

Utility Rate Study Preliminary Results

November 10, 2021



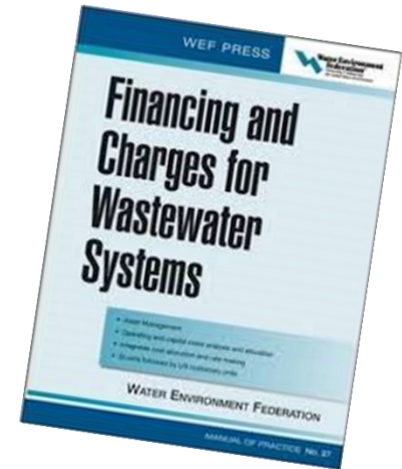
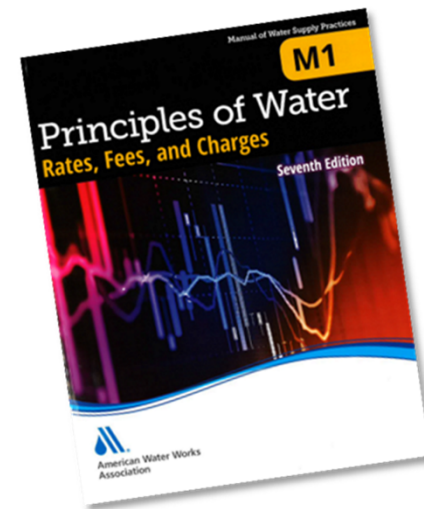
Purpose of the Presentation

- Gain Board feedback and input on the preliminary study results
 - ✓ Financial policies/targets
 - ✓ Capital funding plan
 - ✓ Overall revenue (rate) adjustments
 - ✓ Rate adjustment effective early 2022
 - Followed by consideration of an interim annual mid-year or fiscal year rate adjustment
- Gain Board input on cost of service and rate design analyses
 - ✓ Single rate structure for all customer classes
 - ✓ Preliminary cost of service observations
- Discuss study next steps and schedule

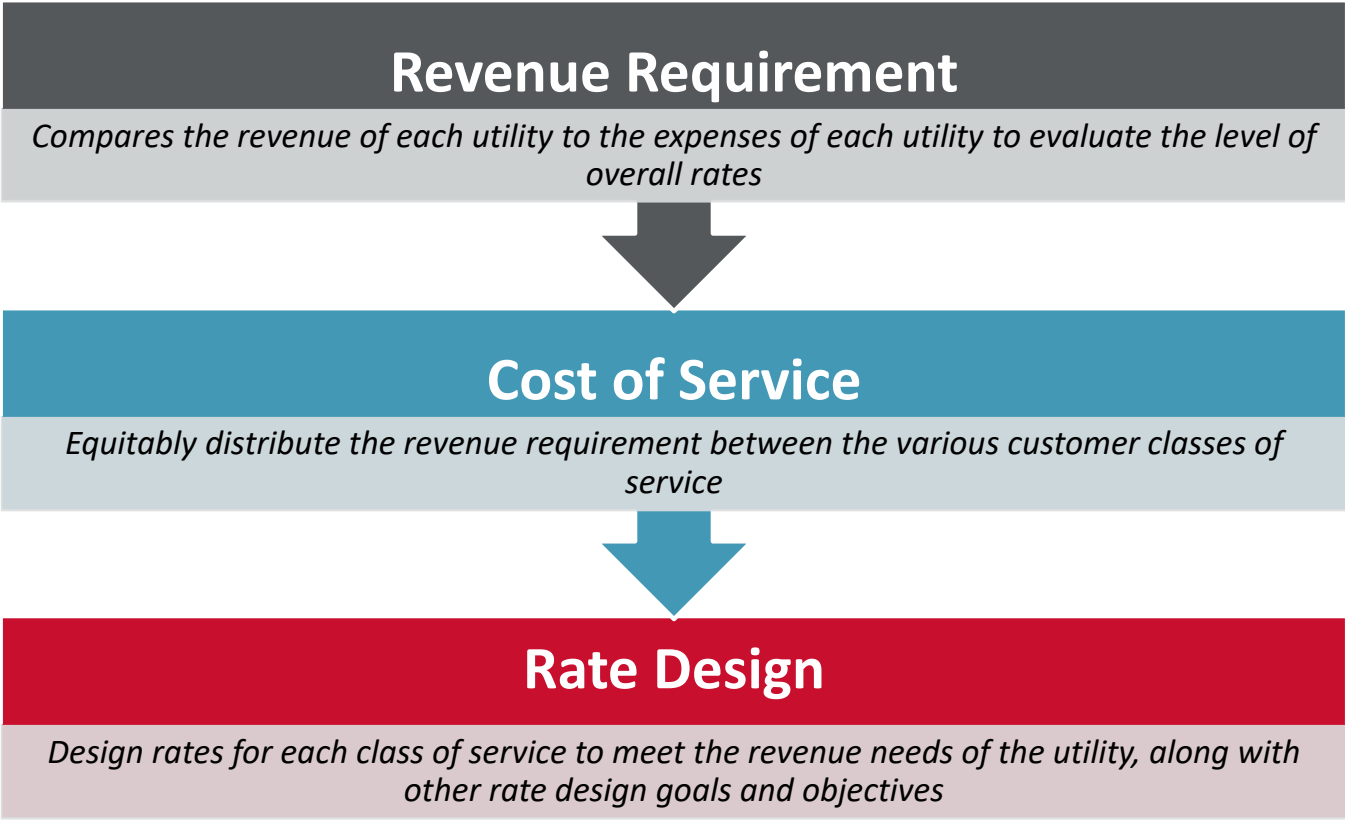


Purpose of the Rate Study

- Provides sufficient revenue to operate and maintain District's water and sewer infrastructure
- Develop equitable, proportional, and cost-based water and sewer rates
- Develop the study using generally accepted methodologies
 - ✓ Tailored to the District's systems and customer characteristics
- Reflect prudent financial planning criteria
 - ✓ Proper use of debt, capital funding, and long-term rate impacts
 - ✓ Maintain adequate debt service coverage ratios (DSC)
 - ✓ Meet target reserve balances



Establishing Cost-Based Rates





Financial / Rate Setting Policies

▪ **Maintain Target DSC Ratio**

- 1.50x minimum target
- Typical legal minimum = 1.10x – 1.30x

▪ **Minimum and Target Ending Operating Reserve Levels**

- Minimum – 90 days of O&M (2022)
 - Water: \$1.1 Million
 - Sewer: \$1.1 Million
- Target – 180 days of O&M (2022)
 - Water: \$2.2 Million
 - Sewer: \$2.2 Million

