (x)	1.80 DSC	1.80 DSC	1.30
Reserves (Days' Cash)			
Operating Risk Management	90	90	90
System Critical Failure (% of Capital Assets)	1-2%	1-2%	0%
Rate Stabilization	180	180	0
Total	270 + 1-2% of Capital Assets	270 + 1-2% of Capital Assets	90

The Policy is intended to be revisited and updated periodically if there are material changes in the risk exposures or conditions each Utility faces.

Finally, and perhaps most importantly, the Policy is ultimately intended to serve as a guide and it in no way restricts the ability of the City Council to review proposed rate actions, debt issuances, or other actions of substance to each Utility.

Appendix I – Peer Water Utility Financial Management Results

Peer Water Utility Financial Results (FY 2014)			
Utility	**City of Redding [1]**	**City of Sacramento[2]**	**Yuba City**
Ratings (M/S/F)	-/AA/-	-/AA-/AA-	-/A+/AA-
Revenues/Expenses			
Operating Revenues	$18,423,339	$94,382,000	$11,794,764
Operating Expenses (Excluding Depreciation)	$13,245,963	$43,215,000	$4,815,664
Net Operating Revenue	$5,177,376	$51,167,000	$6,979,100
Non-Operating Revenue (Expenses)	$1,074,049	($4,373,000)	$2,468,918
Net Revenue Available for Debt Service[3]	$6,515,804	$46,794,000	$5,204,350
Depreciation & Amortization	$3,457,758	$16,951,000	$4,718,299
Net Revenue after Depreciation & Amortization	$2,793,667	$29,843,000	$4,729,719
Cash			
Unrestricted[4]	$23,402,105	$71,087,000	$14,543,831
Days' Cash on Hand	645	600	1,102
Debt			
Total Debt Outstanding	$5,925,956	$399,134,612	$50,214,569
Annual Debt Service	$1,091,335	$11,279,000	$2,915,149
Debt Service Coverage (Operating)	5.97x	4.15x	1.79x
Debt Service Coverage	4.74x	4.54x	2.39x

[1]Issues debt through the Redding Joint Powers Financing Authority
[2]City of Sacramento reports data rounded to the nearest thousand
[3]If not specified, assumed to be Net Operating Revenue (Excluding Depreciation) plus Non-Operating Income
[4]Unrestricted Cash defined as: "Unrestricted Net Assets"
Data from City of Redding, City of Sacramento, and Yuba City comprehensive annual financial reports

Appendix II – Peer Wastewater Utility Financial Management Results

Peer Wastewater Utility Financial Results (FY2014)			
Utility	**City of Redding [1]**	**City of Stockton**	**City of Vacaville**
Ratings (M/S/F)	-/AA/-	Ba1/-/A-	-/-/-
Revenues/Expenses			
Operating Revenues	$22,720,092	$59,953,318	$32,219,462
Operating Expenses (Excluding Depreciation)	$12,527,074	$40,172,822	$18,603,458
Net Operating Revenue	$10,193,018	$19,780,496	$13,616,004
Non-Operating Revenue (Expenses)	($175,350)	($3,662,856)	($662,109)
Net Revenue Available for Debt Service[2]	$11,645,032	$21,057,331	$12,953,895
Depreciation & Amortization	$5,924,400	$11,161,304	$5,367,829
Net Revenue after Depreciation & Amortization	$4,093,268	$4,956,336	$7,586,066
Cash			
Unrestricted[3]	$20,151,993	$38,576,321	$61,918,880
Days' Cash on Hand	587	350	1,215
Debt			
Total Debt Outstanding	$91,119,042	$81,270,000	$168,768,665
Annual Debt Service	$8,117,463	$7,373,138	$8,557,860
Debt Service Coverage (Operating)	1.26x	2.68x	1.59x
Debt Service Coverage	1.43x	2.86x	1.51x

[1]Issues debt through the Redding Joint Powers Financing Authority
[2]If not specified, assumed to be Net Operating Revenue (Excluding Depreciation) plus Non-Operating Income
[3]Unrestricted Cash defined as: "Unrestricted Net Assets"
Data from City of Redding, City of Stockton, and City of Vacaville comprehensive annual financial reports

