

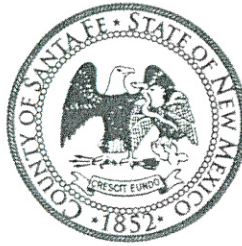
V. Matters from the County Manager

**C. Report That No New Water Deliveries
Require Scheduling Pursuant to Resolution
No. 2006-57. (Public Works Department/
Jerry Schoeppner)**

Henry P. Roybal
Commissioner, District 1

Anna Hansen
Commissioner, District 2

Robert A. Anaya
Commissioner, District 3



Anna T. Hamilton
Commissioner, District 4

Ed Moreno
Commissioner, District 5

Katherine Miller
County Manager

DATE: *February 7, 2017*

TO: *Board of County Commissioners*

FROM: *Michael Kelley, Public Works Department Director*

VIA: *Katherine Miller, County Manager*

ITEM AND ISSUE: *BCC Meeting February 14, 2017. Summary and Update of the Utility Division Water Rate Study and Interim Water Rate Proposal and Possible Next Steps (Public Works/Erik Aaboe)*

BACKGROUND:

On November 29, 2016, the Board of County Commissioners held a public hearing on a proposed ordinance to establish new water rates and charges for the Utility Division of the Public Works Department. The proposed ordinance was developed as a result of an analysis of the Division's existing rate structure and comparison of revenues and costs. The proposed ordinance did not pass.

On January 31, 2017, Commissioner Hamilton, who was not in office at the time of the public hearing, requested that the Public Works Department summarize the findings of the rate study, the process used for determination of a new rate schedule, the outreach conducted and to present possible steps to take to bring an updated water rate schedule back to the Board for reconsideration.

DISCUSSION:

The policies and principles that govern how the County's water rates shall be set are established in Resolution 2015-87, included as an attachment, which establishes that the following policies and principles shall be incorporated into the development of water rate schedules. These include tiered rates, seasonality, customer class equity, geographic equity, back up supply costs, automatic inflation-based changes, regional parity and financial sustainability. The rate analysis and rate schedule that was proposed was based upon the Cash Needs approach / Capacity – Demand methodology outlined in the American Water Works Association Manual M-1

Although the proposed ordinance did not pass, the underlying fundamentals of the Utility's expenses and revenues have not significantly changed. A summary of the need for a modification to the rate schedule, the results of the rate and revenue analysis, the outreach performed and the feedback received are well summarized in the staff memo that was presented with the item at the public hearing. That memo is also attached.

Much of the feedback on the impact of the proposed rates was from non-residential customers. The Utility currently charges less than it costs for water for a number of these customers. Using the Utility's water sales through calendar year 2016, staff will:

- Review and update the analysis
- Make adjustments to the rate schedule based upon the results of this re-analysis
- Identify the impact of proposed rates on the different customer classes and identify possible ways to ameliorate impacts (more gradual phasing, etc.)
- Reach out to the County's water customers, including the Agua Fria Community Water Association, to meet, gather comments, and insure that important issues are addressed
- Incorporate comments and suggestions into proposed rate schedule that meets the policies and principles of Resolution 2015-87
- Bring a new proposed ordinance back to the Board for consideration in late spring 2017.

ACTION REQUESTED:

None. Informational only.

Enc. Resolution 2015-87, *A Resolution Establishing Policies and Principles to Govern the Development of Santa Fe County Water Utility Rate Schedules*

Memo dated November 18, 2016 to the Board of County Commissioners, *Request Approval of Ordinance No. 2016 - _____, An Ordinance Establishing Provisions For Setting Santa Fe County Utility Water Service Rates and Charges and Superseding All Prior Rates and Charges with Proposed Amendments*

SANTA FE COUNTY

RESOLUTION No. 2015- 87

A RESOLUTION ESTABLISHING POLICIES AND PRINCIPLES TO GOVERN THE DEVELOPMENT OF SANTA FE COUNTY WATER UTILITY RATE SCHEDULES

WHEREAS, water is a precious but scarce resource in the semi-arid and high desert climate of Santa Fe County, and will likely become even more so in the future; and

WHEREAS, Santa Fe County (the "County") operates a water utility ("Utility"); and

WHEREAS, under NMSA 1978, Section 4-36-10, the County is authorized to "purchase, own and operate sewer and water utilities and sell water and sewer utility service"; and

WHEREAS, Section 4-36-10 further provides that "in the operation of a sewer or water utility, the county shall set just and reasonable rates based on its cost of service";