▪ **Target Ending Capital Reserve Levels**

- Target – Annual Average Capital Expense
 - Water: \$1.7 Million (FY 2022 – FY 2032)
 - Sewer: \$1.9 Million (FY 2022 – FY 2032)
 - » Excludes effluent pipeline
 - Annual depreciation expense ~\$1.8 Million

▪ **Annual Funding of Renewal and Replacements**

- Target – Annual Renewal and Replacement Needs
 - Water: \$1.8 Million
 - Sewer: \$1.9 Million
- Currently funded through capital charge

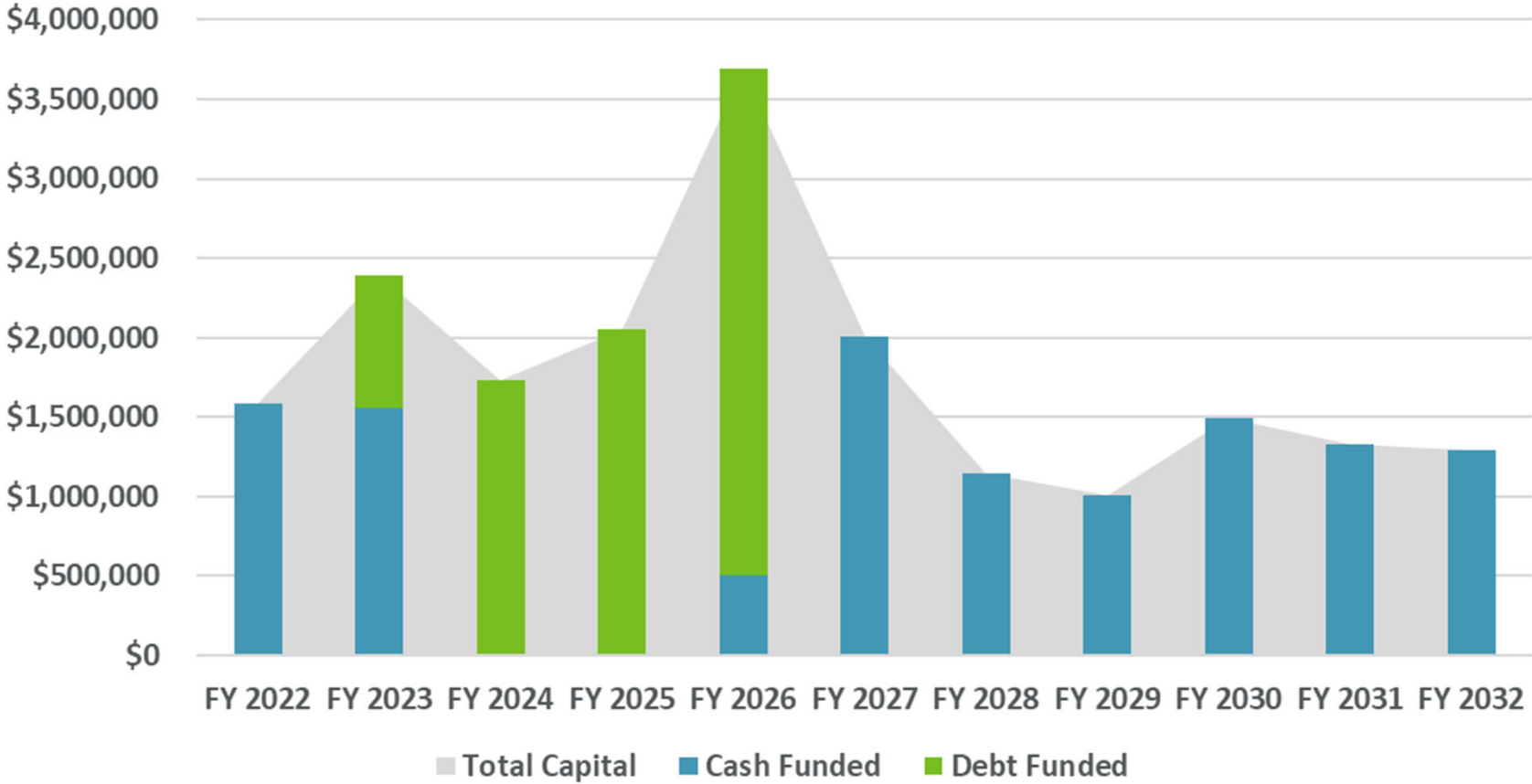
Revenue
Requirement



Overview of the Revenue Requirement

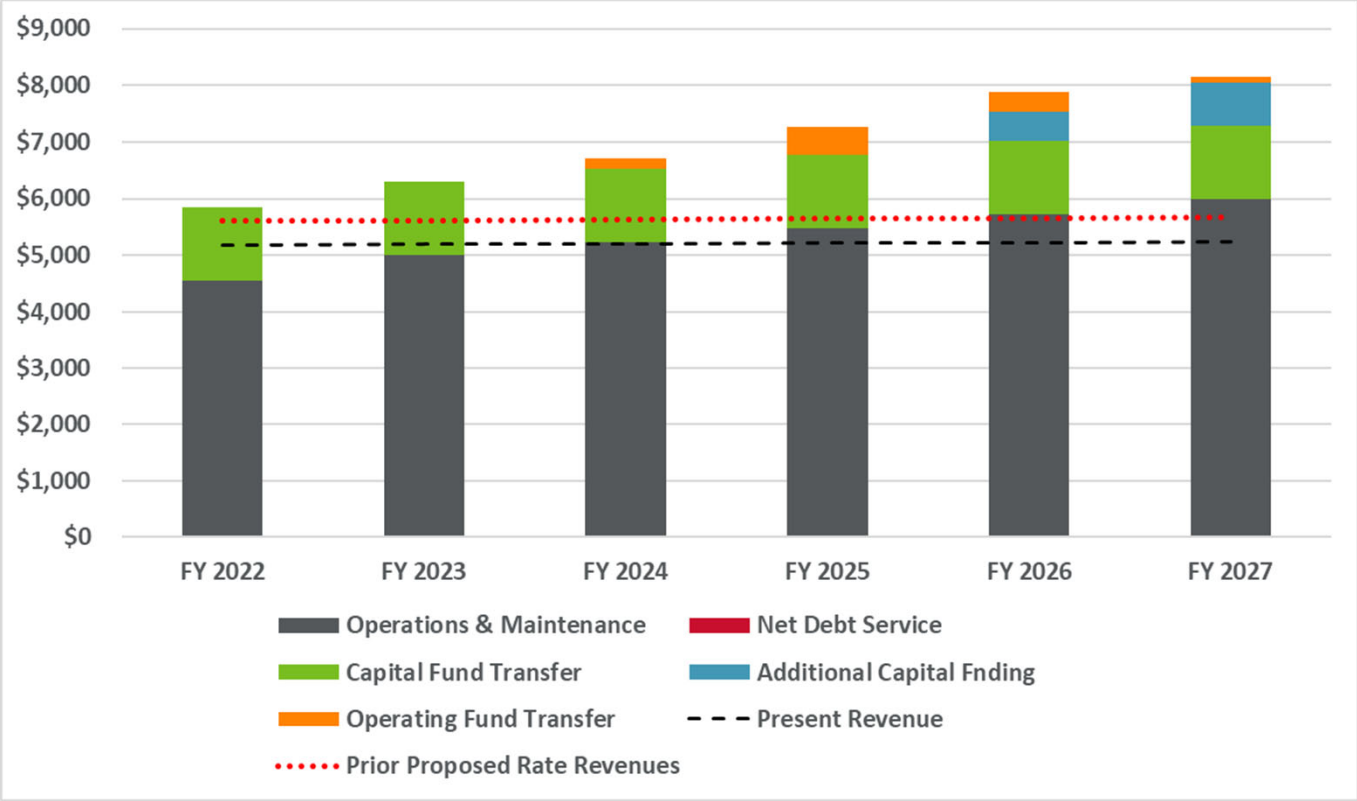
- Compares utility revenues to expenses**
 - Determines the level of revenue (rate) adjustment necessary