Environmental Utilities Proposed Water, Wastewater, Solid Waste Rates

March 28, 2017

ROSEVILLE CALIFORNIA

Presentation Overview

- Proposed Rates & Costs
- Analysis & Rate Setting Objectives
- Factors that Influence Costs
- Key Financial Goals and Policies
- Request Recommendation to City Council

CITY OF ROSEVILLE CALIFORNIA

FY 18-19 Rates Analysis: Residential Bill Estimates

	Current Bill (FY17)	Proposed FY18 Rate Adjustment	Typical Incremental $ Increase	Typical Bill Effective 7/1/17	Proposed FY19 Rate Adjustment	Typical Incremental $ Increase	Typical Bill Effective 7/1/18
Water *	$36.25	7%	$2.54	$38.79	7.0%	$2.74	$41.53
Waste-water	$34.70	6%	$2.08	$36.78	6%	$2.21	$38.99
Solid Waste	$23.40	2%	$0.47	$23.87	2%	$0.48	$24.35
Total	**$94.35**	5.4%	$5.09	**$99.44**	6.6%	$5.42	**$104.86**

* Rates are for a typical residential customer who uses 1,200 cubic feet of water per month.

Regional Comparison: Residential

Water (monthly) (1,200 cf)	
PCWA	77.78
Sac Suburban	59.64
San Juan Water District	54.68
Carmichael Water District	52.20
City of Sacramento	50.30
Fair Oaks Water District	41.10
Roseville proposed FY 18	**38.79**
Folsom	37.06
Roseville (Current)	**36.25**

Wastewater (monthly)	
Davis	76.85
Sacramento	57.42
City of Elk Grove, Citrus Heights, portions of Sacramento, Orangevale	54.85
Folsom	51.15
West Sacramento	44.60
Roseville proposed FY 18	**36.78**
Roseville (Current)	**34.70**
Lincoln	32.08
Rocklin (SPMUD)	28.00

Solid Waste (monthly)	
Sacramento	38.31
Davis	37.06
Elk Grove	31.71
Sacramento County	30.76
West Sacramento	26.61
Folsom	25.50
Rocklin	24.87
Roseville proposed FY 18	**23.87**
Roseville (Current)	**23.40**
Lincoln	22.45

Rate Setting Requirements & Objectives

- Proposition 218 Compliance
- Revenue Requirements
- City Charter
- Fiscal policies
- City Council priorities
  - Equitable
  - Stable Revenues
  - Simple to Administer
  - Affordable

Rate Model and Basic Assumptions

- **Fuel: 1.7%/yr**
- **Inflation: 2%/yr**
- **Indirect Charges: 5%/yr**
- **Growth: 1%/yr**
- **Workers Comp: 3%/yr**
- **Power (RE 2%, PG&E 2.5%)**
- **Salaries: Negotiated Contracts**

Sound and Stable Utilities

- Technology Investments
- Rehabilitation
  - $1B of infrastructure
- Ensuring Water Supply Reliability
- Salaries & Succession Planning/Recruitment
- Maintaining Service Levels (98% Customer Satisfaction)
- Contingency Fund (Cost Reduction)

