



CITY OF SPARKS
CITY COUNCIL AGENDA STAFF REPORT
MEETING DATE: January 13, 2014

Title: First Reading and possible discussion of Bill No.2665, an ordinance amending Chapter 13 of the Sparks Municipal Code to increase sewer user rates 8.25% annually from July 1, 2014 through July 1, 2017; and providing for other matters properly related thereto.
Petitioner: John A. Martini, P.E., City Engineer Presenter: John A. Martini, P.E., City Engineer
Recommendation: That the City Council instruct the City Clerk to read the First Reading of the Bill by Title on January 13, 2014 and thereafter publish notice of a second reading and public hearing of this Bill for its possible adoption and possible approval on January 27, 2014.
Financial Impact: None.
Business Impact (Per NRS 237) <input type="checkbox"/> A Business Impact Statement is attached. <input type="checkbox"/> A Business Impact Statement is not required because this is not a rule. <input checked="" type="checkbox"/> A Business Impact Statement is not required. This is a rule but does not impose a direct and significant economic burden on a business, or directly restrict the formation, operation or exemption of a business. <input type="checkbox"/> A Business Impact Statement is not required. Thus is a rule but emergency action is necessary to protect the public health and safety (requires a unanimous vote of the City Council and cannot be in effect for more than six months).
Agenda Item Brief: On December 2, 2013 Community Services Staff hosted a workshop with the Sparks City Council and presented the results of the Sparks Utility Rate Study. The results of the study indicate the need to raise revenues in the sewer utility to fund the capital improvement needs of the Truckee Meadows Water Reclamation Facility and the sanitary sewer collection system through Fiscal Year 2018. Staff presented the City Council with cash flow models that included scenarios for 0, 5, 8.25, and 15 percent annual increases to sewer user rates. Based upon discussion at the workshop, staff is recommending that the Council approve an 8.25% annual increase to sewer user rates beginning in July 1, 2014 through July 1, 2017. Adoption of the proposed bill will amend, by ordinance, Title 13 of the Sparks Municipal Code and increase sewer user rates 8.25% annually from July 1, 2014 through July 1, 2017.

Background: Over the last two years, the Truckee Meadows Water Reclamation Facility (TMWRF) has experienced two failures to critical infrastructure; failure of the electrical system in 2011 and failure of the Headworks facility in 2012. The failure of critical infrastructure has brought to light the need to repair and replace TMWRF's aging infrastructure. The Community Services Department of the City of Sparks in conjunction with the City of Reno Public Works Department have performed analysis of the existing infrastructure at TMWRF and have prepared a capital improvement plan to address the current and future needs of the facility. This capital improvements plan indicates the need to invest nearly 100 million dollars over the next ten years at TMWRF. Additionally, the City of Reno has retained AMERESCO to perform an analysis at TMWRF aimed at gaining operational savings through energy production, nutrient recovery and system efficiency upgrades. The AMERESCO project, if approved, would include additional capital improvement to TMWRF of approximately 25 million dollars.

The Community Services Department, through its on-going asset management program, has identified capital improvements plans to address the current and future needs of the City of Sparks' sanitary sewer collection system and storm drain system. The capital improvement plan for the City of Sparks' sanitary sewer collection system indicates the need to invest approximately 8 million dollars over the next five years while the capital improvements plan for the storm drain collection system indicates the need to invest approximately 7 million dollars over the same period.

As the City of Sparks is responsible for approximately one-third of the capital costs for TMWRF and all of the capital costs related to the City's sanitary sewer and storm drain collection system, the City of Sparks Community Services Department retained the FCS Group (FCS) to prepare a five year financial analysis of the City's sewer and storm drain utility funds. Staff provided FCS with fiscal year 2013 financial data related to operational costs as well as the capital improvements plan for each of the utility funds for fiscal years 2014 through 2018.

The results of the FCS study were summarized by Staff and presented to the City Council at a Utility Rate Study workshop on December 2, 2013. While the findings of the study indicate that no utility rate changes are required for the storm drain utility, the study did reveal the need to increase sewer utility revenue to fund future expenses related to capital improvements at TMWRF and in the sewer collection system. This is evidenced by the cash flow models presented as Exhibits 1 and 2.