- Uses prudent financial planning criteria**
 - Maintaining sufficient ending reserve balances
 - Attaining target debt service coverage (DSC) ratio
- Reviews a specific time period**
 - Five-year rate schedule; ten-year financial plan
- Utility is analyzed on a “stand-alone basis”**
 - No transfer of funds from other District funds
 - Rates need to support operations and capital
- Utilizes the “cash basis” methodology**
 - Generally accepted method for municipal utilities

Water Capital Improvement Funding Plan

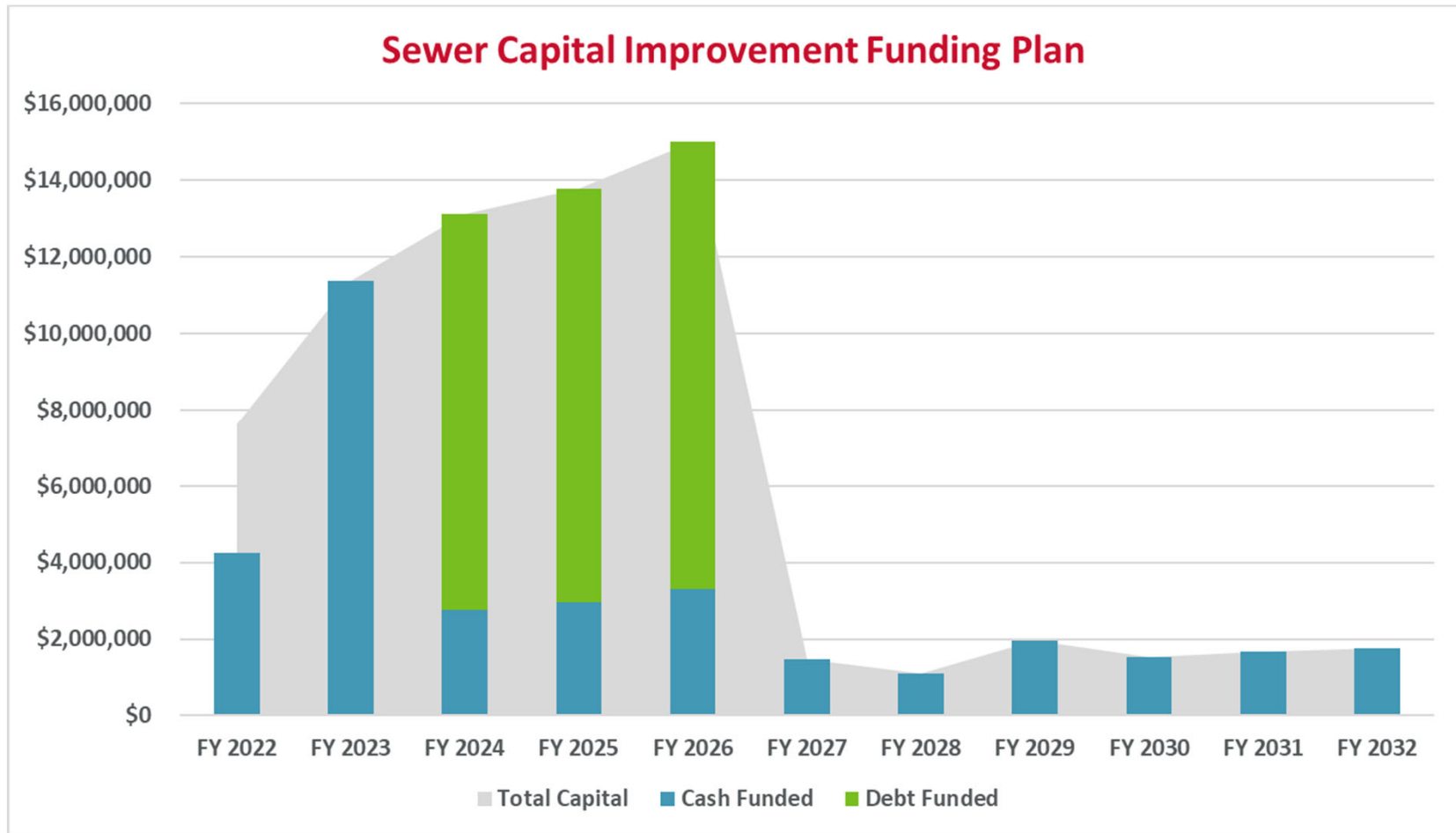


Additional long-term debt for disinfection plant improvements, main replacements, and pump station improvements

Preliminary Water Revenue Requirement Summary (\$000's)

