

MEMORANDUM

TO: Board of Trustees

THROUGH: Indra Winquest
District General Manager

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

SUBJECT: Review, discuss and provide direction and comment to staff on the Fiscal Year 2022 IVGID Utility Rate Study. Direct staff to prepare documents and Utility Rate Schedules for a Water utility rate increase, a Sewer utility rate increase, and increase charges on the Public Works Fee Schedule.

Review, discuss and set the date/time for March 30, 2022 at 6:00 p.m. for the public hearing on the proposed amendments to the Sewer and Water Schedule of Service Charges, Fee Schedule, and to publish the notice in accordance with the NRS 318.199.

STRATEGIC PLAN: Long Range Principle #3 - Finance

DATE: February 9, 2022

I. RECOMMENDATION

1. Review, discuss and provide direction and comment to staff on the Fiscal Year 2022 IVGID Utility Rate Study. Direct staff to prepare documents and Utility Rate Schedules for a one-year average Water utility rate increase of Nineteen and three-tenths percent (19.3%), and a one-year average Sewer utility rate increase of Fourteen and nine-tenths percent (14.9%) for the average residential customer, and increase charges on the Public Works Fee Schedule by Fifteen percent (15%).
2. Review, discuss and set the date/time for March 30, 2022 at 6:00 p.m. for the public hearing on the proposed amendments to the Sewer and Water Schedule of Service Charges, Fee Schedule, and to publish the notice in accordance with the NRS 318.199.

II. BACKGROUND

The District provides water and sewer utility services through its Utility Fund (Fund 200). These utility operations are supported through target annual revenues (\$12.3 million for FY 2021/22) each year collected from utility customers based on Board-approved rate schedules for each utility. The current budget assumed an 8% rate increase to begin in the second quarter of the fiscal year and that revenues will be lagging the budgeted amount since the increase has not been implemented. Current revenues are tracking below the amount budgeted to date, approximately \$73,000 for water and \$117,000 for sewer. Expenditures are tracking below budget and are more than offsetting the budget variance in rate revenues.

The last approved rate increase was passed by the Board of Trustees on April 10, 2019. At their meeting of February 26, 2020, the Board of Trustees reviewed and discussed the District's 2020 Utility Rate Study and further approved a motion to set the required public hearing for April 14, 2020. At the conclusion of the 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 the January 13, 2021 Board of Trustees meeting, the Board considered options relative to implementing 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 did not select to resume the process of the originally proposed 2020/21 utility rate increase. The preference was to proceed with a third party rate analysis. 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.

On September 2, 2021 the Board of Trustees awarded a Professional Services Contract to HDR Engineering, Inc. to conduct the utility rate study for provision of water and sewer services. The study is intended to establish 5-year water and sewer utility rates for all customer types. On November 10, 2021, HDR presented their preliminary findings to the Board.

The rate study sets forth the appropriate rates for water and sewer service to meet revenue and expense requirements and to achieve the appropriate Fund Balance and Working Capital. The rate increases are necessary to fund the current, and future, operating and capital expenses. The recommended utility

rate increases for year one are: a one-year average Water utility rate increase of Nineteen and three-tenths percent (19.3%), and a one-year average Sewer utility rate increase of Fourteen and nine-tenths percent (14.9%), for the average residential customer. The percentage for the average utility rate increase is based upon an average customer using 10,000 gallons per month for water and 3,000 gallons per month for sewer. These increases have been compounded by continued annual inflationary increases in costs, necessary capital improvements, and deferral of rate increases over the previous two years. Since rates have not increased since 2019, the proposed 2022/23 rate increase equates to a three year average the annual rate increase of 6.43% for water and 4.97% for sewer.

As we have experienced, inflationary impacts have been significant on District Capital Improvement and maintenance projects in both labor and materials. Therefore, built into year 1 of the rate model are 6.5% increase in staff labor and 10% increases for Materials & Supplies, Equipment, Chemicals, and Utilities. To keep pace with these increases, Connection Fees, Retroactive Capital Improvement Fees, and the items on the Public Works Fee Schedule are recommended to be increased by Fifteen percent (15%).

The rate study informs the District that long-term borrowing is needed to provide the funding necessary for the updated 5-year capital plan. This includes \$7.1 million for water projects and \$36 million for sewer projects occurring during FY2023-26. As the Trustees are aware the majority of the projected sewer borrowing will be needed for the Effluent Pipeline Project.

The following tables show the current versus proposed 2022/23 rate comparisons for water and sewer for this average customer when maintaining the current rate structure and adjusting rates to meet the revenue requirements.

Residential Water Rate Comparison

Rate Component	Current Rate	Proposed Rate	Change
Base Rate	\$11.97	\$15.88	\$3.91
Capital Improvements	\$15.10	\$15.10	\$0.00
Customer Admin Fee	\$3.97	\$4.23	\$0.26
Defensible Space	\$1.05	\$1.05	\$0.00
Total Monthly Base Water Bill	\$32.09	\$36.26	\$4.17
Water Use	\$1.55	\$2.05	\$0.50
1 st Tier	\$0.93	\$1.23	\$0.30
2 nd Tier	\$1.34	\$1.77	\$0.43

Residential Sewer Rate Comparison

Rate Component	Current Rate	Proposed Rate	Change
Base Rate	\$19.54	\$25.90	\$6.36
Capital Improvements	\$31.45	\$31.45	\$0.00
Customer Admin Fee	\$3.97	\$4.23	\$0.26
Total Monthly Base Sewer Bill	\$54.96	\$61.58	\$6.62
Sewer Use	\$3.20	\$4.20	\$1.00