Exhibit 1 presents the estimated cash flow within the sewer utility fund for fiscal years 2014 through 2018 with no adjustments to sewer user fees and includes the capital improvements plans for TMWRF and the sewer collection system. As can be seen in Exhibit 1, the cash flow model indicates that the unrestricted ending fund balance (defined as ending cash minus 60 days of operating expenses and debt service) will be negative in fiscal year 2017.

Exhibit 2 presents the estimated cash flow within the sewer utility fund for fiscal years 2014 through 2018 with no adjustments to sewer user fees and includes the capital improvements plans for TMWRF, the sewer collection system and the proposed AMERESCO project at TMWRF. As can be seen in Exhibit 2, the cash flow model indicates that the unrestricted ending fund balance will be negative in fiscal year 2015.

In an effort to provide the Council with a range of funding options, staff prepared cash flow scenarios representing 0%, 5%, 8.25% and 15% annual increases to sewer user rates for both the "with AMERESCO" and "without AMERESCO" capital improvements plans and presented them to the City Council at the December 2, 2013 workshop. For each scenario, staff identified potential options for managing cash flow within the sewer enterprise fund through deferred capital improvements (TMWRF, the collection system, or both) such that a positive restricted cash balance was achieved through Fiscal Year 2018.

Upon presentation and discussion of each of the scenarios, the council provided staff with the following direction:

- To bring forth a proposed amendment to title 13 of the Sparks Municipal code to increase sewer user rates and;

- To work closely with the City of Reno Public Works Department and AMERESCO to reduce the simple pay back method of the proposed project to less than 20 years.

As such, staff has prepared the attached amendment to Chapter 13 of the Sparks Municipal Code to increase sewer user rates annually by 8.25% beginning July 1, 2014 through July 1, 2017. Staff is working with the City of Reno Public Works Department and AMERESCO to modify the proposed energy and efficiency upgrades at TMWRF to reduce the simple payback method to approximately 15 years. Staff is planning to bring the modified AMERESCO project to council for consideration in February, 2014.

Analysis: Adoption of the proposed bill will amend, by ordinance, Title 13 of the Sparks Municipal Code (SMC) to increase sewer user rates by 8.25% annually from July 1, 2014 through July 1, 2017. Specifically, the proposed Bill will amend the following Sections of Title 13:

- **Section 13.09.02: Dwelling or Residential Unit** Section 13.09.02 defines the sewer and storm drain service user charges for each type of residential unit as a flat quarterly rate. The proposed amendment will increase the sewer user rate portion of the quarterly user fee by 8.25% annually from July 1, 2014 through July 1, 2017 for Single Family Residential, Interval Residential, and Rooming House classifications. The quarterly rates for the Multiple Family Residential and Mobile Home classification will be set at eighty-percent (80%) of the Single Family quarterly Rate beginning on July 1, 2014 through July 1, 2017. The proposed reduction in user rates for Multiple Family and Mobile home classification comes as a response to a request made by local apartment owners and property managers at a City Council meeting in 2011 wherein the City Council requested that staff perform research to determine future user rates for the Multiple Family classification. Research provided to staff indicates that multiple family units, on average, generate approximately 80% of single family residential sewer flows. See Exhibit 3 for a break-down of the proposed fees for the Dwelling or Residential Unit sewer user fees.
- **Section 13.09.030 : Industrial/commercial discharger** Section 13.09.030 defines the sewer and storm drain service user charges for industrial/commercial dischargers. The proposed amendment will increase the base rate for the sewer portion of the user fee by 8.25% annually from July 1, 2014 through July 1, 2017. See Exhibit 4 for a break-down of the proposed fees for Industrial/Commercial dischargers.
- **Section 13.09.033: Industrial/Commercial, Federal, State and School District dischargers without water meters** Section 13.09.033 defines the sewer service user charges for industrial/commercial, federal, state and school district users who do not have available water meter data available for the sewer user rates listed under Section 13.09.030. In lieu of using actual water meter data, Section 13.09.033 prescribes that the sewer user rates be based upon weighted fixture unit charges. This amendment will increase the sewer user fee per weighted fixture unit by 8.25% beginning on July 1, 2014 through July 1, 2017.

Alternatives: The City Council may choose to reject the amendment to the ordinance and provide direction to the City Manager.

Recommended Motion: That the City Council instruct the City Clerk to read the First Reading of the Bill by Title on January 13, 2014 and thereafter publish notice of a second reading and public hearing of this Bill for its possible adoption and possible approval on January 27, 2014.