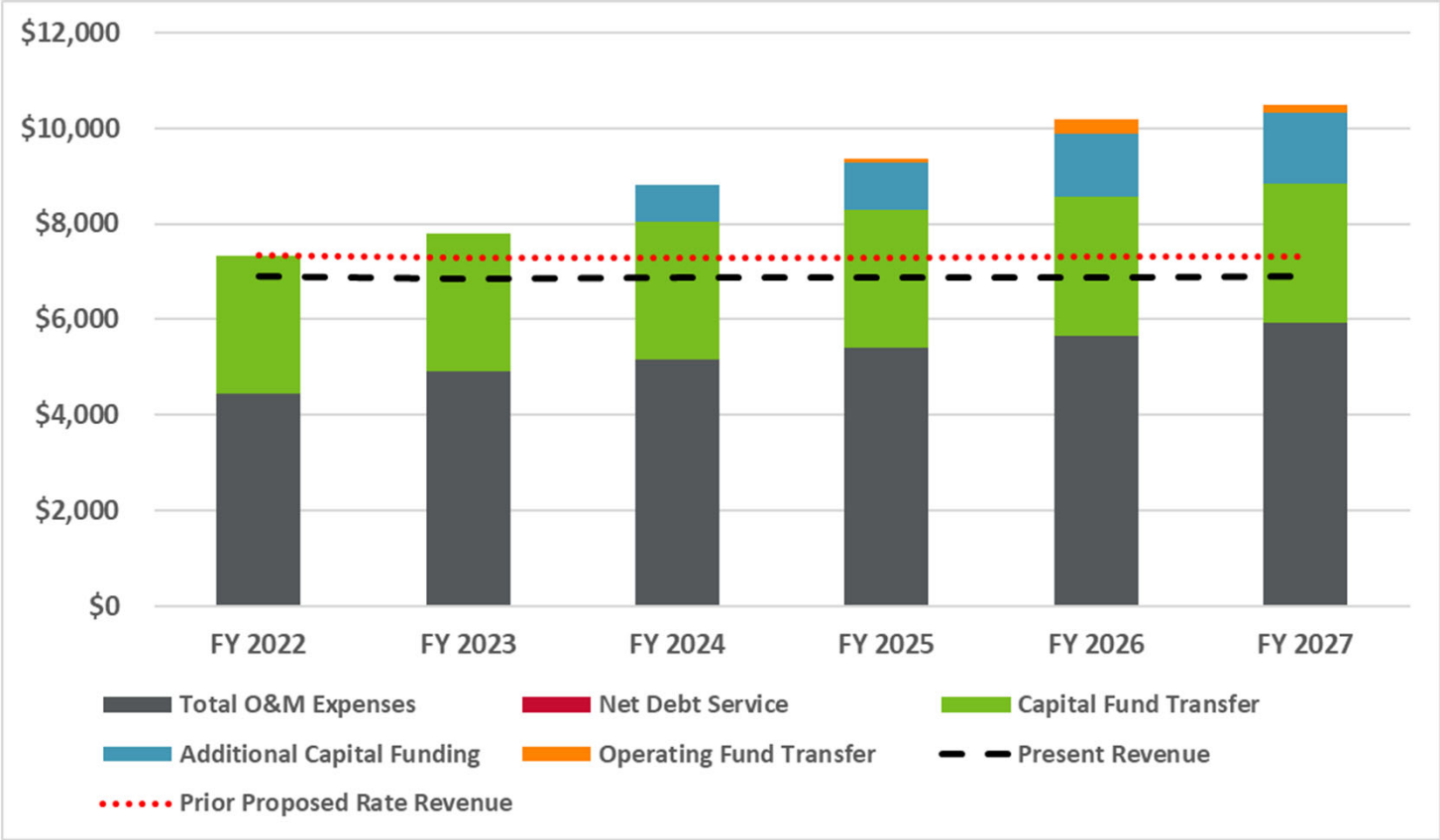


* Prior proposed rate revenue includes a 4.2% in FY 2021 and 4.2% in FY 2022
 ** Annual Debt Service Payments are funded through annual capital charge



Additional long-term debt for effluent pipeline funding

Preliminary Sewer Revenue Requirement Summary (\$000's)



* Prior proposed rate revenue includes a 6.4% in FY 2021 and 4.2% in FY 2022

** Annual Debt Service Payments are funded through annual capital charge

Preliminary Monthly Revenue / Rate Adjustments

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Water						
Avg Customer Bill ¹	\$47.59	\$57.11	\$62.25	\$67.54	\$73.28	\$75.84
Monthly Change		\$9.52	\$5.14	\$5.29	\$5.74	\$2.56
Sewer						
Avg Customer Bill ²	\$64.56	\$72.63	\$81.71	\$89.06	\$97.08	\$99.99
Monthly Change		\$8.07	\$9.08	\$7.35	\$8.02	\$2.91
1] – Based on 10,000 gal and base charge, capital improvement, admin fee, and defensible space 2] – Based on 3,000 gal and base charge, capital improvement, and admin fee						

Revenue Requirement – Policy Discussion

Meeting Financial Policies

- Debt service coverage ratio
- Target ending reserve balances
- Methodology and approach
- Use of long-term debt

Prudent Funding of Annual Renewal and Replacement

- Annual depreciation expense
- Future replacement needs

Long-Term Financial Sustainability

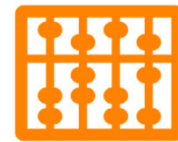
Levels of Service

- Projection of future O&M
- Additional programs/practices
- Capital infrastructure needs

Use of Capacity Related Fees

- Capacity projects
- Capacity related debt service

Cost of Service



Overview of the Cost of Service

What is cost of service?