As part of the study the consultant analyzed the cost of service for each rate class to determine if rates were equitable between the various user types. The consultant discovered the following:

- For Water rates the irrigation revenue could be increased greater than the system average to reflect potential cost of service results. This is due to the significant peak demand that irrigation puts on the capacity needs of the water system and the resulting costs associated with providing this level of service if irrigation is viewed separately. There are currently 62 irrigation customers and 20 IVGID Public Service Recreation irrigation accounts. As the Board of Trustees is aware, there are Public Service Recreation irrigation accounts that do not pay excess water charges for the Tier 1 and Tier 2 water rates, per Ordinance No. 4, Water Ordinance, Section 2.40 Public Service Recreation. Revising the longstanding Board policy decision would significantly impact operating costs for these venues. Another option is to create separate rates for the irrigation customer accounts, which would result in a savings of approximately \$0.30 per month to the average residential customer. However, staff recommends the current rate structure be maintained, and evaluate this option further prior to next year's rate adjustment to include the residential properties who have high usage due to irrigation of landscaping.
- For Sewer rates the commercial class revenue could be increased to better reflect potential cost of service results. The concentration of wastewater for a commercial property versus a residential property causes this additional demand on the sewer system and the increase in the cost to provide service. The recommendation would be to phase an adjustment in over five years, which would shift revenue of approximately \$34,000 in year 1 and approximately \$55,000 by year 5 to the commercial class. In year one, this would result in a savings of approximately \$0.60 per month to the average residential customer. Considering there are approximately 233 commercial customers it could have a significant impact on them in a time when they have been severely impacted by the COVID-19 pandemic

and have had unusual operations that may affect the results. Therefore, staff recommends this adjustment not be implemented until a time where these businesses can return to more normal operations. This should be reviewed on an annual basis so that the Trustees can determine the appropriate time for implementation.

It is also important to understand that this is a cost of service study that reflects the current operating and customer characteristics. Over time, these change and the cost of service will show different results from year to year. Given this is the first comprehensive cost of service study completed for the District, further studies should confirm the results, prior to the Board making full cost of service adjustments.

Five-Year Utility Revenue Increase Plan

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Water Revenue Adjustment	20.0%	12.0%	9.5%	9.0%	3.5%
Sewer Revenue Adjustment	15.0%	12.5%	8.0%	8.0%	3.5%

These recommended revenue increases take into account a gradual approach over a five-year period to achieve operating and capital reserve fund targets per Board policy. Doing so gradually lessens the immediate impact to customers, as opposed to an even greater rate increase to meet these policies in the short-term. The following table shows the likely annual reserves each year for the Utility Fund based upon the proposed rate increases.

Utility Reserve Funds

Operating Fund	FY 2023	FY 2024	FY2025	FY 2026	FY 2027
Ending Balance	\$1,026,042	\$1,097,999	\$1,771,147	\$2,678,148	\$3,283,271
Target	\$2,661,855	\$2,681,860	\$2,807,222	\$2,939,222	\$3,077,774
Capital Fund	FY 2023	FY 2024	FY2025	FY 2026	FY 2027
Ending Balance	\$1,991,126	\$3,437,594	\$4,671,237	\$4,412,236	\$3,925,717
Target	\$3,782,338	\$3,884,461	\$3,989,342	\$4,097,054	\$4,207,675

The above table illustrates that the Fund Reserve target is met for both Operating Funds in FY2027 and Capital Funds in FY2025. The Capital Reserve does drop slightly below the target in FY 2027, which is indicative of Capital Fund reserve balances depending on what spending is planned in any particular year.

Schedule

The schedule for the proposed rate adoption is as follows:

Utility Rate Study Schedule	Date
Rate Study Presentation	February 9, 2022
Set Date of Public Hearing to Adopt New Utility Rates	February 9, 2022
Publish Notice of Public Hearing in Newspaper	February 18, 2022
Conduct Public Hearing and Adopt New Utility Rates	March 30, 2022
New Utility Rates Become Effective – Pending Approval	May 19, 2022

III. BID RESULTS

There are no bid results associated with this Memorandum.

IV. FINANCIAL IMPACT AND BUDGET

The water and sewer utility rates are recommended to increase to provide a combined revenue requirement of approximately \$14.29 million (FY2022/23) which is collected from the District's water and sewer customer via monthly utility bills. The proposed 2022/23 rate adjustments would result in additional revenues of approximately \$1.0 million for the water utility and approximately \$980,000 for the sewer utility.

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

Not set a date for the public hearing and keep Ordinance No. 2 and Ordinance No. 4 the same and not increase water and sewer rates. This will have a long-term negative impact on the assets, including not meeting the District reserve balance policies and financial health of the District's Utility Fund. Water and sewer systems have regulatory oversight so the District must meet operation and infrastructure standards, which requires applicable funding levels.

VI. COMMENTS

There are no comments associate with this Memorandum.

VII. STRATEGIC PLAN REFERENCE(S)

The Utility Rate Study supports Long Range Principle #3 – Finance: The District will ensure fiscal responsibility and sustainability of service capacities through prudent fiscal management and maintaining effective financial policies for internal controls, operating budgets, fund balances, capital improvement and debt management.

VIII. 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.