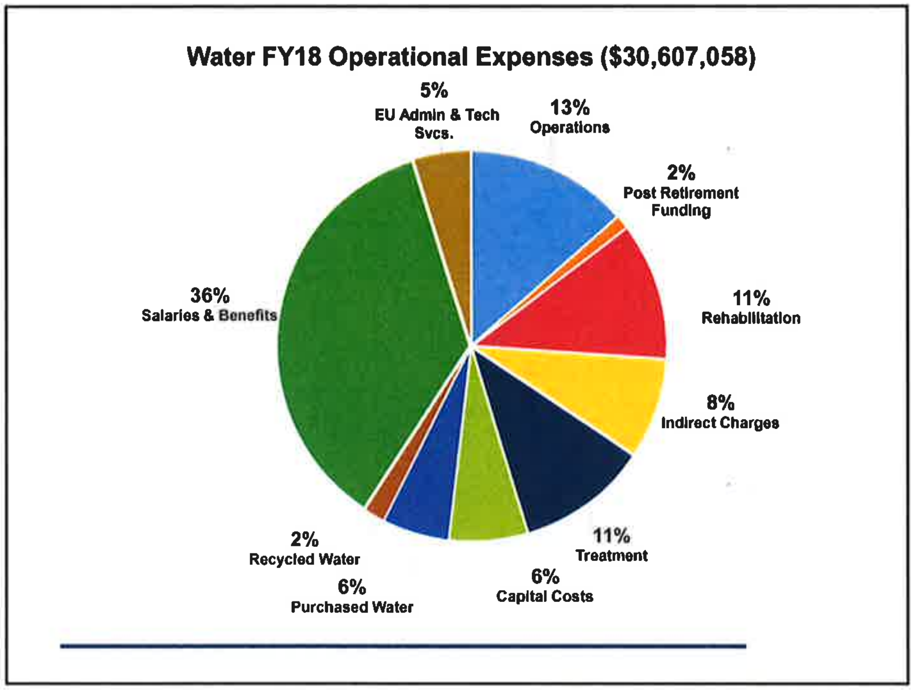
Factors that Influence Costs

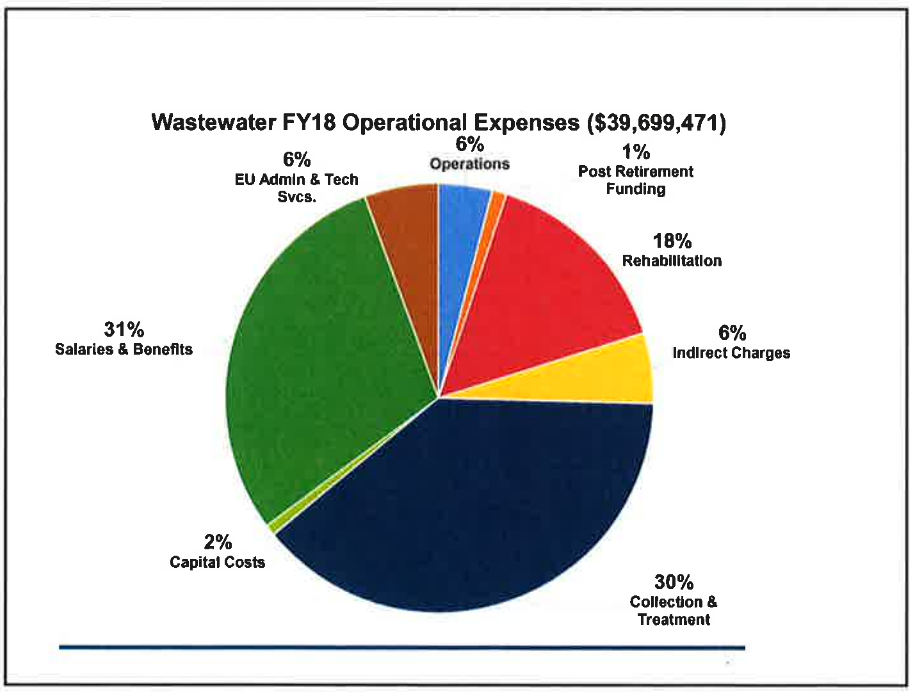
Financial Resiliency

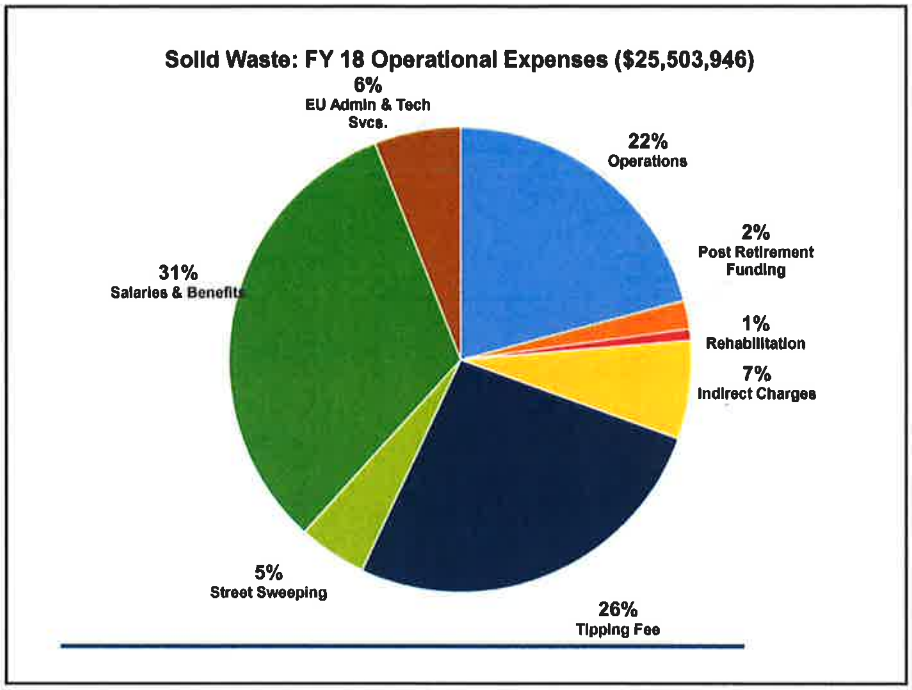
State Regulations and Mandates:

