

Overview of Presentation

- **Overview of Key Rate Study Tasks & Methodology**
- **Water Rate Study**
 - ✓ Key Findings
 - ✓ Overview of Financial Plan
 - ✓ Rate Study Recommendations
 - ✓ Proposed Rates
 - ✓ Next Steps



Overview of Key Rate Study Tasks

Key Components in the Water Rate Study:

1 FINANCIAL PLAN / REVENUE REQUIREMENTS

- Determines total revenue needed from rates.
- Determines annual % adjustments to rates needed.

2 COST-OF-SERVICE ANALYSIS

- Allocates revenue requirements to customer classes in a "fair and equitable" manner.
- Complies with Prop 218.

3 RATE DESIGN

- Determines the rate structure used to collect revenue from each customer class.
- Reflects County & District's Policies & Rate Objectives.



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Overview of Key Rate Study Tasks (cont.)

Rate Study Methodology:

- State Law (Proposition 218) requires rates be "fair & equitable."
- Recent Court Cases have defined what fair & equitable mean:
 - Costs must be allocated to customer in proportion to their cost-of-service.
 - Tiered rates must demonstrate a "cost basis" for each tier.
 - The District cannot easily justify more than a single tier because water is supplied by a single source.
- Performing a COSA results in current rates not being increased in an "across-the-board" manner.



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Overview of Key Rate Study Tasks (cont.)

Water Rate Study Addresses Multiple Issues:

1. Financial Issues:

- Collecting Adequate Revenues
- Funding Capital Improvement Costs
- Maintaining Acceptable Levels of Reserves

2. Rate Design:

- Tiered rates vs. Uniform (Single-Tier) Volumetric rates



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Key Water Rate Study Findings

Current Water Rates are Inadequate to Meet Projected Revenue Requirements Due to:

1. Need to Fund Capital Rehabilitation/Replacement and Improvement.
2. Need to Correct Annual Deficits and Maintain Reserves.
3. Projected Cost Inflation.

***Rates Must Be Increased (Annually)
To Meet System Operating Costs.***



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Overview of Financial Plan

Annual Budget Summary (Shows a "Structural Deficit"):

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget		Projected			
	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sources of Water Funds						
Rate Revenue Under Prevailing Rates	\$ 339,452	\$ 339,452	\$ 339,452	\$ 339,452	\$ 339,452	\$ 339,452
Non-Rate Revenues	98,366	115,529	115,529	115,529	115,529	115,529
Interest Earnings	1,936	893	1,680	2,406	3,040	3,638
Total Sources of Funds	\$ 439,754	\$ 455,875	\$ 456,661	\$ 457,387	\$ 458,021	\$ 458,619
Uses of Water Funds						
Operating Expenses	\$ 326,575	\$ 335,169	\$ 345,490	\$ 356,210	\$ 367,320	\$ 378,860
Debt Service	127,574	127,574	127,574	127,574	127,574	127,574
Rate-Funded Capital Expenses	-	24,050	24,923	31,582	32,665	33,878
Total Use of Funds	\$ 454,149	\$ 486,793	\$ 497,986	\$ 515,366	\$ 527,559	\$ 540,312
Surplus (Deficiency) before Rate Increase	\$ (14,395)	\$ (30,918)	\$ (41,325)	\$ (57,978)	\$ (69,538)	\$ (81,693)
Additional Revenue from Rate Increases ¹	-	11,315	27,699	42,385	57,659	73,543
Surplus (Deficiency) after Rate Increase	\$ (14,395)	\$ (19,603)	\$ (13,625)	\$ (15,593)	\$ (11,879)	\$ (8,149)
Projected Annual Rate Increase	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Cumulative Rate Increases	0.00%	4.00%	8.16%	12.49%	16.99%	21.67%
Net Revenue Requirement²	\$ 353,847	\$ 370,370	\$ 380,777	\$ 397,431	\$ 406,990	\$ 421,145

1. Assumes new rates are implemented September 1, 2016 and then July 1st thereafter.

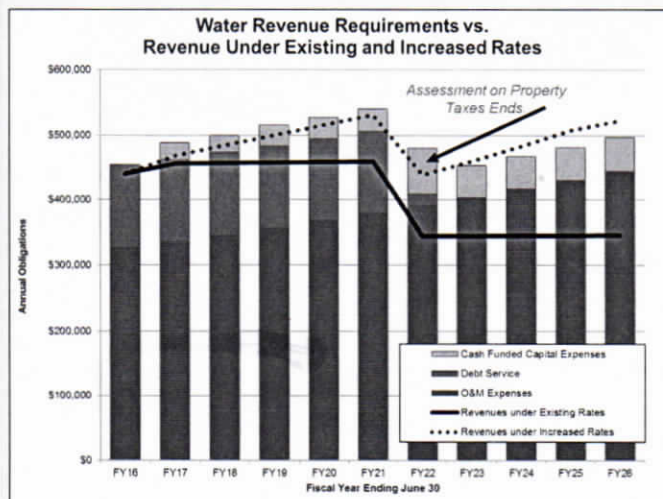
2. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from water rates.

