



# Utility Rate Study Update Preliminary Results

**February 8, 2023**



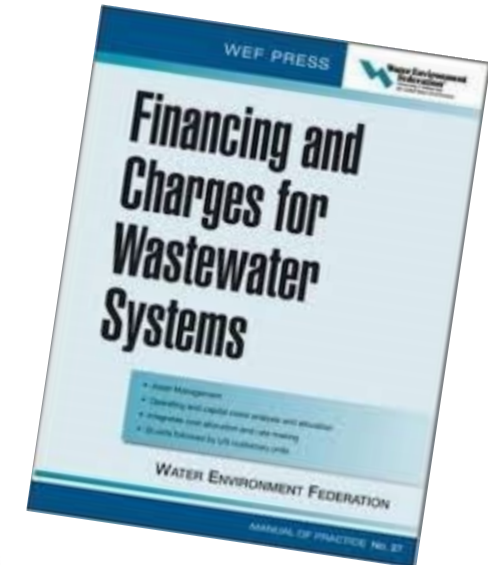
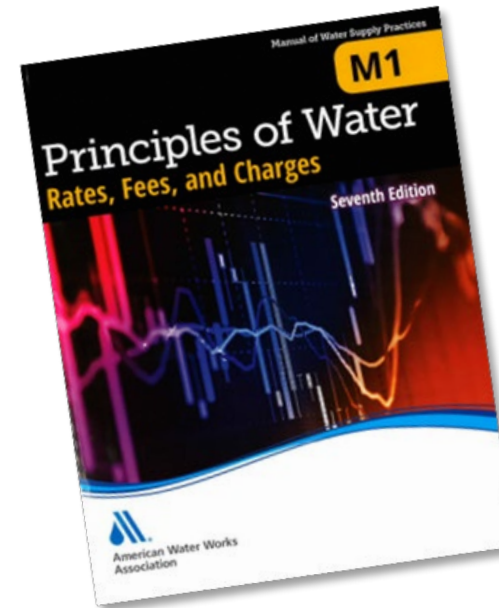
## Purpose of the Presentation

- Gain Board feedback and input on the preliminary study update
  - ✓ Financial policies/targets
  - ✓ Capital funding plan
  - ✓ Overall revenue (rate) adjustments
  - ✓ Multi-year rate transition plan
- Gain Board input on cost of service and rate design analyses
  - ✓ Preliminary cost of service results and proposed adjustments
  - ✓ Maintain rate structures developed in prior rate study
- Discuss study next steps and schedule

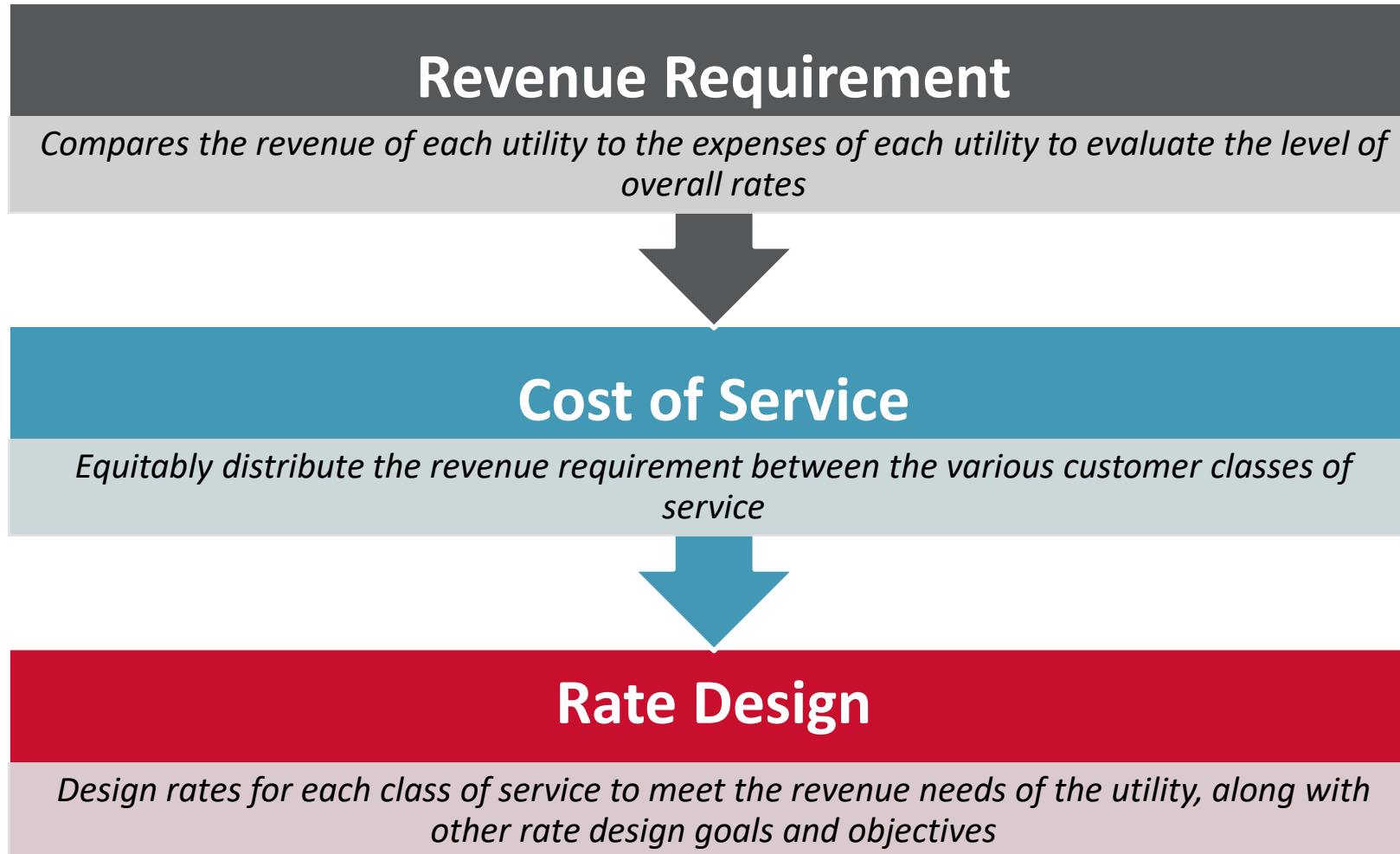


# Rate Study Goals and Objectives

- 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
  - ✓ Appropriate levels of capital funded through rates
  - ✓ Maintain adequate debt service coverage ratios (DSC)
  - ✓ Meet target reserve balances