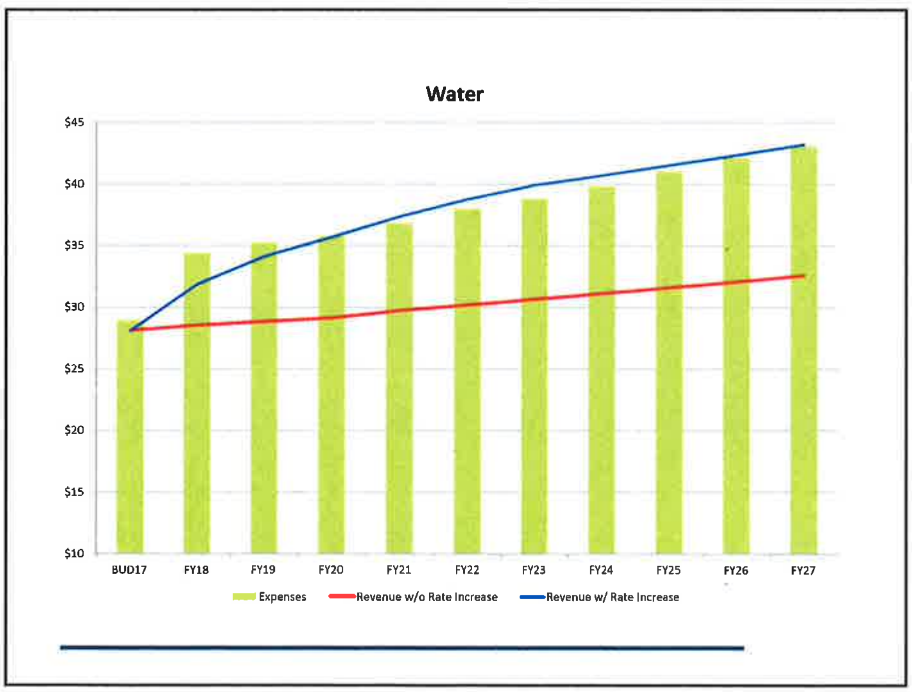
- Organics Collection
- Increased Tipping Fee at Landfill
- Lab Certification Reqs
- Water Conservation (Pending)
  - Potential for permanent conservation measures

Factors that Influence Costs


Water FY18 Operational Expenses ($30,607,058)
5%
EU Admin & Tech Svcs.
13%
Operations
2%
Post Retirement Funding
11%
Rehabilitation
8%
Indirect Charges
11%
Treatment
6%
Capital Costs
6%
Purchased Water
2%
Recycled Water
36%
Salaries & Benefits