WHEREAS, water rates should be designed to (a) recover sufficient revenue to sustainably provide efficient and reliable water service based on reasonable amounts of use, (b) be equitably distributed among different customer classes, (c) be simple to understand and administer, and (d) encourage conservation of water, discourage unreasonable amounts of use, and communicate water's true value through price signals; and

WHEREAS, Goal 40 of the County Sustainable Growth Management Plan (SGMP) provides that "Water conservation will be required to maintain a sustainable water supply and reduce County-wide per capita water consumption"; and

WHEREAS, SGMP Policy 42.12, among other things, calls for the equitable financing of water infrastructure; and

WHEREAS, the County Utility's service area is extensive and certain customer areas have demonstrably higher costs of service; and

WHEREAS, the County has various customers classes, including residential, industrial, and wholesale customers, each of which imposes different demands and related costs on the system; and

WHEREAS, back-up water supplies, especially those provided on a firm, on-demand basis, are more expensive than normal supplies; and

WHEREAS, the County develops, updates, and promulgates water utility rate schedules from time to time;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNTY BOARD OF COMMISSIONERS:

1. The following policies and principles shall be incorporated into the development of County water utility rate schedules.
 - A. Tiered Rate Structure. The County shall implement tiered rate structure to incentivize conservation and ensure that basic access to water is affordable.
 - B. Seasonality. A seasonal water supply pricing factor will be implemented.
 - C. Customer Class Equity. A rational set of customer classes will be developed to ensure that costs are equitably distributed.
 - D. Geographic Equity. The rate structure should equitably allocate costs to geographic areas with differing costs of service.
 - E. Back-up Supplies. The true costs of back-up water should be incorporated into the overall cost of water.
 - F. Automatic inflation-based changes. The new rate schedule shall include an automatic annual inflation-based price adjustment.
 - G. Regional Parity. Water rates shall be reflective of the region and shall not be excessively or unnecessarily divergent across political boundaries.
 - H. Financial Sustainability. When considering the revenue recovery requirements of the rate schedule, the costs of acquiring water rights and of capital asset replacement, renewal, improvement, and acquisition, including reserve funds, should be incorporated into the rates to the extent feasible.

PASSED, APPROVED, AND ADOPTED THIS 30th DAY OF June, 2015.
BOARD OF COUNTY COMMISSIONERS OF SANTA FE COUNTY

By: Miguel M. Chay
Robert Anaya, Chair

6/30/15
Date

ATTEST:

Geraldine Salazar
Geraldine Salazar, County Clerk

6-30-2015
Date

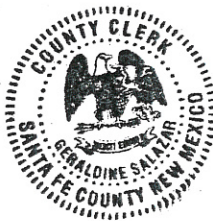


Approved as to form:

RSJL

Gregory S. Shaffer, County Attorney

6/15/2015
Date



COUNTY OF SANTA FE)
STATE OF NEW MEXICO) ss

RESOLUTION (N/C)
PAGES: 3

I Hereby Certify That This Instrument Was Filed for
Record On The 2ND Day Of July, 2015 at 10:13:16 AM
And Was Duly Recorded as Instrument # **1768647**
Of The Records Of Santa Fe County

Witness My Hand And Seal Of Office
Geraldine Salazar
Deputy *Laura Hernandez* County Clerk, Santa Fe, NM

SFC CLERK RECORDED 07/02/2015

Henry P. Roybal
Commissioner, District 1

Miguel Chavez
Commissioner, District 2

Robert A. Anaya
Commissioner, District 3



Kathy Holian
Commissioner, District 4

Liz Stefanics
Commissioner, District 5

Katherine Miller
County Manager

MEMORANDUM

DATE: *November 18, 2016*

TO: *Board of County Commissioners*

FROM: *Michael Kelley, Public Works Department Director*

VIA: *Katherine Miller, County Manager*

ITEM AND ISSUE: *BCC Meeting November 29, 2016*

Request Approval of Ordinance No. 2016 - _____, An Ordinance Establishing Provisions For Setting Santa Fe County Utility Water Service Rates and Charges and Superseding All Prior Rates and Charges with Proposed Amendments (Public Works/Claudia Borchert)

SUMMARY:

Staff is requesting approval of Ordinance No. 2016 - _____, An Ordinance Establishing Provisions For Setting Santa Fe County Utility Water Service Rates and Charges and Superseding All Prior Rates and Charges (Ordinance) **with proposed amendments**. The proposed Ordinance establishes water service rates and charges to recover recent increases to the County Water Utility (CWU) operational and maintenance costs and to fund reserve accounts. The attached draft Ordinance has been amended to provide an exemption for low-income customers (Section 6.D, page 3) per BCC direction on 11/8/2016 and clarifies language regarding Agreement Surcharges, Section 13.Q.