# Establishing Cost-Based Rates



## Revenue Requirement



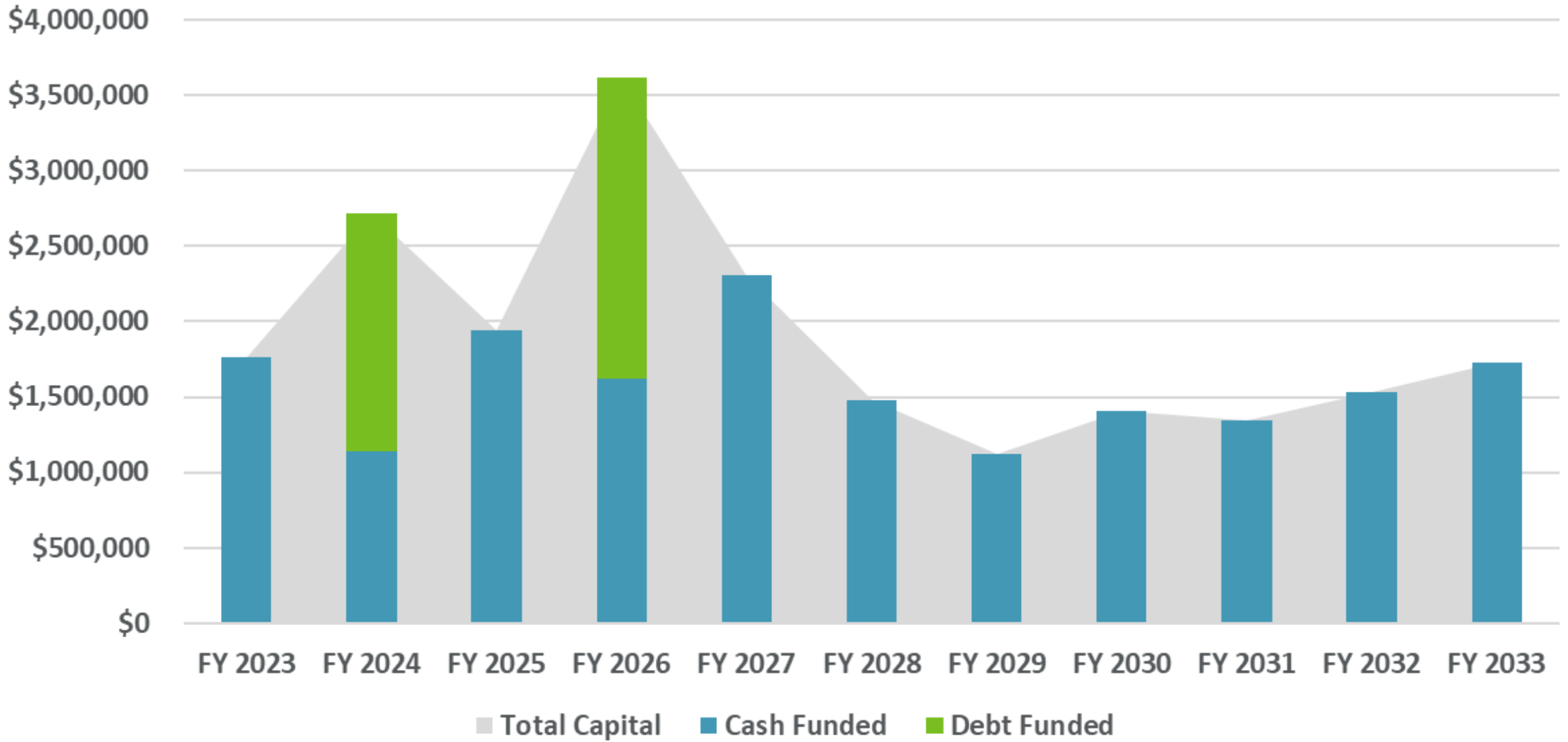
# Overview of the Revenue Requirement

- 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

## Revenue Requirement Key Assumptions

- Revenue is based on adopted rates and recent customer characteristics
  - ✓ Minimal customer growth assumed
- Annual capital charge revenue is used for funding:
  - ✓ Annual capital projects
  - ✓ Annual debt service used to finance capital projects
- O&M expenses are based on the FY 23 budget
  - ✓ FY 24 additional FTE split between water and sewer
  - ✓ Future year projections based on an average annual inflationary assumption of 4.6%
- Capital funding analysis is based on current updated capital plan
  - ✓ Includes long-term borrowing to fund annual capital needs

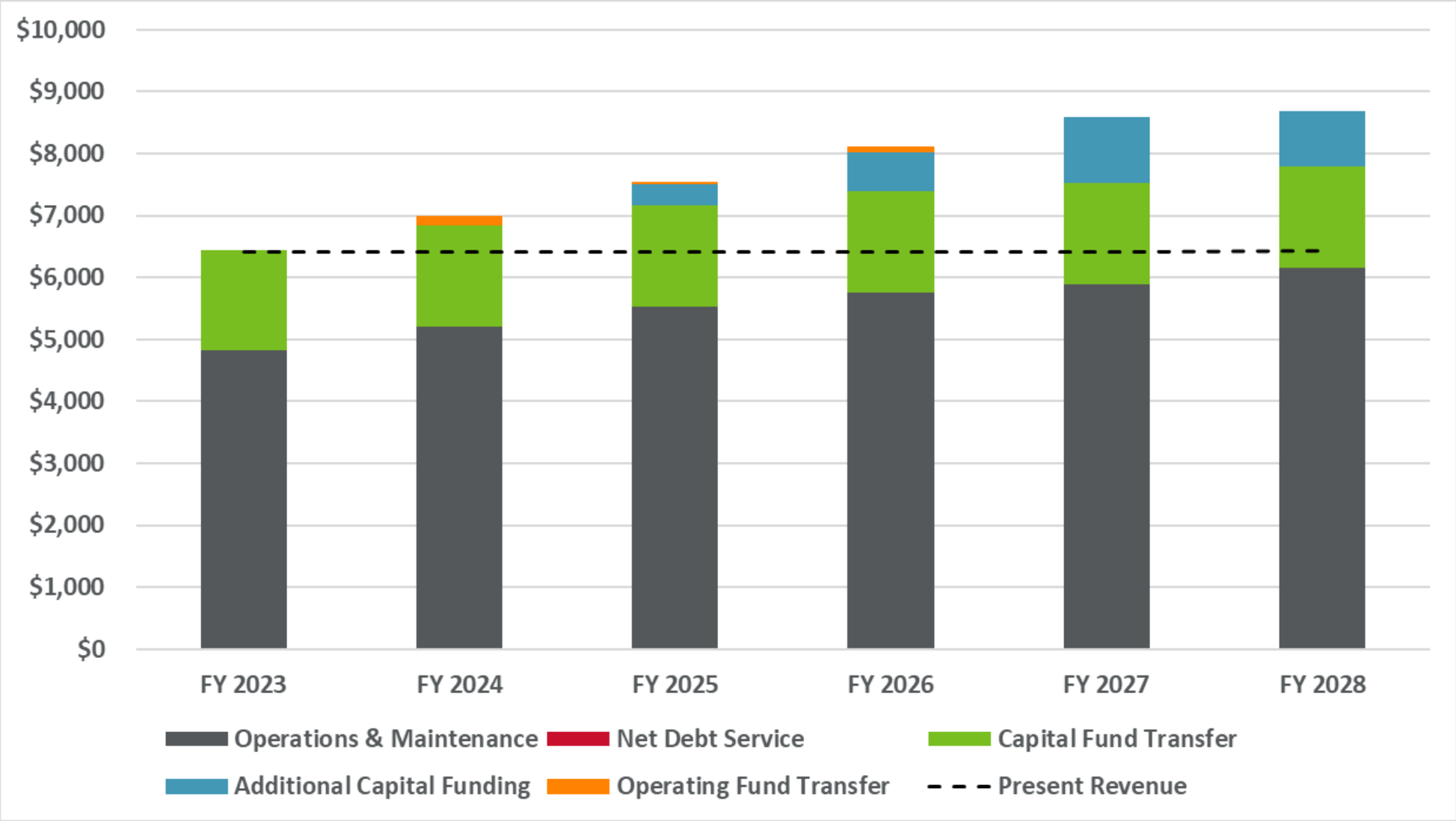
## Water Capital Improvement Funding Plan