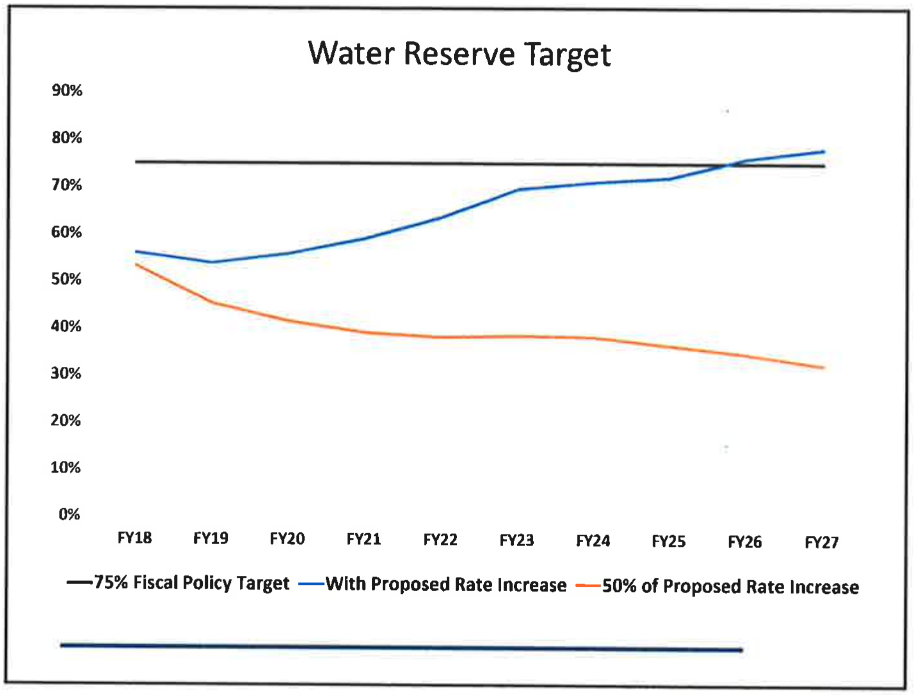

Wastewater FY18 Operational Expenses ($39,699,471)
6%
EU Admin & Tech Svcs.
6%
Operations
1%
Post Retirement Funding
18%
Rehabilitation
6%
Indirect Charges
30%
Collection & Treatment
2%
Capital Costs
31%
Salaries & Benefits

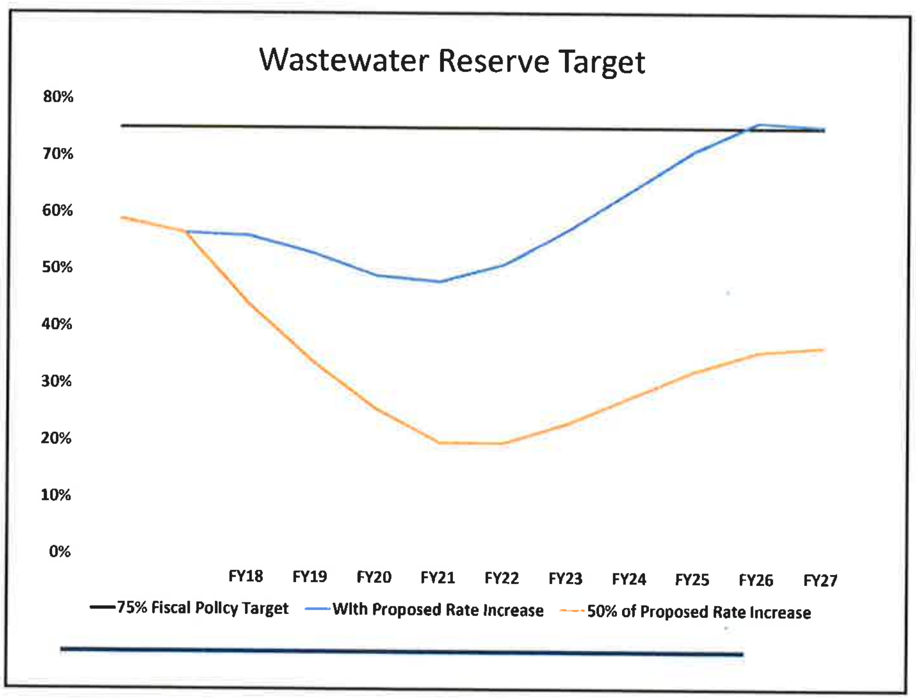

Solid Waste: FY 18 Operational Expenses ($25,503,946)
6%
EU Admin & Tech Svcs.
22%
Operations
2%
Post Retirement Funding
1%
Rehabilitation
7%
Indirect Charges
26%
Tipping Fee
5%
Street Sweeping
31%
Salaries & Benefits