Annual Deficiency in Rate Revenue is Not Sustainable.



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Water Rate Study Recommendations



Increase Rates Annually to:

1. Meet Revenue Requirements
2. Pay for Capital R&R
3. Maintain Reserves



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Water Rate Study Recommendations (cont.)

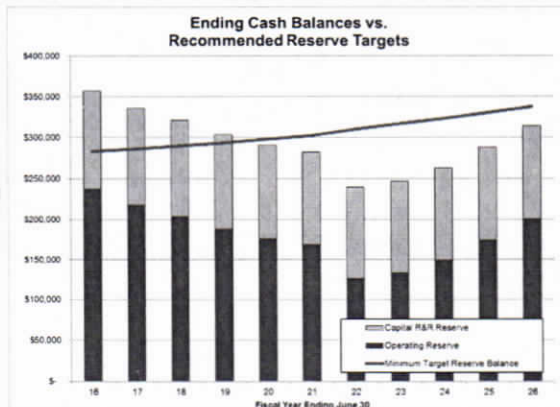
Recommended Reserve Fund Targets:

1. Operations Reserve -

Equal to 180-days of O&M Expenditures, or \$168,000 in FY 2016/17

2. Capital Rehabilitation & Replacement Reserve – Equal to

7% of Net Assets, or \$118,000 in FY 2016/17.



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Water Rate Study Recommendations (cont.)

Recommended Improvements to Water Rate Structure:

1. Use Uniform Volumetric Rates – NBS recommends the District adopt a uniform volumetric rate structure due to:

- Costs and quantities of water are unavailable by source of supply
- Follows San Juan Capistrano Ruling

2. Fixed/Variable Allocation %'s – Three Alternatives to Consider:

- *Alternative #1 – 80% Fixed & 20% Variable*
- *Alternative #2 – 50% Fixed & 50% Variable*
- *Alternative #3 – 58% Fixed & 42% Variable (similar to the current rates)*



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Current & Proposed Water Rates – Alternative #1

Rate Alternative #1 - Net Revenue Requirements (COSA Allocation - 80% Fixed / 20% Variable)						
Water Rate Schedule	Current Rates	Proposed Rates - Rate Alternative #1				
		FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Projected Increase in Rate Revenue per Financial Plan:		4.00%	4.00%	4.00%	4.00%	4.00%
Fixed Service Charge						
Monthly Fixed Service Charges:						
5/8 inch	\$47.47	\$69.80	\$72.59	\$75.50	\$78.51	\$81.66
1 inch	\$49.84	\$162.67	\$169.18	\$175.95	\$182.99	\$190.30
1.5 inch	\$52.16	\$317.46	\$330.16	\$343.37	\$357.10	\$371.39
2 inch	\$54.50	\$503.21	\$523.34	\$544.27	\$566.04	\$588.69
Commodity Charges for All Water Consumed						
Per 1,000 gal for the 1st 15K gal/ESD	\$7.99	--	--	--	--	--
Per 1,000 gal for 15,001 to 20K gal/ESD	\$10.72	--	--	--	--	--
Per 1,000 gal for over 20K gal/ESD	\$17.84	--	--	--	--	--
Rate Per 1,000 gallons of Water Consumed	--	\$4.40	\$4.58	\$4.76	\$4.95	\$5.15



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Current & Proposed Water Rates – Alternative #2

Rate Alternative #2 - Revenue Requirements (Allocation - 50% Fixed / 50% Variable)						
Water Rate Schedule	Current Rates	Proposed Rates - Rate Alternative #2				
		FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Projected Increase in Rate Revenue per Financial Plan		4.00%	4.00%	4.00%	4.00%	4.00%
Fixed Service Charge						
Monthly Fixed Service Charges:						
5/8 inch	\$47.47	\$43.35	\$45.08	\$46.89	\$48.76	\$50.71
1 inch	\$49.84	\$101.03	\$105.07	\$109.27	\$113.65	\$118.19
1.5 inch	\$52.16	\$197.17	\$205.05	\$213.25	\$221.78	\$230.66
2 inch	\$54.50	\$312.53	\$325.03	\$338.03	\$351.55	\$365.61
Commodity Charges for All Water Consumed						
Per 1,000 gal for the 1st 15K gal/ESD	\$7.99	--	--	--	--	--
Per 1,000 gal for 15,001 to 20K gal/ESD	\$10.72	--	--	--	--	--
Per 1,000 gal for over 20K gal/ESD	\$17.84	--	--	--	--	--
Rate Per 1,000 gallons of Water Consumed	--	\$11.29	\$11.74	\$12.21	\$12.70	\$13.21