**Additional long-term debt for disinfection plant (2026) improvements and water main replacements (2024)**

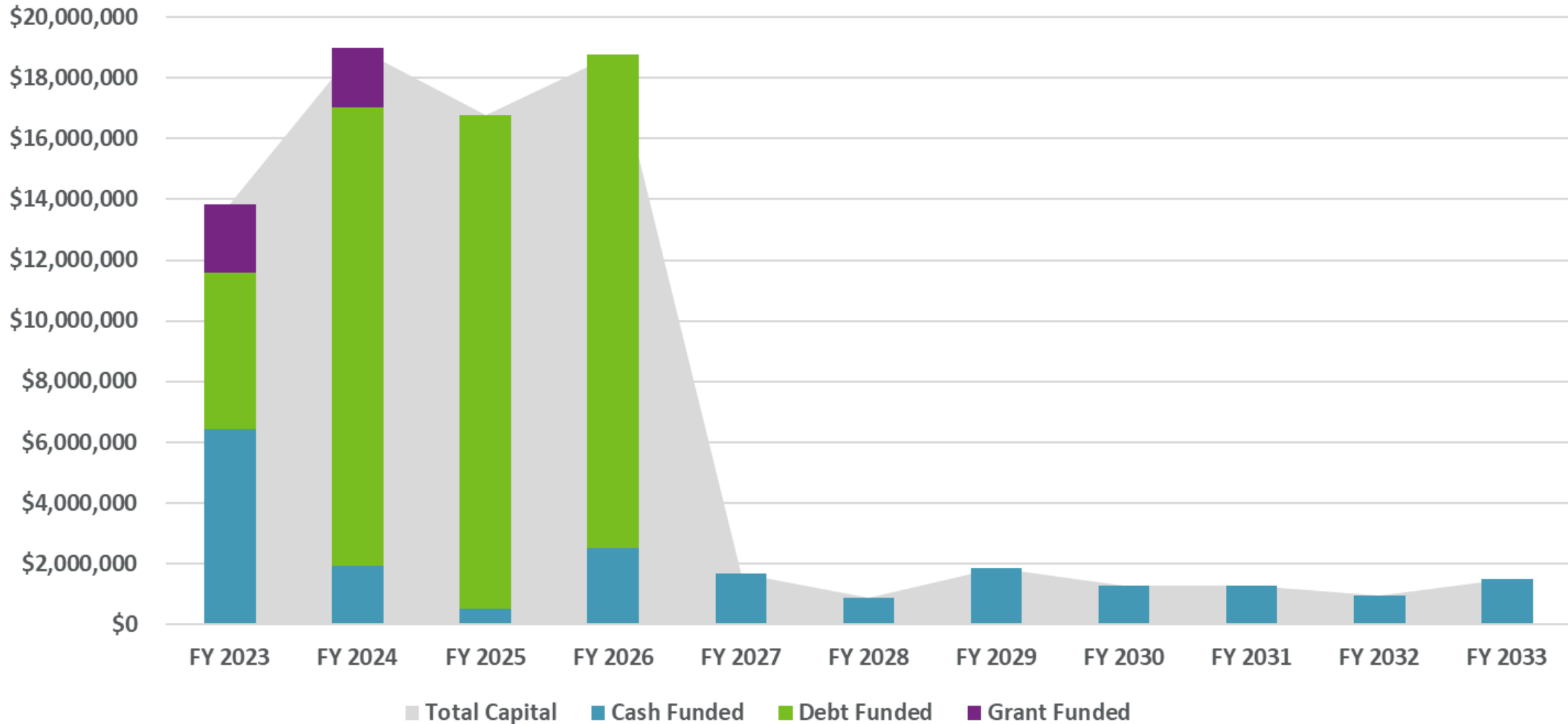


# Preliminary Water Revenue Requirement Summary (\$000's)



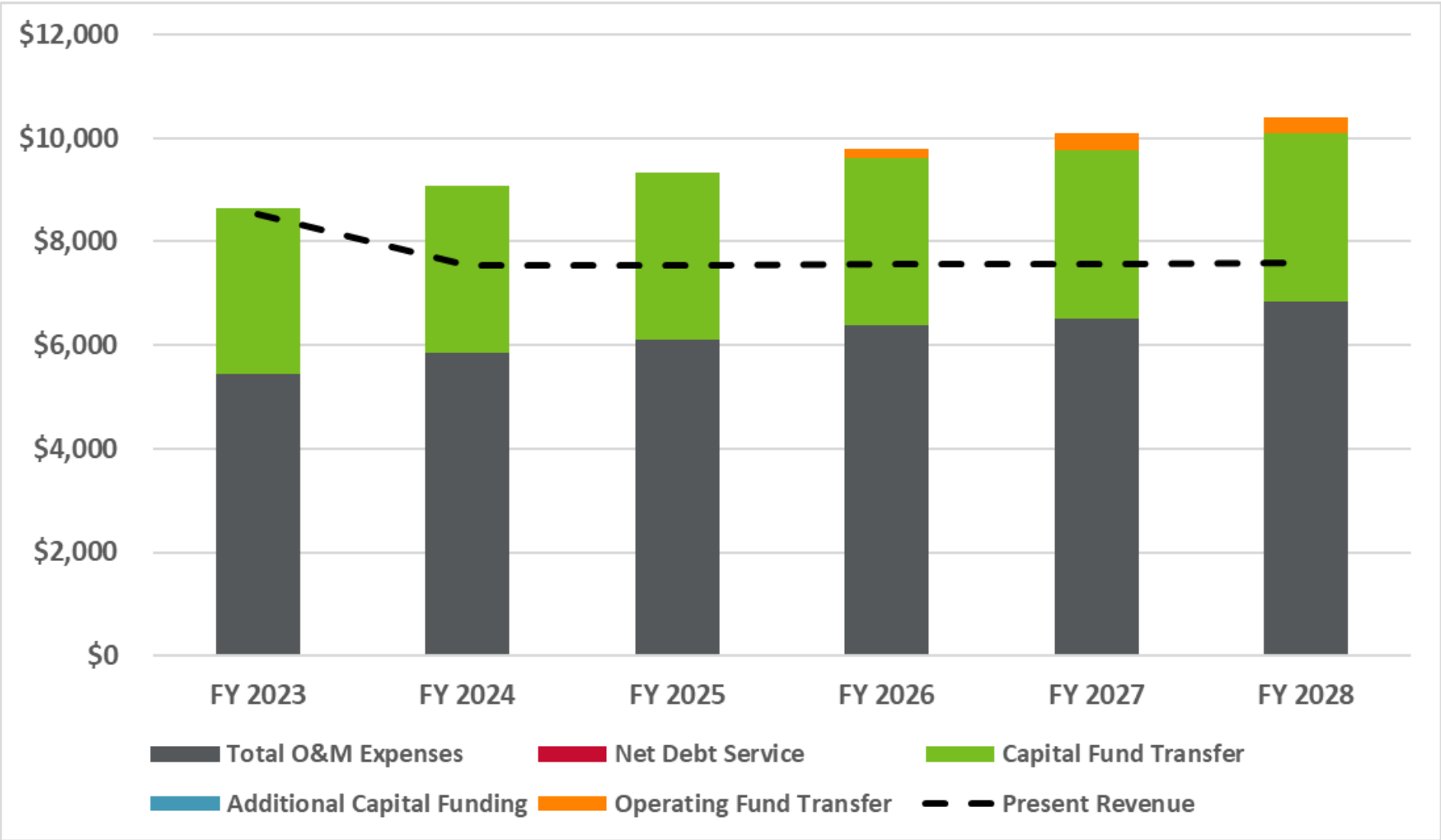
**\*\* Annual Debt Service Payments are funded through annual capital charge**