Exhibit 1

Sewer Enterprise Fund Cash Flow Model FY 14 Through FY18 Without Ameresco Project (Base Case No Rate Increase)

	FY13 Actuals (Unaudited)	FY14	FY15	FY16	FY17	FY18	
Beginning Cash, Total	23,734,776	20,962,351	13,778,167	7,889,992	3,600,414	(1,157,626)	
Revenues							
Operating User Fees	10,583,783	10,583,783	10,583,783	10,583,783	10,583,783	10,583,783	
Other Operating (Sun Valley Agreement,Misc)	1,601,264	1,793,701	1,688,142	1,732,395	1,777,974	1,824,922	
Capital - Connection Charges	1,576,980	1,576,980	1,576,980	1,576,980	1,576,980	1,576,980	
Capital-Sun Valley	1,108,200	1,743,857	2,128,422	1,123,754	1,200,159	1,210,621	
Total Revenue	14,870,227	15,698,321	15,977,327	15,016,912	15,138,896	15,196,306	
Expenses							
Operating - Sparks Sewer	3,629,680	3,752,882	4,278,352	4,278,352	4,278,352	4,278,352	
Operating - TMWRF	7,139,093	6,835,039	5,911,200	6,092,816	6,279,881	6,472,558	
CIP - Sparks Sewer	515,032	1,937,895	1,557,895	1,477,895	1,677,895	1,597,895	100%
CIP-TMWRF	2,165,710	5,323,815	5,065,462	2,369,056	2,942,832	2,886,605	100%
Debt Service- Sewer	3,825,597	3,822,450	3,822,451	3,822,451	3,637,140	3,451,832	
Tranfers to Effluent	367,540	1,210,424	1,230,142	1,265,920	1,080,836	802,888	
Ameresco CIP Project	-	-	-	-	-	-	1
Total Expenses	17,642,652	22,882,505	21,865,502	19,306,490	19,896,936	19,490,130	
Net Changes in Cash	(2,772,425)	(7,184,184)	(5,888,175)	(4,289,578)	(4,758,040)	(4,293,824)	
Ending Cash, Total	20,962,351	13,778,167	7,889,992	3,600,414	(1,157,626)	(5,451,450)	
Less: Restricted Cash -- 60 Days of Operating Exp's	(2,399,075)	(2,368,828)	(2,303,343)	(2,333,198)	(2,333,486)	(2,334,697)	
Unrestricted Ending Cash	18,563,276	11,409,339	5,586,649	1,267,216	(3,491,112)	(7,786,147)	

Sewer Fee \$/Month	\$15.85	\$15.85	\$15.85	\$15.85	\$15.85	\$15.85
Storm Fee \$/Month	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32
Flood Fee \$/Month	\$5.41	\$5.41	\$5.41	\$5.41	\$5.41	\$5.41
Total Customer Bill	\$29.58	\$29.58	\$29.58	\$29.58	\$29.58	\$29.58
Year over Year Increase \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
% Increase (2013 Basis)	\$0.00	0.0%	0.0%	0.0%	0.0%	0.0%

Exhibit 2

Sewer Enterprise Fund Cash Flow Model FY 14 Through FY18 With Ameresco Project (Base Case No Rate Increase)

	FY13 Actuals (Unaudited)	FY14	FY15	FY16	FY17	FY18	
Beginning Cash, Total	23,734,776	20,962,351	12,114,910	2,024,575	(2,475,680)	(7,233,720)	
Revenues							
Operating User Fees	10,583,783	10,583,783	10,583,783	10,583,783	10,583,783	10,583,783	
Other Operating (Sun Valley Agreement, Misc)	1,601,264	1,793,701	1,688,142	1,732,395	1,777,974	1,824,922	
Capital - Connection Charges	1,576,980	1,576,980	1,576,980	1,576,980	1,576,980	1,576,980	
Capital-Sun Valley	1,108,200	1,743,857	2,128,422	1,123,754	1,200,159	1,210,621	
Total Revenue	14,870,227	15,698,321	15,977,327	15,016,912	15,138,896	15,196,306	
Expenses							
Operating - Sparks Sewer	3,629,680	3,752,882	4,278,352	4,278,352	4,278,352	4,278,352	
Operating - TMWRF	7,139,093	6,835,039	5,911,200	6,092,816	6,279,881	6,472,558	
CIP - Sparks Sewer	515,032	1,937,895	1,557,895	1,477,895	1,677,895	1,597,895	100%
CIP-TMWRF	2,165,710	4,103,522	4,689,022	1,992,616	2,942,832	2,886,605	100%
Debt Service- Sewer	3,825,597	3,822,450	3,822,451	3,822,451	3,637,140	3,451,832	
Tranfers to Effluent	367,540	1,210,424	1,230,142	1,265,920	1,080,836	802,888	
Ameresco CIP Project	-	2,883,550	4,578,600	587,117	-	-	1
Total Expenses	17,642,652	24,545,762	26,067,662	19,517,167	19,896,936	19,490,130	
Net Changes in Cash	(2,772,425)	(8,847,441)	(10,090,335)	(4,500,255)	(4,758,040)	(4,293,824)	
Ending Cash, Total	20,962,351	12,114,910	2,024,575	(2,475,680)	(7,233,720)	(11,527,544)	
Less: Restricted Cash -- 60 Days of Operating Exp's	(2,399,075)	(2,368,828)	(2,303,343)	(2,333,198)	(2,333,486)	(2,334,697)	
Unrestricted Ending Cash	18,563,276	9,746,082	(278,768)	(4,808,878)	(9,567,206)	(13,862,241)	