- Analysis to proportionally distribute the revenue requirement to each customer classes of service

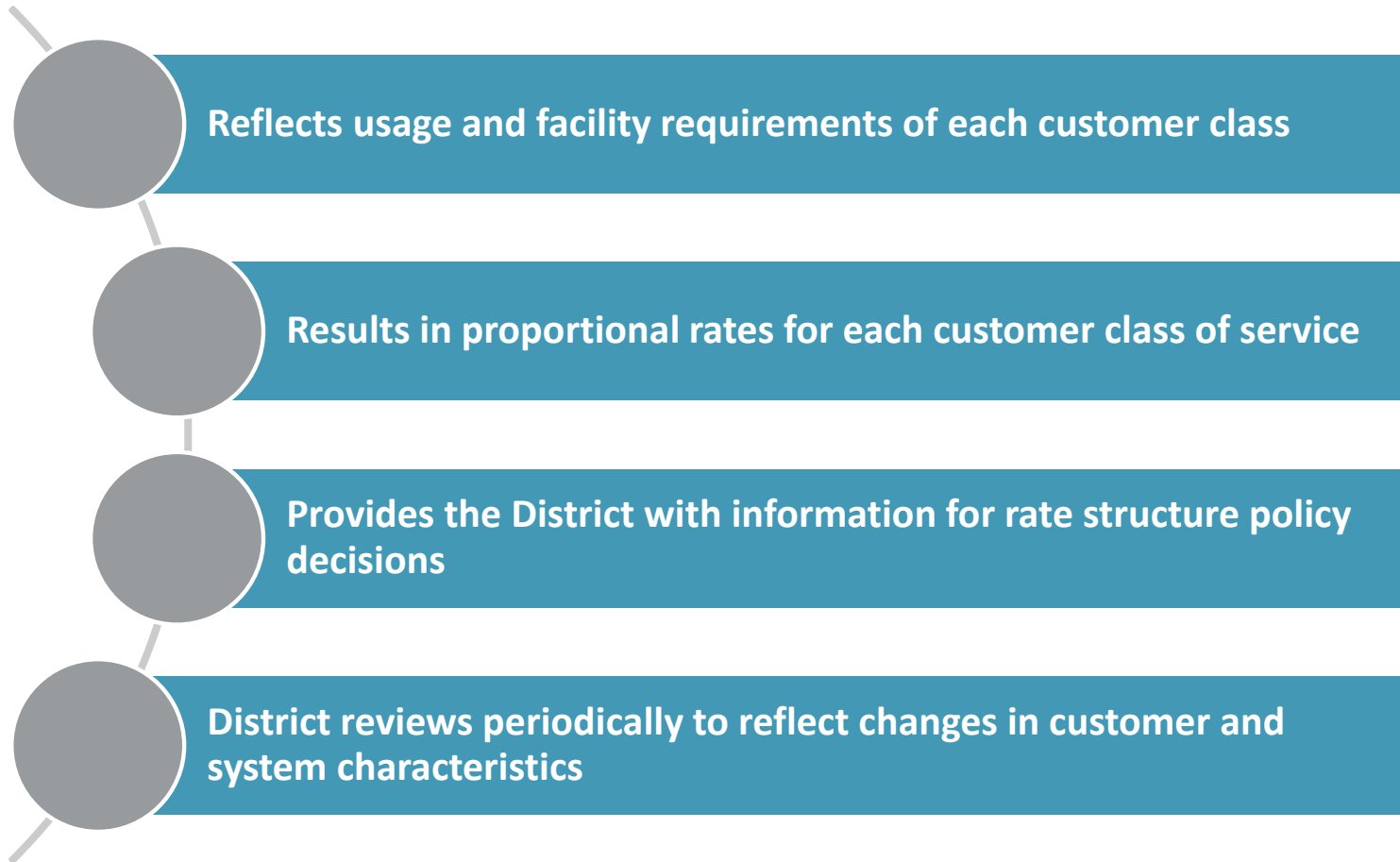
Why cost of service

- Generally accepted as “fair and equitable”
- Avoids interclass subsidies
- Revenues reflect costs

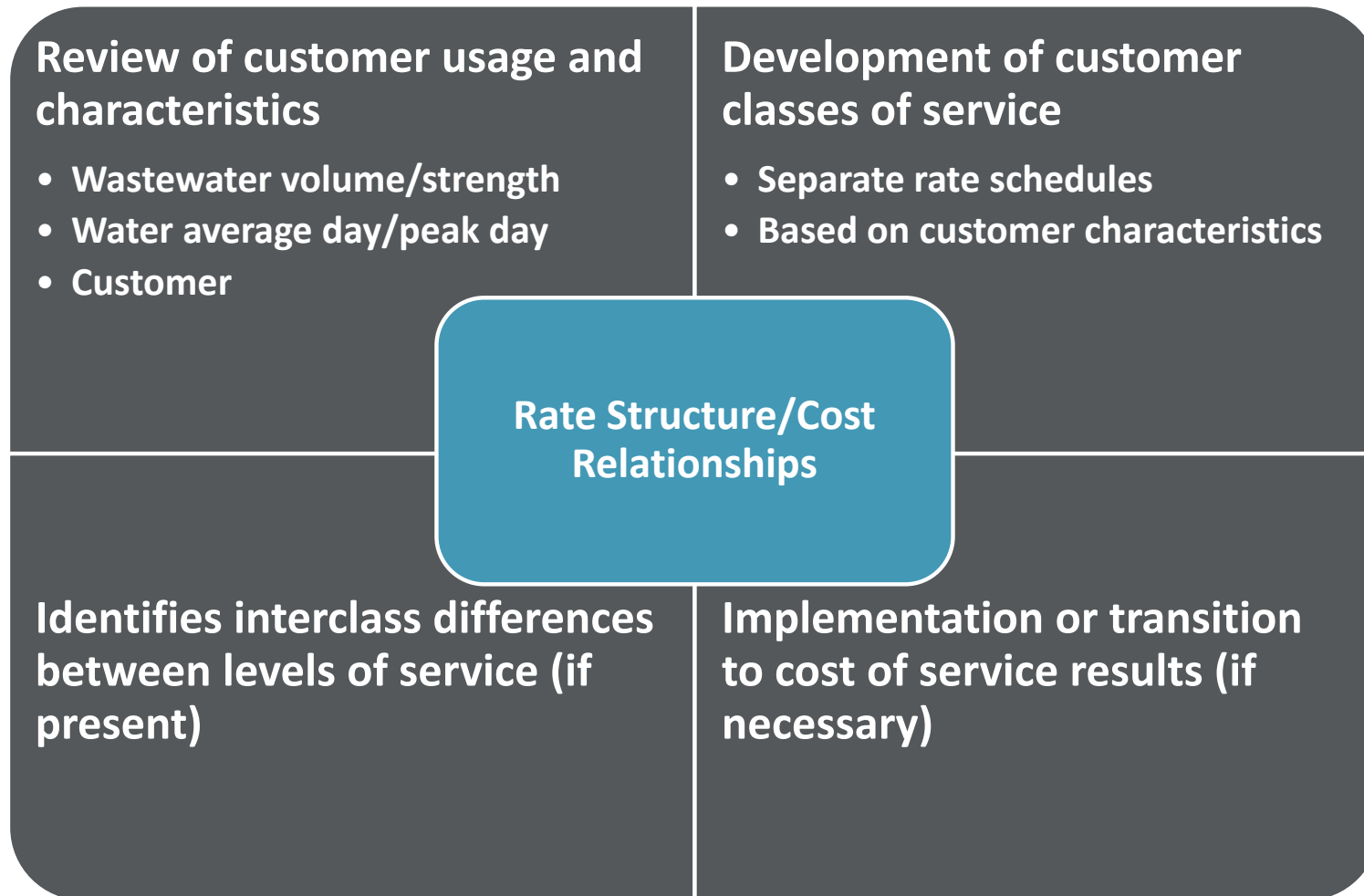
Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