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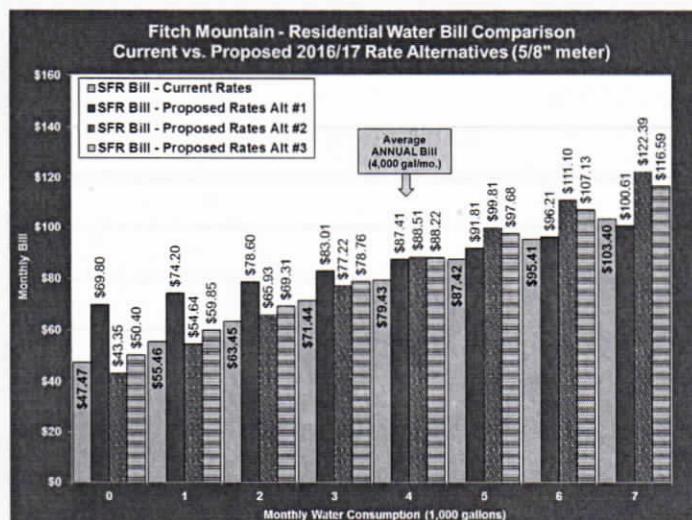
Current & Proposed Water Rates – Alternative #3

Rate Alternative #3 - Revenue Requirements (Current Allocation - 58% Fixed / 42% Variable)						
Water Rate Schedule	Current Rates	Proposed Rates - Rate Alternative #3				
		FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Projected Increase in Rate Revenue per Financial Plan:		4.00%	4.00%	4.00%	4.00%	4.00%
Fixed Service Charge						
Monthly Fixed Service Charges:						
5/8 inch	\$47.47	\$50.40	\$52.41	\$54.51	\$56.69	\$58.96
1 inch	\$49.84	\$117.45	\$122.15	\$127.04	\$132.12	\$137.41
1.5 inch	\$52.16	\$229.22	\$238.39	\$247.92	\$257.84	\$268.15
2 inch	\$54.50	\$363.33	\$377.87	\$392.98	\$408.70	\$425.05
Commodity Charges for All Water Consumed						
Per 1,000 gal for the 1st 15K gal/ESD	\$7.99	--	--	--	--	--
Per 1,000 gal for 15,001 to 20K gal/ESD	\$10.72	--	--	--	--	--
Per 1,000 gal for over 20K gal/ESD	\$17.84	--	--	--	--	--
Rate Per 1,000 gallons of Water Consumed	--	\$9.46	\$9.83	\$10.23	\$10.64	\$11.06



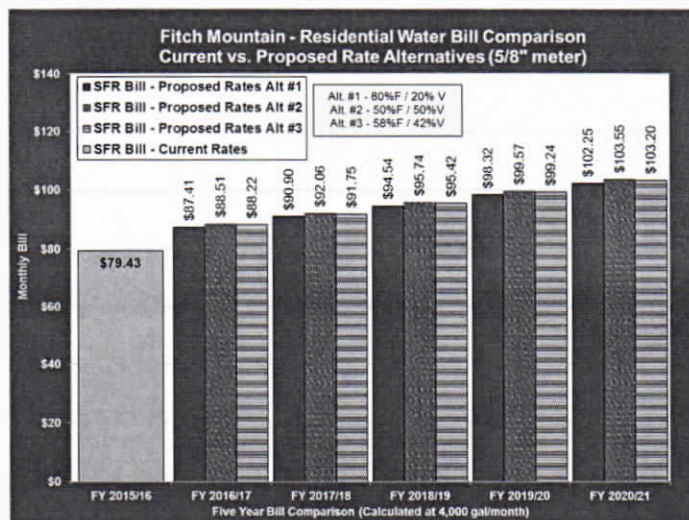
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Bill Comparisons – FY 2016/17 Residential Rates



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Bill Comparisons – 5 Year Residential Rates



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Next Steps

Following this Community Meeting:

1. County & District staff will consider input from residents and recommend rates to the Board of Supervisors.
2. Rate notices will be sent out to all property owners at least 45 days in advance of a Prop 218 protest hearing.
3. A Prop 218 protest hearing will be held prior to rates going into effect.
4. New rates will be effective September 1, 2016 (tentative).



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Questions and Discussion

Questions



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Tiered vs. Uniform Volumetric Rates

Background Issues Related to Water Rate Structure:

Tiered Rates – The San Juan Capistrano Appellate Court ruling set more stringent standards for Tiered Rates:

"Although the opinion in Capistrano Taxpayers Association v. City of San Juan Capistrano held that tiered rates, or inclining block rates that go up progressively in relation to usage, are compatible with Proposition 218, in this instance, the court concluded that the City failed to demonstrate that the tiers correspond to the actual cost of providing service at a given level of usage. The court rejected reliance on Article X, Section 2 to promote water conservation as the sole basis for establishing tiers, holding the city had to show that the various usage tiers corresponded with its actual costs of delivering water in those increments."

"...rates were not proportional to the cost of service because the City did not calculate the incremental cost of providing water at the level of use represented by each tier. Specifically, the court criticized the City for not correlating its rates within each tier to the prices of water used within each tier."

Source: "Legal Alerts – California Court of Appeal Holds City's Tiered Water Rate Structure Violates Proposition 218" by Kelly Salt, Best Best & Krieger, April 21, 2015.



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