

MEMORANDUM

TO: Board of Trustees

THROUGH: Indra Winquest
District General Manager

FROM: Brad Underwood, P.E.
Director of Public Works

SUBJECT: Receive a presentation and provide input/direction on the preliminary results of the Public Utility Rate Study for Provision of Water and Sewer Services performed by HDR

DATE: November 10, 2021

I. RECOMMENDATION

To inform the next level of work to be done in finalizing the utility rate model and report, it is recommended that the Board of Trustees receive a presentation on the preliminary utility rate model, and provide general input/direction on the following:

1. The revenue requirements to meet the anticipated operating and capital expenditure needs of the District's water and sewer utilities;
2. Financing approach within the utility rate model to support the 5-year Capital Improvement Plan(s) for the water and sewer utility;
3. Approach in meeting current (and proposed) financial policy targets;
4. Phasing of required rate increases over the multi-year planning horizon of the rate model.
5. Approach to customer classes of service, cost of service and rate structure.

II. BACKGROUND

The District provides water and sewer utility services through its Utility Fund (Fund 200). These utility operations are supported through annual revenues of \$12.3 million per year collected from utility customers based on Board-approved rate schedules for each utility.

The last approved water and sewer rate increase was passed by the Board of Trustees in 2019 (April 10, 2019). The Board considered the proposed 2020 utility rate increase at their meeting of February 26, 2020, and at the time, the Board of Trustees approved a motion to set the required public hearing for April 14, 2020. At the conclusion of the April 2020 public hearing, the Board considered public testimony, as well as the impacts of the emerging COVID-19 pandemic, and the Board collectively decided to defer the proposed 2020/21 utility rate increase to a future date. At that time, the recommended rate increase, which was not approved, was 4.2% for water rates and 6.4% for sewer rates, for a total average utility

increase of 5.5%. The projections at that time also reflected a proposed utility rate increase at an average of 4.2% for the next five years.

At the January 13, 2021 Board of Trustees meeting, the Board considered options relative to implementing the 2020 utility rate increases to support ongoing operations and capital program requirements. The options included resuming the process for implementing the originally proposed 2020/21 utility rates or deferring action, pending completion of a utility rate study. The Board's preference was to proceed with an update of the District's utility rate model through a third-party rate study. In order to achieve the Board's preference, funds were added to the sewer and water operating budgets for FY 2021/22 to hire a consultant to perform a rate analysis for utility operations and capital program requirements. In anticipation of required utility rate increases needed to support the utility operations and capital improvement projects, the Utility Fund budget for FY 2021/22 assumes a rate increase of 8% for the non-capital utility rate(s), to begin in September 2021.

During the rate study process staff has reviewed the estimated budget amounts for operating and the 5-year capital plan. Adjustments have been made to the projected budget amounts, but these updates will be brought to the Board for approval through the budget and CIP approval process.

Following issuance of an RFP and review of proposals from qualified firms, a contract was awarded by the Board of Trustees to HDR to perform the rate study at the September 2, 2021 Board meeting.

The Public Utility Rate Study for Provision of Water and Sewer Services is intended to establish 5-year water and sewer utility rates for all customer types. Their findings will be documented in a final written report and presentation to the Board of Trustees.

HDR will be presenting the preliminary results of their analysis of the sewer and water rates, to include the following:

1. Meeting financial policies (reserves, DSC, etc.)
2. Capital funding analysis
 - a. Overall level of annual capital
 - b. Capital funding (rates, reserves, debt)
3. Overall rate revenue adjustments
 - a. Rate transition plan
4. Customer classes of service (rate schedules)
5. Costs of service results
 - a. Cost adjustments
6. Rate structure
 - a. Status quo
 - b. Alternative structures
 - c. Cost of service adjustments

III. BID RESULTS

There are no bid results associated with this Memorandum.

IV. FINANCIAL IMPACT AND BUDGET

As this is an informational presentation, this agenda item does not result in a direct fiscal impact. However, the water and sewer utility rates subject of this presentation combine to provide \$12.3 million (FY2021/22) collected from the District's water and sewer customer via monthly utility bills.

The update to the District's utility rate model is intended to evaluate the revenue required to support current and future operating and capital expenses, and contemplates increases over the next five years, pending Board direction and final approval of water and sewer rates at a future meeting.

V. ALTERNATIVES

Only general input/direction from the Board is sought so there are no alternatives to present at this time. This general input/direction will inform establishment of the customer rates to be identified in the final report and final rate presentation to the Board of Trustees at a future meeting.

VI. COMMENTS

There are no comments associate with this Memorandum.

VII. BUSINESS IMPACT

This item is not a "rule" within the meaning of Nevada Revised Statutes, Chapter 237, and does not require a Business Impact Statement.