BACKGROUND:

At the previous Board of County Commission (BCC) meeting, staff presented background information, the increased costs the utility is facing, the methods of the in-house costs of service, findings and results, an outreach schedule, and the proposed increased water rates and fees.

The proposed rate increase would provide for the following:

- Increased Buckman Direct Diversion (BDD) costs associated with sediment removal: **\$250,000**
- Annual payment of back-up water under City-County 2005 Water Resources Agreement: **\$175,000**
- Increase of wholesale/ back-up rate from City of Santa Fe from \$3.79/1,000g to \$6.06/1,000g: **\$104,000**
- Operational cost increases (e.g. salary, benefits, supplies, electricity, meter replacements, additional lift station pumps): **\$87,000**

- Pojoaque Valley regional water system non-capital costs (salary, outreach, planning): **\$228,000**
- Assets and capital improvements (e.g. vehicle replacement, improved meter reading technology, upsizing of infrastructure, master meters, system communication): \$202,000, an increase of **\$72,000**
- Repair, replacement, and emergency funds: **\$224,000**
- **Total needs: \$1,140,000**

The approval of the proposed cost increases would result in the following Utilities Division budget.

Line Item	Amount (\$)¹
BDD Water Supply	1,989,500
Backup Supply	258,681²
Personnel	1,416,252
Operations and Maintenance	801,066
Asset Renewal & Replacement	210,000
Transfer to General Fund	135,000
Emergency & Reserves	224,995³
Total	5,035,494

As a reminder, the cost-of-service analysis revealed the following findings.

- The average SFCU residential customer uses less than 5,000 gallons/month.
- SFCU cost to BDD for potable water is \$5.47 per 1,000 gallons and \$2.66 for raw water.
- The current rates do not cover recent cost increases. In order to cover operational costs increases and fund essential reserves (repair, replacement and emergency), an additional \$1.14 M is needed. Utilities FY17 projected revenue is \$3.9M
- Current rate structure is not equitable across customer classes. For example, some of the non-residential, government, and wholesale customer class are not bearing their share of the utility costs.
- The utility is “upside down” in the following classes: mutual domestic/government (at \$3.22 per 1,000 g) and wholesale potable (sell at \$5.47 per 1,000 g).
- In the non-residential customer class, the utility has many large, institutional, and governmental water users and few small-business customers.

DISCUSSION:

Since staff presented the Ordinance to the BCC on 11/8/2016, staff has presented the proposal to the Water Policy Advisory Committee, a public meeting on 11/17/2016, the Las Campanas Water and Sewer Cooperative (Coop), and the Club at Las Campanas (the Club). Staff has contacted the NM Department of Corrections, the Institute of American Indian Arts, NM Department of Military Affairs, Santa Fe County Department of Safety, and the Santa Fe Community College in hopes of setting up one-on-one meetings to discuss the proposed rates.

A letter (attached) notifying our customers of the proposed water rate increase, inviting them to the public meeting, informing them of the BCC's schedule, and summarizing the rates in the Ordinance was mailed to every SFCU customers. The same letter was email to the approximately 650 customer for whom we have email addresses. Also, the Santa Fe New Mexican ran an article on the proposed rate increase in the November 10, 2016, issue, which gathered no online comments. Finally, the Utilities' customer service staff have been mentioning the proposed rate increase and the public meeting to all the Utilities' walk-in and call-in customers. The paragraphs below summarize the comments from each of those meetings.

BCC: The BCC asked that staff include a provision for the exemption of the monthly water service fee for residential customers with low income. An amendment of Section 6 of the Ordinance has been drafted in the attached resolution for the BCC's consideration and is attached.

Water Policy Advisory Committee (WPAC) Meeting November 10, 2017: The WPAC was generally in favor of the proposed water rate increase and approved two motions.

Motion #1: WPAC endorses the concept of an adequately-funded water utility, recommends that the rates in the future recover full costs of water service, and that the proposed process and resulting rates are an important step in that direction.

Motion #2: WPAC recommends eliminating Section 14 regarding the index provision because the use of an index is premature and does not adequately capture the needs to be addressed in a future cost-of-service study.

For documentation and clarity, some of the members requested that staff generate a cost-of-service report describing the process and analysis, how costs were distributed to the different customer classes, data input/output, and results. A recommendation to have a professional cost-of-service study was discussed. An opinion was voiced that the proposed rates increase isn't large enough, because the proposal doesn't recover all of the utility's costs. Additionally some members suggested that instead of the average, the median water use be used for showing the impact on half of the residential users. There was also some discussion about simplifying the tier structure, whether the ordinance was fair, and whether the adoption timing was appropriate.