Summary of the Cost of Service



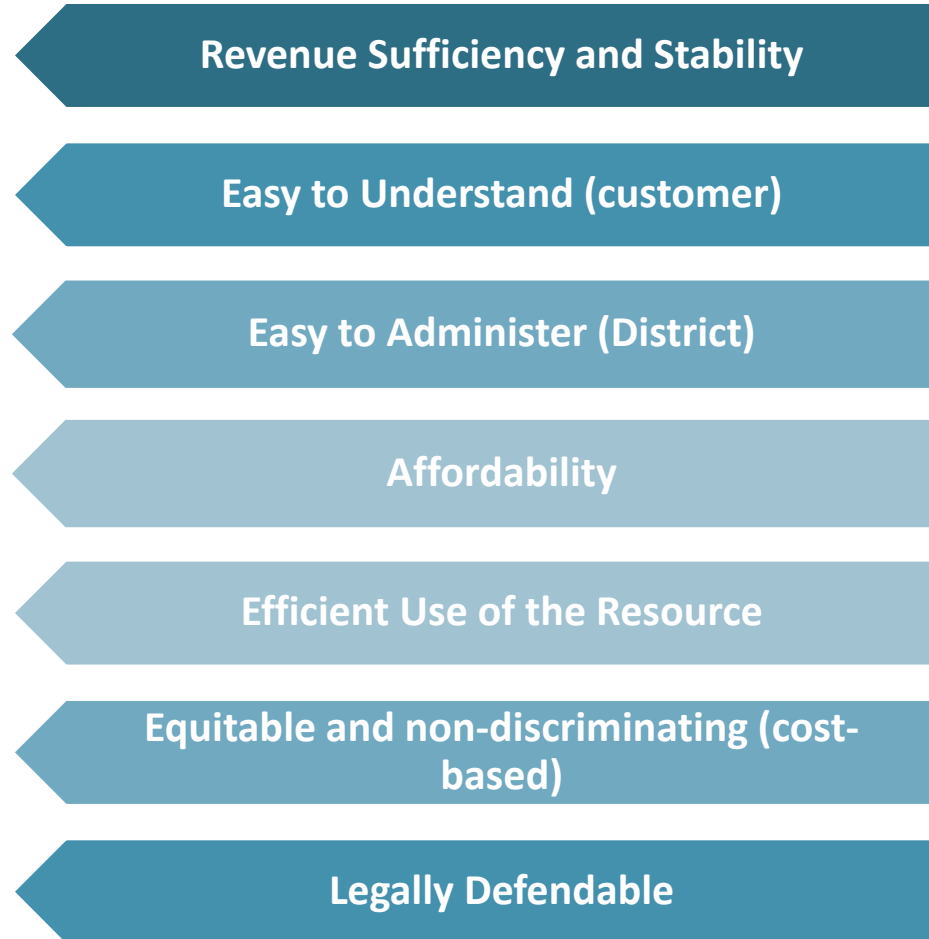
Cost of Service – Policy Discussion



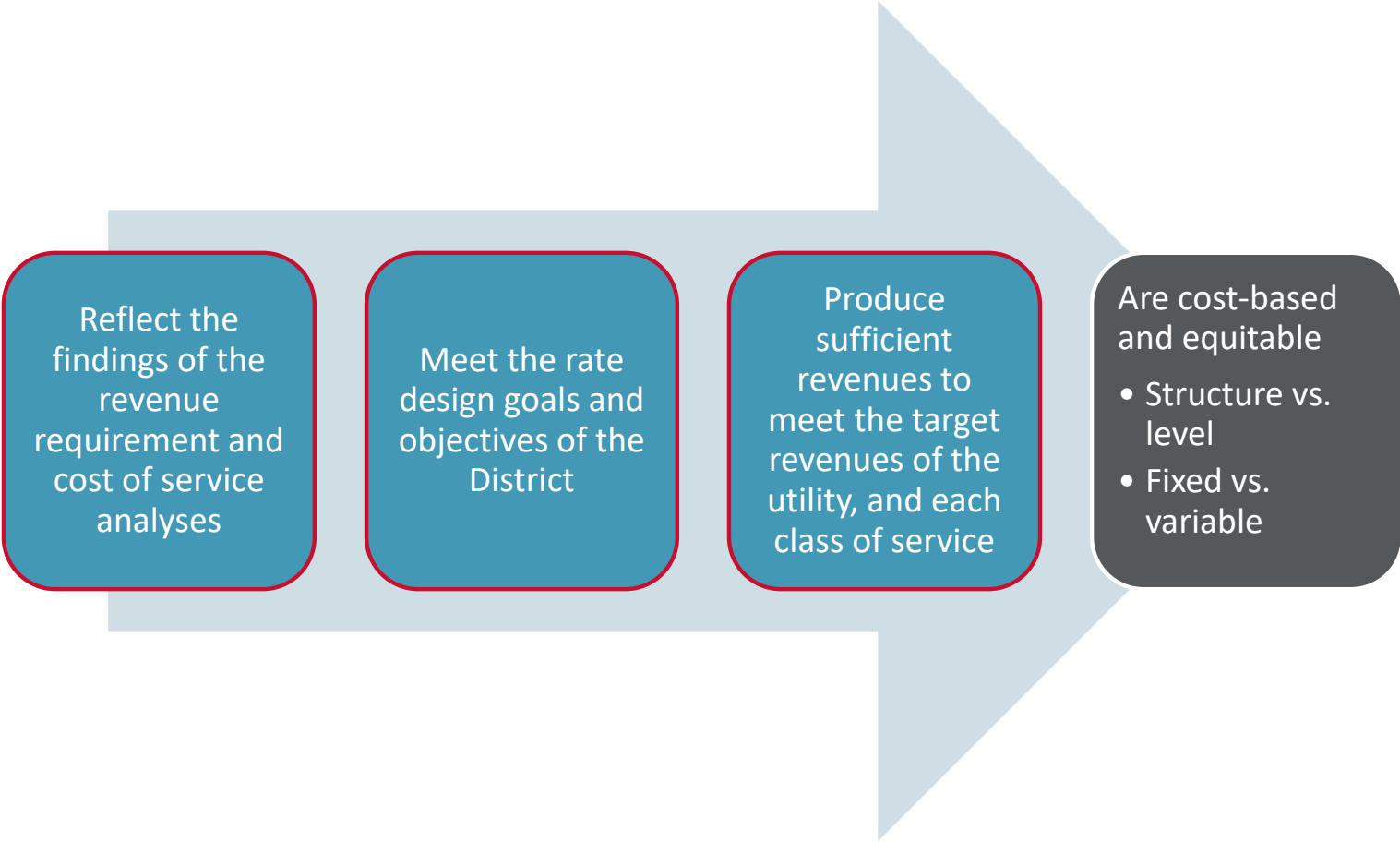
Rate Design



Typical Rate Setting Goals and Objectives



Overview of the Rate Design



Current Water and Sewer Rate Structures

▪ Water

- Fixed Charge – Consists of multiple components: base charge, capital improvement, and admin fee
 - Single Family & Multi Family: Flat rate per account or unit
 - Commercial and Irrigation: Varies by service meter size
- Variable Charge
 - Three-tiered increasing block structure for all classes
 - » 0 – 20,000 gallons
 - » 20,000 – 60,000 gallons
 - » 60,000 + gallons