## Sewer Capital Improvement Funding Plan



**Additional long-term debt for effluent pipeline funding; grant funding for pond lining/storage tank**

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



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

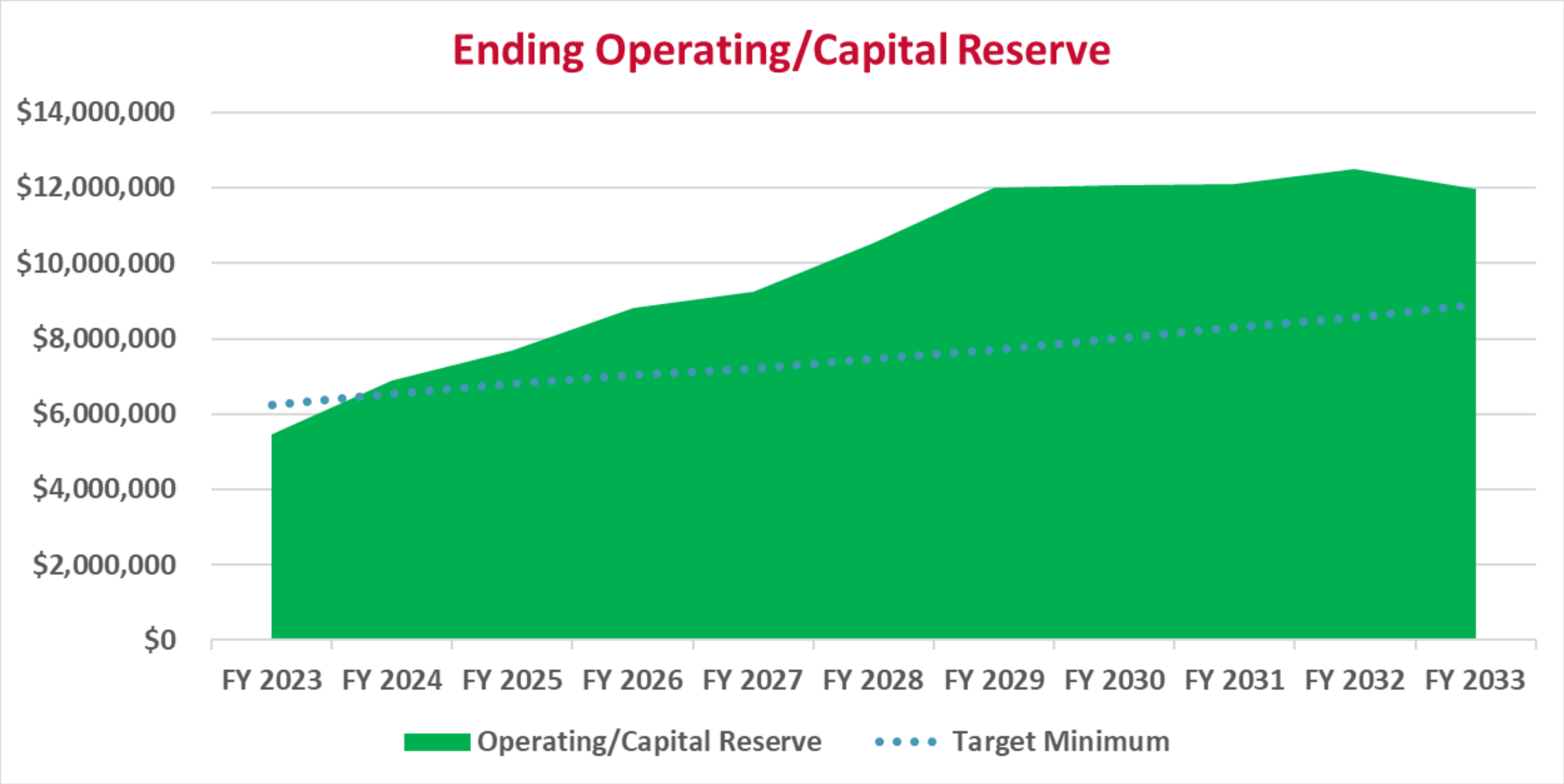
# Preliminary Monthly Revenue / Rate Adjustments

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
<b>Water</b>						
Avg Customer Bill <sup>1</sup>	\$54.98	\$59.39	\$64.19	\$69.17	\$73.34	\$73.70
Monthly Change		4.41	4.80	4.97	4.18	0.35
<b>Sewer</b>						
Avg Customer Bill <sup>2</sup>	\$72.78	\$82.39	\$88.72	\$93.99	\$96.84	\$99.76
Monthly Change		9.61	6.33	5.26	2.85	2.92

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

# Preliminary Combined Ending Reserve Balances

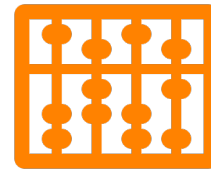


\* Target Minimum based on 25% of O&M plus Annual Depreciation Expense

## Observations from the Preliminary Revenue Requirement Analyses

- Rate revenue adjustments are necessary to:
  - ✓ Adequately fund current and future O&M expenses
  - ✓ Fund capital improvement needs
  - ✓ Meet District financial policies
- Water utility impacts
  - ✓ Adequately fund annual O&M
  - ✓ Need to debt finance capital needs to transition rate adjustments and capital funding needs
- Sewer utility impacts
  - ✓ Funding needs for the effluent pipeline
  - ✓ Adequately fund annual O&M