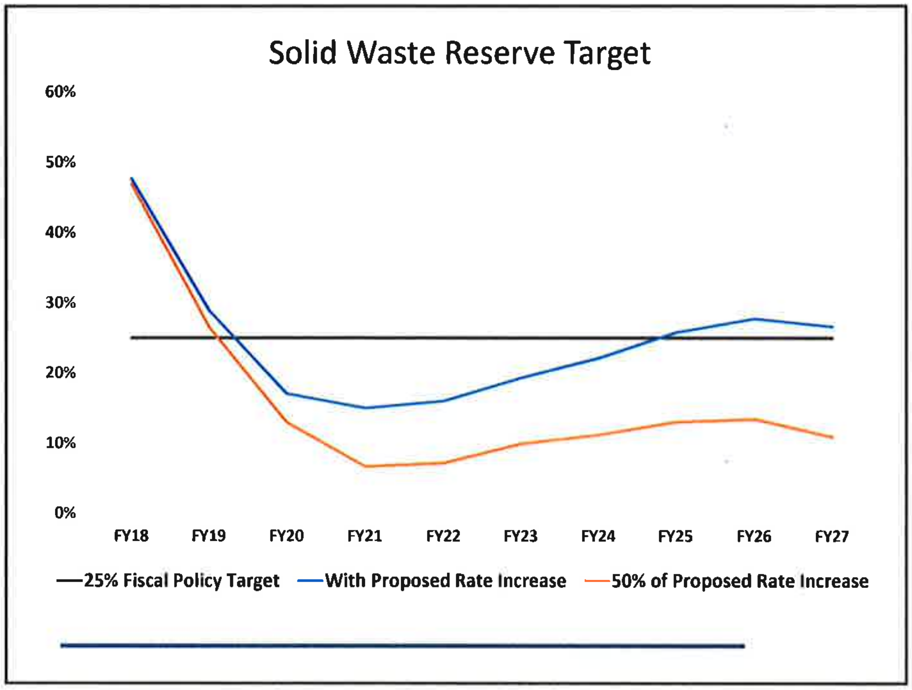

Water
$45
$40
$35
$30
$25
$20
$15
$10
BUD17
FY18
FY19
FY20
FY21
FY22
FY23
FY24
FY25
FY26
FY27
Expenses
Revenue w/o Rate Increase
Revenue w/ Rate Increase


Wastewater
$60
$50
$40
$30
$20
$10
$0
BUD17
FY18
FY19
FY20
FY21
FY22
FY23
FY24
FY25
FY26
FY27
Expenses
Revenue w/o Rate Increase
Revenue w/ Rate Increase


Solid Waste
$40
$35
$30
$25
$20
$15
$10
BUD17
FY18
FY19
FY20
FY21
FY22
FY23
FY24
FY25
FY26
FY27
Expenses
Revenue w/o Rate Increase
Revenue w/ Rate Increase


Water Reserve Target
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
FY18
FY19
FY20
FY21
FY22
FY23
FY24
FY25
FY26
FY27
75% Fiscal Policy Target
With Proposed Rate Increase
50% of Proposed Rate Increase


Wastewater Reserve Target
80%
70%
60%
50%
40%
30%
20%
10%
0%
FY18
FY19
FY20
FY21
FY22
FY23
FY24
FY25
FY26
FY27
75% Fiscal Policy Target
With Proposed Rate Increase
50% of Proposed Rate Increase



Water Efficiency Services & Programs

- Commercial and Residential Efficiency
- Water Wise House Calls
- Water Insight Program
- Rebates for:
  - ✓ Cash for Grass
  - ✓ Toilets
  - ✓ Irrigation Efficiency

- Call 774-5761 or www.roseville.ca.us/savewater

Community Workshops & Public Hearing

- Proposition 218 Notices (March)
- RCONA, Chamber, Downtown Merchants, Sun City, others as requested
- Public workshops:
  - ➢March 14, Maidu, 6:00-7:30 PM
  - ➢March 16, Mahany Park, 4:00-5:30 PM
- Media: EU Today, City's website, social media
- Public Utilities Commission (March 28, 7:00 pm)
- City Council & Public Hearing (May 3, 7:00 pm)

Recommendation