Sewer Fee \$/Month	\$15.85	\$15.85	\$15.85	\$15.85	\$15.85	\$15.85
Storm Fee \$/Month	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32
Flood Fee \$/Month	\$5.41	\$5.41	\$5.41	\$5.41	\$5.41	\$5.41
Total Customer Bill	\$29.58	\$29.58	\$29.58	\$29.58	\$29.58	\$29.58
Year over Year Increase \$	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
% Increase (2013 Basis)	\$0.00	0.0%	0.0%	0.0%	0.0%	0.0%

Exhibit 3

Section 13.09.02 Dwelling or Residential Unit

Calculation of Quarterly Sewer and Storm Drain User Fees (does not include River Flood)

Single Family Residential

Sewer Increase = 8.25%

	1-Jan 2012	1-Jul 2014	1-Jul 2015	1-Jul 2016	1-Jul 2017
Sewer	\$15.85	17.16	18.57	20.11	21.76
Storm	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32
Total per Month	\$24.17	\$25.48	\$26.89	\$28.43	\$30.08
Per Quarter	\$72.51	\$76.43	\$80.68	\$85.28	\$90.25

Multiple Family Residential and Mobile Home (80% of SFR)

	1-Jan 2012	1-Jul 2014	1-Jul 2015	1-Jul 2016	1-Jul 2017
Sewer	\$15.85	13.73	14.86	16.08	17.41
Storm	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32
Total per Month	\$24.17	\$22.05	\$23.18	\$24.40	\$25.73
Per Quarter	\$72.51	\$66.14	\$69.54	\$73.21	\$77.19

Interval Residential

Sewer Increase = 8.25%

	1-Jan 2012	1-Jul 2014	1-Jul 2015	1-Jul 2016	1-Jul 2017
Sewer	\$15.85	17.16	18.57	20.11	21.76
Storm	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32
Total per Month	\$24.17	\$25.48	\$26.89	\$28.43	\$30.08
Per Quarter	\$72.51	\$76.43	\$80.68	\$85.28	\$90.25

Rooming House

Sewer Increase = 8.25%

	1-Jan 2012	1-Jul 2014	1-Jul 2015	1-Jul 2016	1-Jul 2017
Sewer	\$15.85	17.16	18.57	20.11	21.76
Storm	\$8.32	\$8.32	\$8.32	\$8.32	\$8.32
Total per Month	\$24.17	\$25.48	\$26.89	\$28.43	\$30.08
Per Quarter	\$72.51	\$76.43	\$80.68	\$85.28	\$90.25
Unit charge	36.25	39.24	42.48	45.98	49.78

Exhibit 4

Section 13.09.030 Industrial/Commercial Discharger

Calculation of Industrial Commercial rates per 1000 gallons
of discharge (does not include River Flood)

Sewer Increase = 8.25%

	Sewer \$/1000 gallons	Storm \$/1000 gallons	Total \$/1000 gallons
Current	\$3.22	\$0.98	\$4.20
7/1/2014	\$3.49	\$0.98	\$4.47
7/1/2015	\$3.77	\$0.98	\$4.75
7/1/2016	\$4.08	\$0.98	\$5.06
7/1/2017	\$4.42	\$0.98	\$5.40