**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



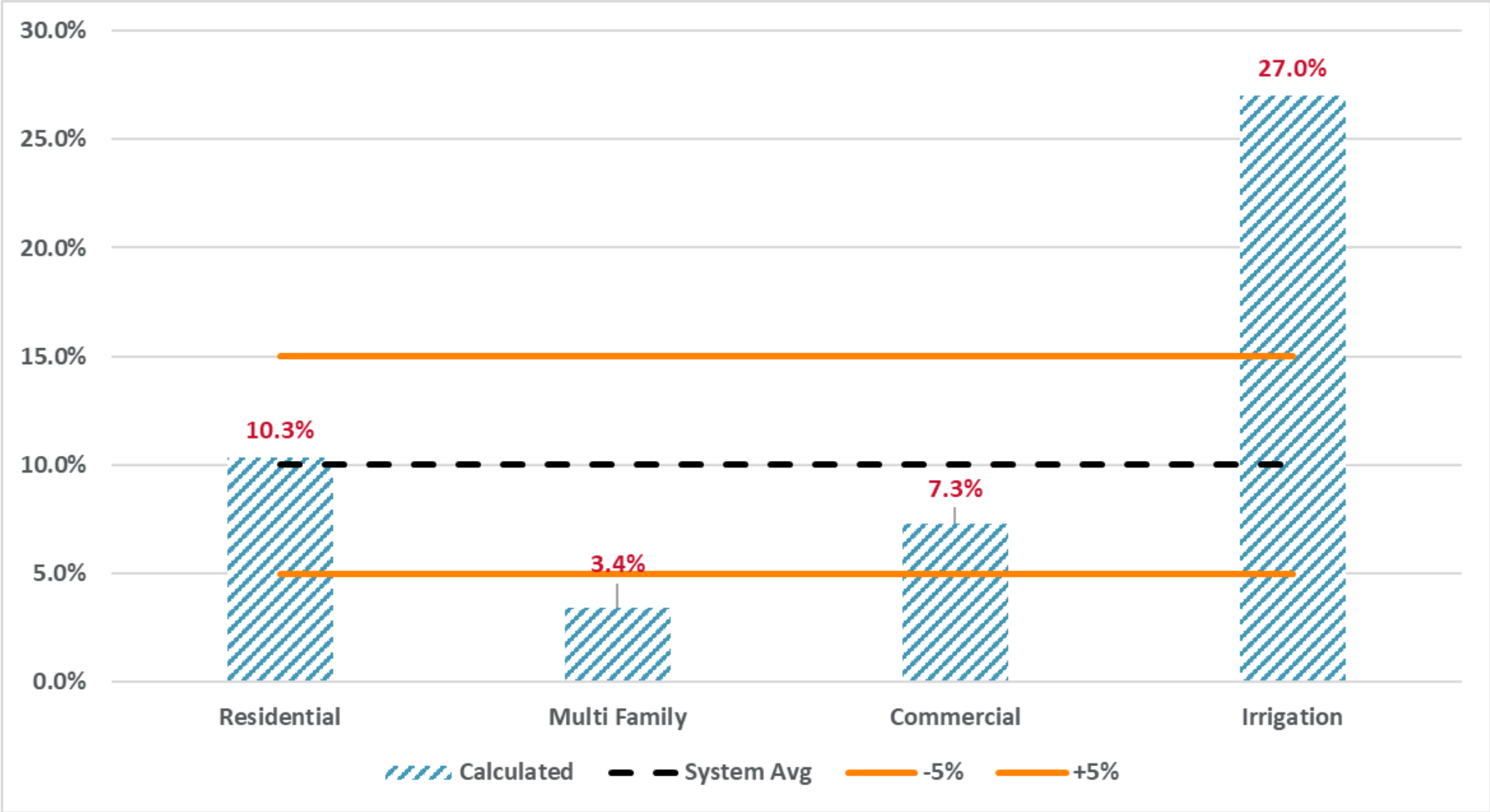
## **Preliminary Water Cost of Service Key Assumptions**

- Primary allocation and distribution components:
  - ✓ Average day
  - ✓ Peak day
- Preliminary results
  - ✓ Residential, multi-family, and commercial are reasonable
  - ✓ Irrigation continues to show the need for greater increases
- Recommend above average increase to irrigation customer rates

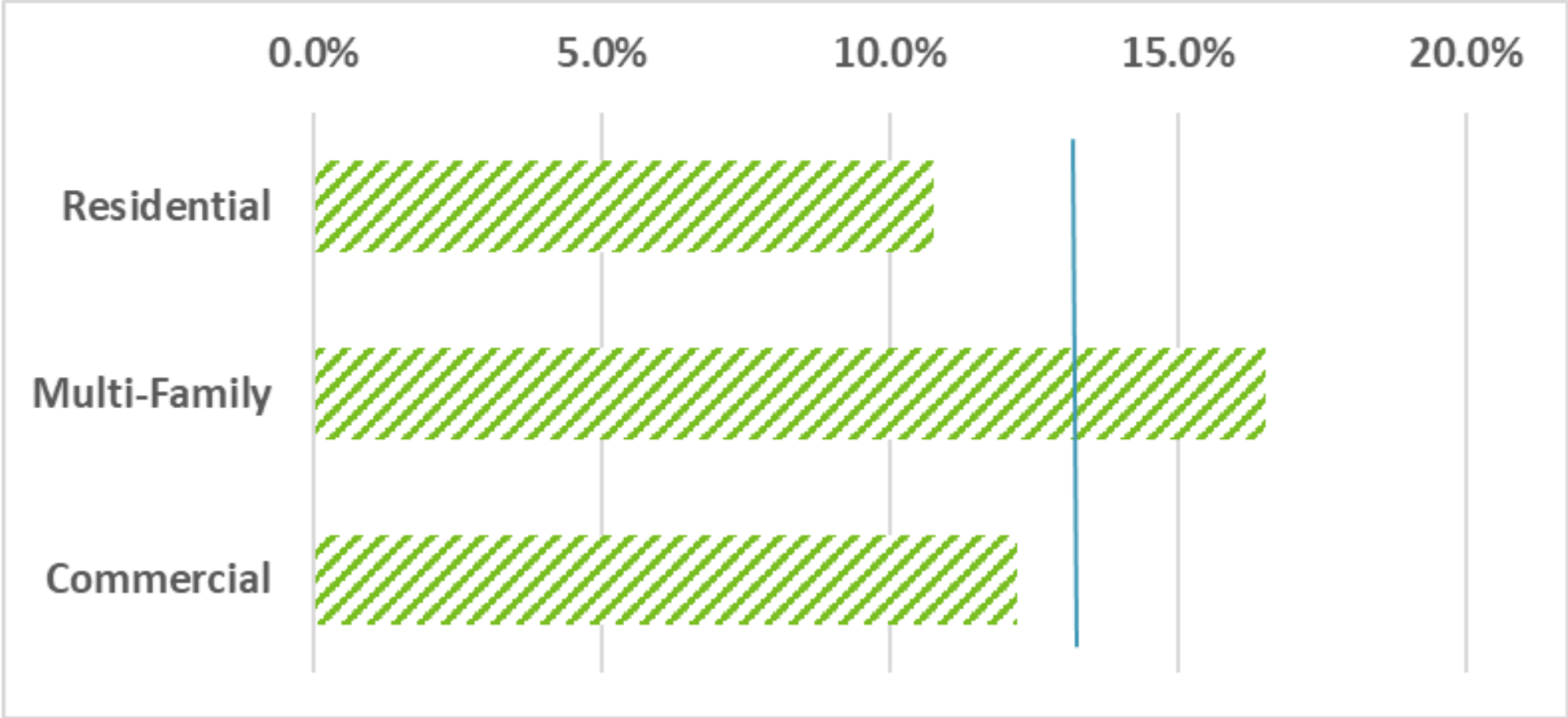
## **Preliminary Sewer Cost of Service Key Assumptions**

- Primary allocation and distribution components:
  - ✓ Average volumes
  - ✓ Strength impacts
- Preliminary Results
  - ✓ Prior study adjustments result in very minimal cost of service differences
- Recommend “across the board” adjustments