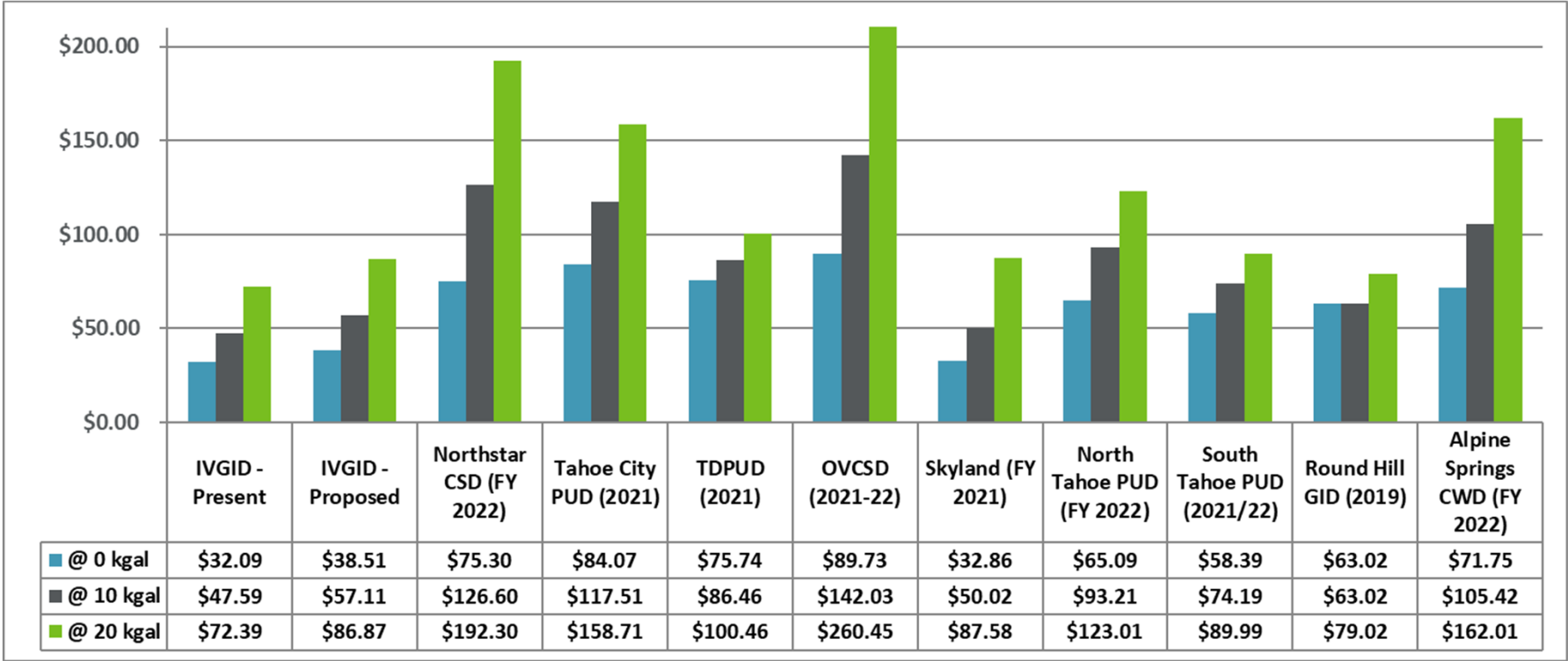


▪ Sewer

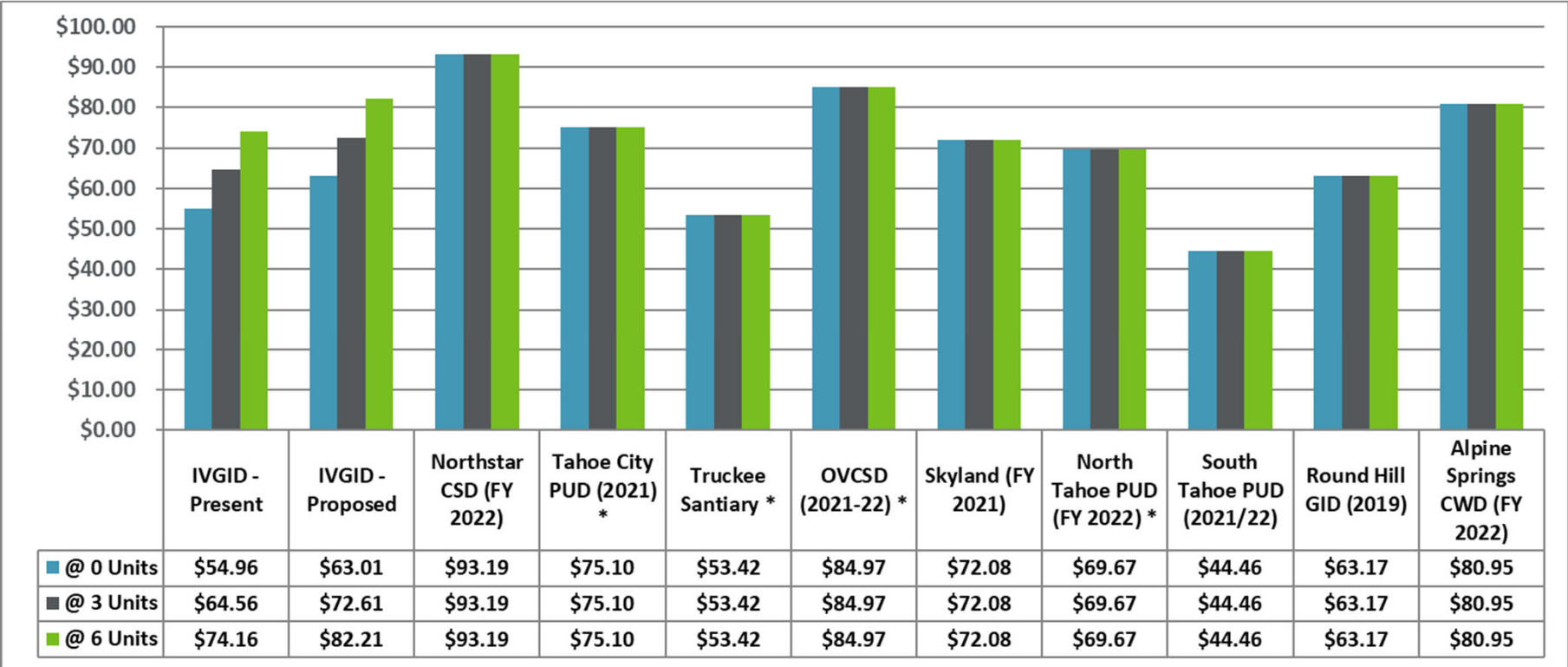
- Fixed Charge – Consists of multiple components: base charge, capital improvement, and admin fee
 - Single Family & Multi Family: Flat rate per account or unit
 - Commercial : Varies by service meter size
- Variable Charge
 - Uniform rate structure for all classes
 - Winter water cap for residential customers



Local Monthly Residential Water Bill Comparison

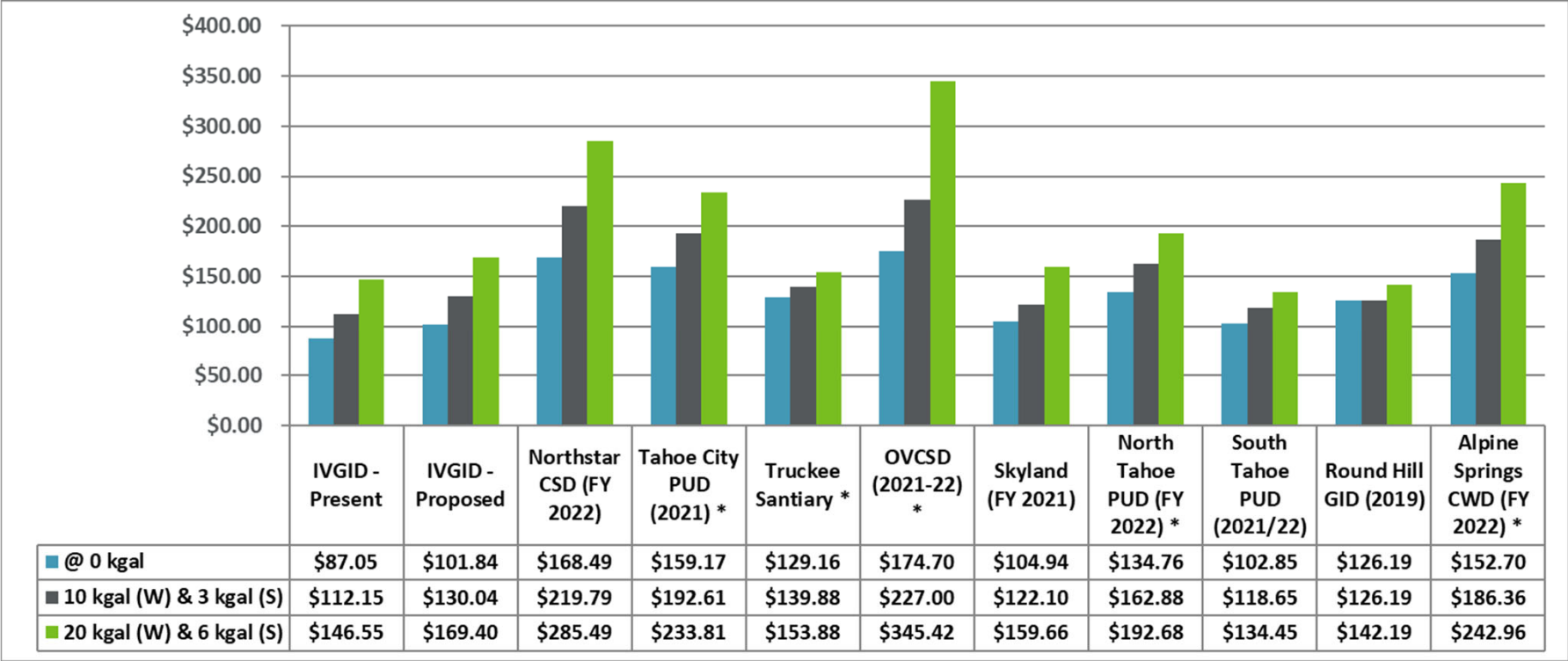


Local Monthly Residential Sewer Bill Comparison



*Rates include TTSA charge for treatment services

Local Monthly Combined Residential Bill Comparison



*Rates include TTSA charge for treatment services

Next Steps and Schedule



Next Steps

- Gain Board feedback and input
 - Policies
 - Capital funding
 - Rate revenue adjustments and timing
 - Cost of service and rate design
- Develop draft water and sewer rate technical analyses
- Review draft results with District staff
 - Discuss draft results with Board
- Review of miscellaneous fees and charges
- Finalize technical analyses
- Written documentation and present findings and recommendations

Estimated Project Schedule

- Today: Review of preliminary rate study results
 - Rate adjustment effective early 2022
 - Followed by consideration of an interim annual mid-year or fiscal year rate adjustment
- January: Rate study presentation
 - Set public hearing
- February: Public hearing
- March: Rate implementation

Thank you for your input!