Public Meeting November 17, 2017:

The Utilities Division hosted an open house on November 17, 2016, from 5:30 to 7:30. Staff set up six different stations including: Welcome, Your Metered Service, Conservation/Water Quality, Your Water Utility, Customer Service, and Ordinance/Rates. Approximately 25 attended. The following comments were noted:

- "The rate increase doesn't look too bad."
- "The rate increase sounds reasonable."
- "I like the lower boundary of Tier 1 at 4,000 gallons to incentivize conservation."
- "I think development should pay for itself."
- "I would like to see more cooperation between the City and County, and maybe a regionalized water system."

The following 3 statements were submitted into our "comment" box:

- “Clear explanation. Brief and to the point. Makes sense.”
- “Thank you for your time, expertise, and consideration for the residents. Wasn’t as painful as we thought it would be! ☺ Great info!”
- “Water rate increases should be based strictly on usage by high end users who don’t bother saving water. The monthly service charge should not be raised on the backs of poorer people and those with fixed incomes. The 1,000-5,000 gallon group should be almost free to encourage savings.”

The Las Campanas Club Meeting November 15, 2016:

The Club provided some of following comments during our one-on-one meeting:

- The study appears thorough and reflects a great deal of effort from staff.
- The Club looks forward to receiving the spreadsheets to further consider the analysis.
- The operational costs include BDD FY17 projected budget. BDD’s end-of year actual budget has traditionally been 15-20% less than that budgeted.
- The cost recovery of \$11,000/acre-foot for water rights does not necessary reflect the price the County paid, and therefore may not be the appropriate.
- The proposed rate doesn’t give the Club consideration for their annual contributions to the BDD costs under the Facilities, Operations and Procedures Agreement (FOPA), especially in light of the fact that they are not partial owners of the project.
- The included operational costs of \$250,000/year for BDD litigation and /or repair of the sediment removal facility may not be appropriate.
- The Club may not need the same degree of City-provided back-up supply (11%) as potable water customers.
- The Club may be interested in amending some of the provisions of the County-Club 2011 Raw Water Agreement, such as the provision the has the County reserving 600 acre-feet; their ongoing need may be much less.

Las Campanas Coop Meeting November 16, 2016:

The Coop offered the following observations at our one-on-one meeting and may submit comments after additional review of the material.

- The operational costs include BDD FY17 projected budget. BDD’s end-of year actual budget has traditionally been 15-20% less than that budgeted.
- The operational costs include \$250,000/year for BDD litigation and /or repair of the sediment removal facility plus \$104,000/year for the BDD’s repair and replacement fund. There is uncertainty associated with these figures.
- The proposed rate doesn’t give the Coop consideration for their annual contributions to the BDD costs under the Facilities, Operations and Procedures Agreement (FOPA).

Emails and calls:

We have received approximately 10 calls and emails. Generally, the complaints stem around the frustration of the impact of increased water service rates, doubting the need, and resignation that the increase will happen, regardless of the customers’ actions. Some customers have confused us with the City, and wonder why we need a rate increase given the 10s of millions of dollars in the reserve fund. Others have compared our rate nationally and don’t understand why we can’t charge the same as other water utilities elsewhere.

SUMMARY:

Rate increases are never popular. The analysis performed by staff clearly demonstrates that the proposed rate increase is fair and necessary. The increase will cover external costs that are beyond the Utilities control and will delineate funds the Utility needs to maintain, repair, and replace the over estimated \$8M water system infrastructure that the County owns. This cost increase does not fully cover all the Utility costs; it does cover current Buckman Direct Diversion debt service nor anticipated future debt for utility capital projects.

ACTION REQUESTED:

Approval of Ordinance No. 2016 - _____, An Ordinance Establishing Provisions For Setting Santa Fe County Utility Water Service Rates and Charges and Superseding All Prior Rates and Charges **with the amendments** addressing an exemption for low-income customers (Section 6.D, page 3) per BCC direction on 11/8/2016 and clarifying language regarding Agreement Surcharges, Section 13.Q.

Attachments:

- Draft Ordinance No. 2016 - _____, An Ordinance Establishing Provisions For Setting Santa Fe County Utility Water Service Rates and Charges and Superseding All Prior Rates and Charges **with proposed amendments**.
- November 4, 2016, letter from Santa Fe County Utilities Division to all County water service customers.