# Water Cost of Service Summary (FY 2024)



# Sewer Cost of Service Summary (FY 2024)



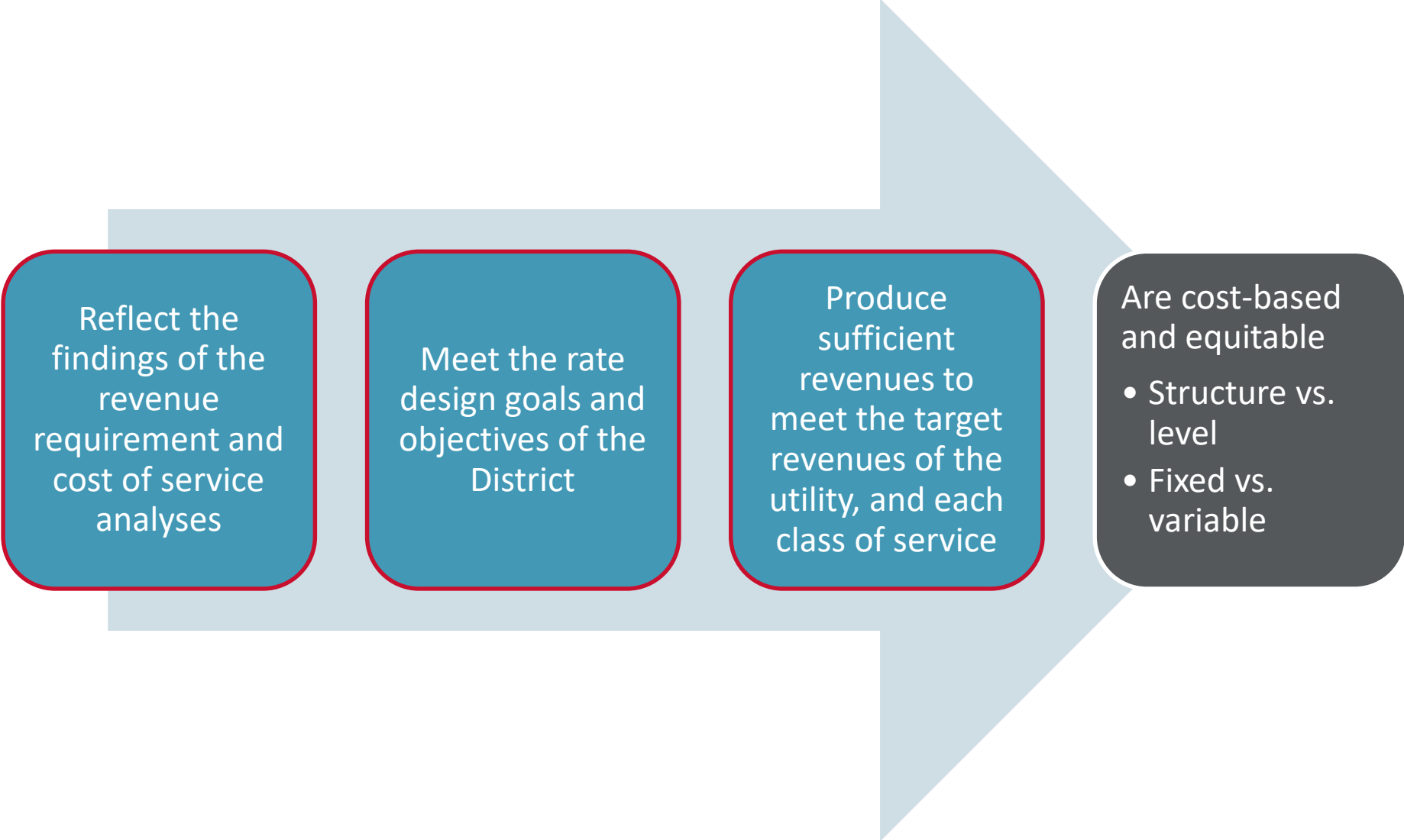
## Preliminary Cost of Service Observations

- Some cost differences exist between the customer classes of service
  - ✓ Reflects customer and system characteristics
  - ✓ Characteristics change over time
- Water utility impacts
  - ✓ Driven by peak use by customer classes (irrigation customers)
- Sewer utility impacts are minimal
- Cost of service is a single point in time
  - ✓ Minor revisions based on prior adjustments
- Would recommend additional adjustment to irrigation customer rates

Rate Design



# Overview of the Rate Design

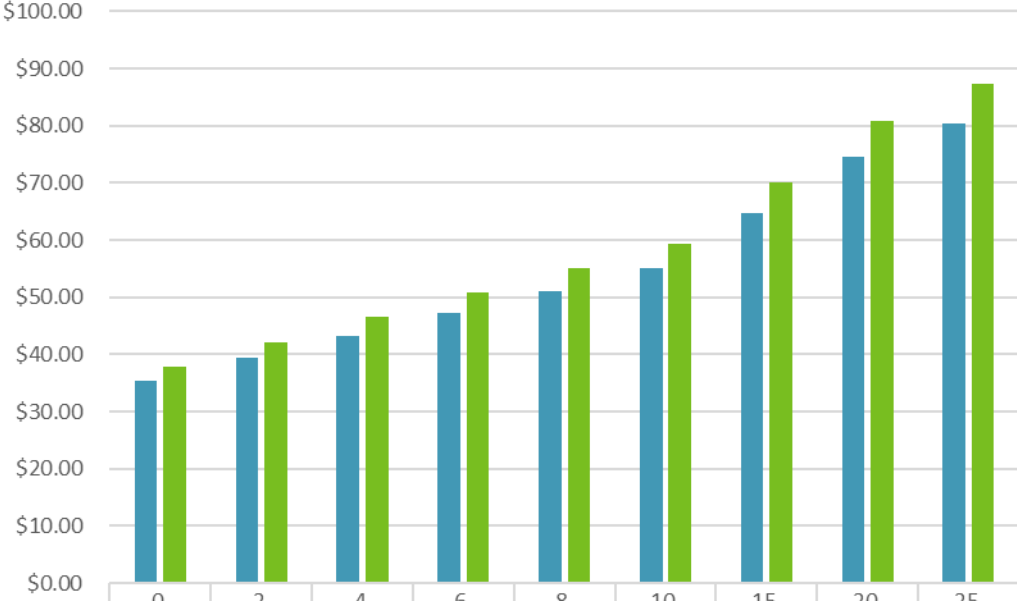


# Preliminary Rate Design Approach

- Cost of service results:
  - ✓ Water cost of service differences still exist
    - Irrigation customers
  - ✓ Minimal sewer cost of service differences
- Recommend maintaining current rate structure
  - ✓ As developed and recommended in prior rate study
- Preliminary proposed rates slightly increases fixed revenues
  - ✓ Reflects increased fixed costs incurred to fund capital needs

# Preliminary Water Rate Projection and Bill Comparison

Present and FY 24 Propsed Rate Alternative

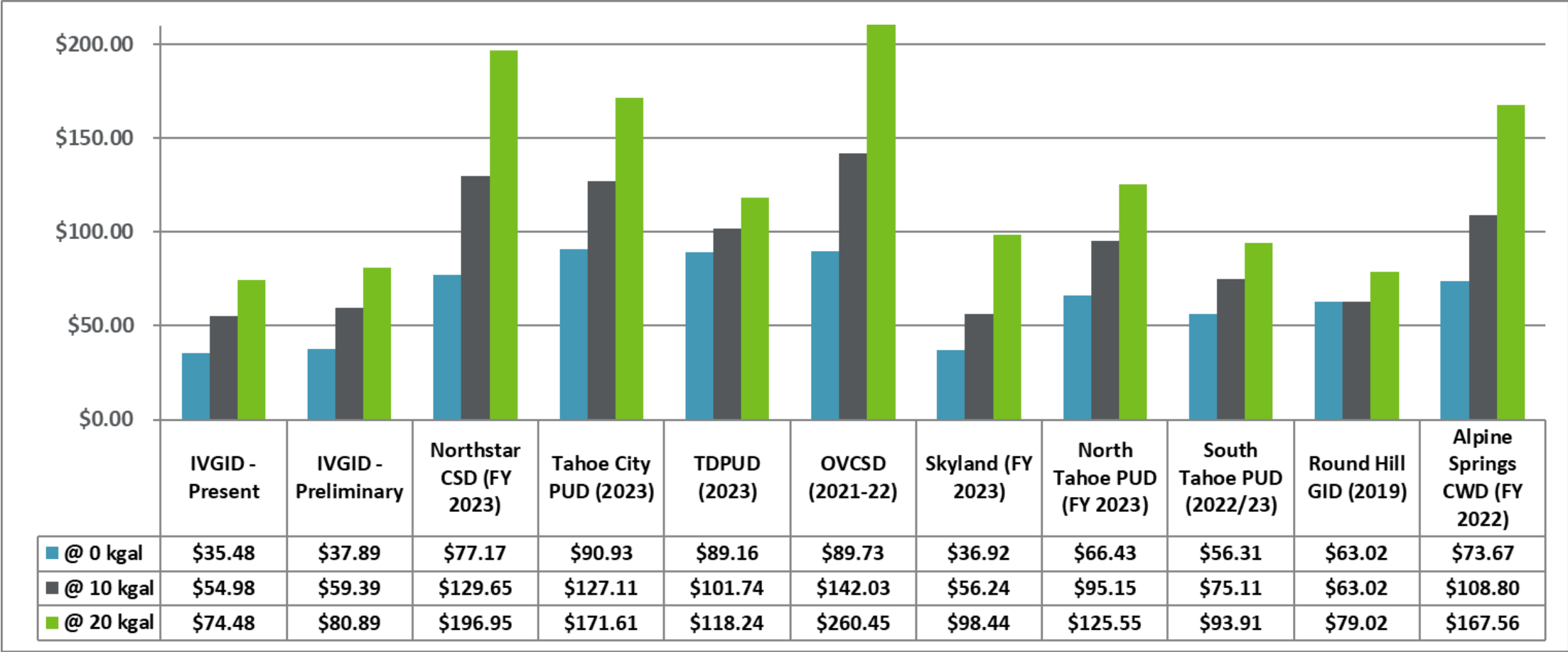


	0	2	4	6	8	10	15	20	25
■ Present Rates	\$35.48	\$39.38	\$43.28	\$47.18	\$51.08	\$54.98	\$64.73	\$74.48	\$80.33
■ Proposed Rates	\$37.89	\$42.19	\$46.49	\$50.79	\$55.09	\$59.39	\$70.14	\$80.89	\$87.34

	Present Rates	Proposed				
		FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<b>Meter Fee</b>						
3/4"	\$15.10	\$17.30	\$18.75	\$20.10	\$20.10	\$21.00
1"	25.22	28.89	31.31	33.57	33.57	35.07
1 1/2"	50.28	57.61	62.44	66.93	66.93	69.93
2"	80.48	92.21	99.94	107.13	107.13	111.93
3"	151.00	173.00	187.50	201.00	201.00	210.00
4"	251.72	288.39	312.56	335.07	335.07	350.07
6"	503.28	576.61	624.94	669.93	669.93	699.93
8"	805.28	922.61	999.94	1,071.93	1,071.93	1,119.93
10"	1,157.72	1,326.39	1,437.56	1,541.07	1,541.07	1,610.07
<b>Capital Improvement Fee</b>						
3/4"	\$15.10	\$15.10	\$18.23	\$20.92	\$24.85	\$23.35
1"	25.22	25.22	30.44	34.93	41.50	38.99
1 1/2"	50.28	50.28	60.70	69.66	82.76	77.74
2"	80.48	80.48	97.16	111.50	132.47	124.44
3"	151.00	151.00	182.29	209.19	248.53	233.46
4"	251.72	251.72	303.88	348.72	414.30	389.19
6"	503.28	503.28	607.59	697.22	828.35	778.14
8"	805.28	805.28	972.18	1,115.60	1,325.41	1,245.07
10"	1,157.42	1,157.72	1,397.65	1,603.84	1,905.48	1,789.97
<b>Admin Fee</b>	\$4.23	\$4.44	\$4.66	\$4.90	\$5.14	\$5.40
<b>Defensible Space</b>	1.05	1.05	1.05	1.05	1.05	1.05
<b>Residential and Commercial Water Use</b>						
All Use	\$1.95	\$2.15	\$2.15	\$2.22	\$2.22	\$2.29
Tier 1	1.17	1.29	1.29	1.33	1.33	1.37
Tier 2	0.52	0.57	0.57	0.59	0.59	0.61
<b>Irrigation Water Use</b>						
All Use	\$1.95	\$2.65	\$2.90	\$3.15	\$3.15	\$3.25
Tier 1	1.17	1.59	1.74	1.89	1.89	1.95
Tier 2	0.52	0.70	0.77	0.83	0.83	0.86



# Local Monthly Residential Water Bill Comparison

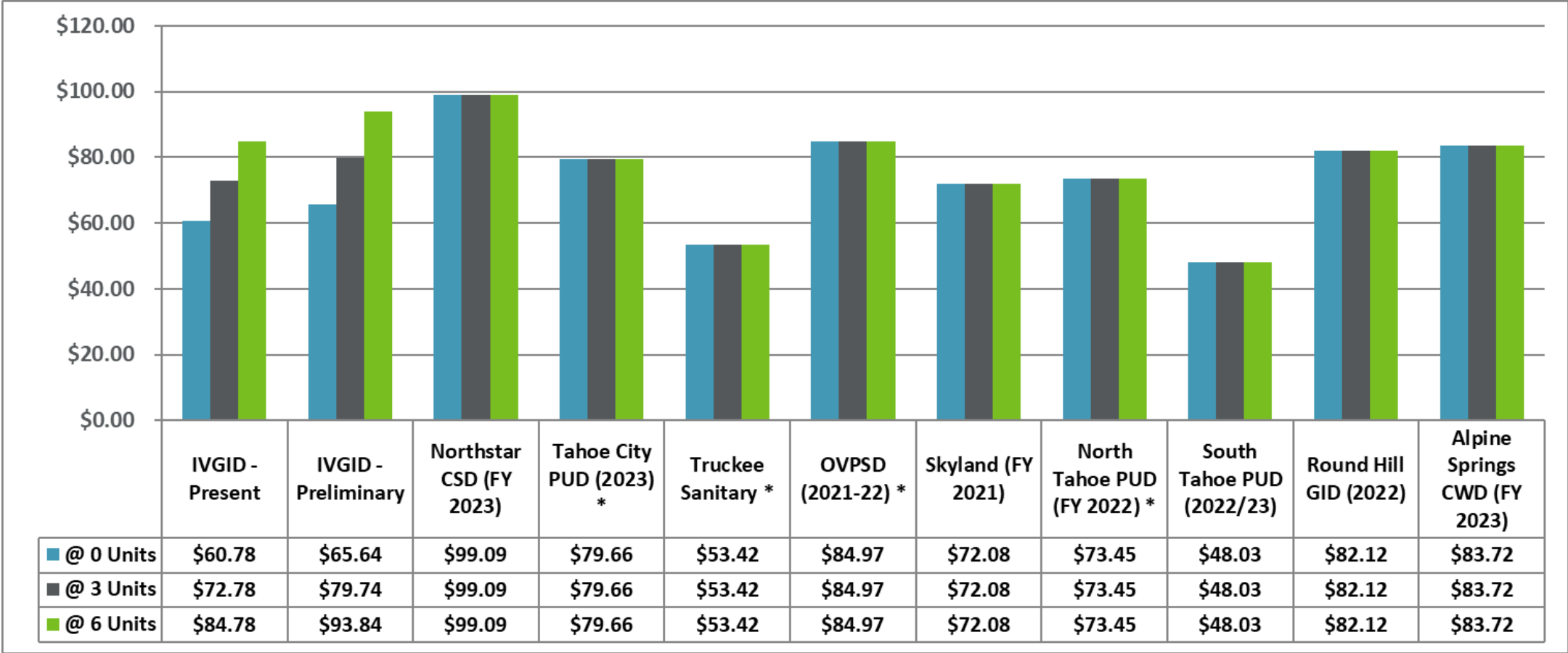


# Preliminary Sewer Rate Projection

	<i>Present</i>	<i>Proposed</i>				
	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
<b>Residential</b>						
Base Charge	\$25.10	\$32.25	\$36.50	\$40.00	\$42.25	\$44.25
Capital Improvement	31.45	31.45	31.45	31.45	31.45	31.45
Admin Fee	4.23	4.44	4.66	4.90	5.14	5.40
<b>Multi-Family</b>						
Base Charge	\$25.10	\$32.25	\$36.50	\$40.00	\$42.25	\$44.25
Capital Improvement	31.45	31.45	31.45	31.45	31.45	31.45
Admin Fee	4.23	4.44	4.66	4.90	5.14	5.40
<b>Sewer Use</b>						
Residential	\$4.00	\$4.75	\$5.37	\$5.88	\$6.00	\$6.22
Multi-Family	4.00	4.75	5.37	5.88	6.00	6.22

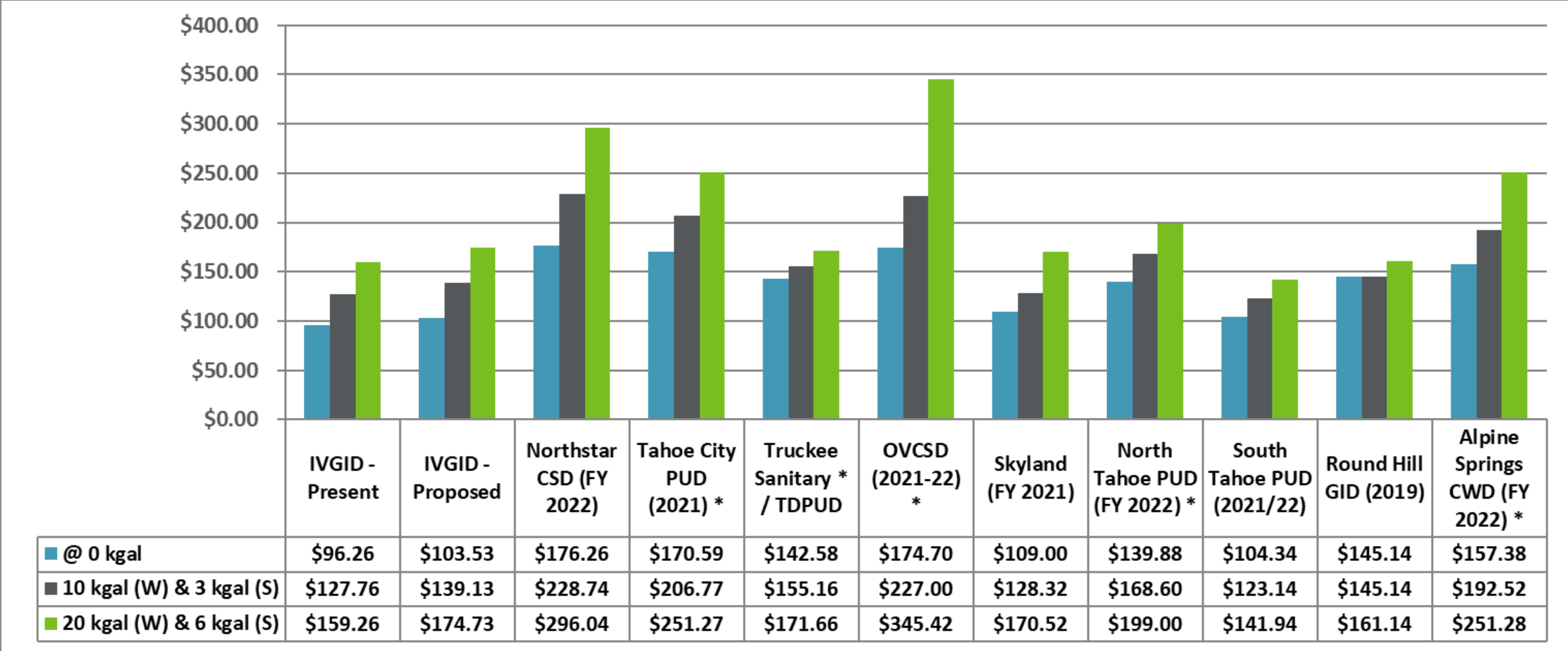
	<i>Present</i>	<i>Proposed</i>				
	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
<b>Commercial</b>						
<i>Base Charge</i>						
3/4"	\$25.10	\$32.25	\$36.50	\$40.00	\$42.25	\$44.25
1"	41.92	53.86	60.96	66.80	70.56	73.90
1 1/2"	83.58	107.39	121.55	133.20	140.69	147.35
2"	133.78	171.89	194.55	213.20	225.19	235.85
3"	251.00	322.50	365.00	400.00	422.50	442.50
4"	418.42	537.61	608.46	666.80	704.31	737.65
6"	836.58	1,074.89	1,216.55	1,333.20	1,408.19	1,474.85
8"	1,338.58	1,719.89	1,946.55	2,133.20	2,253.19	2,359.85
10"	1,497.74	1,924.39	2,177.99	2,386.84	2,521.10	2,640.44
<i>Capital Improvement</i>						
3/4"	\$31.45	\$31.45	\$31.45	\$31.45	\$31.45	\$31.45
1"	52.52	52.52	52.52	52.52	52.52	52.52
1 1/2"	104.73	104.73	104.73	104.73	104.73	104.73
2"	167.63	167.63	167.63	167.63	167.63	167.63
3"	314.50	314.50	314.50	314.50	314.50	314.50
4"	524.27	524.27	524.27	524.27	524.27	524.27
6"	1,048.23	1,048.23	1,048.23	1,048.23	1,048.23	1,048.23
8"	1,677.23	1,677.23	1,677.23	1,677.23	1,677.23	1,677.23
10"	2,410.64	2,410.64	2,410.64	2,410.64	2,410.64	2,410.64
<i>Admin Fee</i>						
	\$4.23	\$4.44	\$4.66	\$4.90	\$5.14	\$5.40
<b>Sewer Use</b>						
Commercial	4.70	5.60	6.35	6.95	7.10	7.37

# 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
- Develop final water and sewer rate technical analyses
- Review final analysis with District staff
  - Present final analysis to Board
- Develop written documentation
- Move forward with rate adoption and implementation

## Estimated Project Schedule

- Today: Review of preliminary rate study results
- Next:
  - Present final study recommendations
  - Set public hearing
  - Rate adoption and implementation

**Thank you for your input!**

