ORIGINAL

Sweetwater Springs Water District
Special Meeting

To: Board of Directors **Agenda Item No.** V-B

From: Chuck Howell, General Manager **Meeting Date:** April 3, 2008

Subject: Discussion/Action re: Water Rate Study.

Recommended Action: Consider thorough discussion relating to the "Water Rate Study" as complied by the Engineering Firm of B&R Engineering.

Fiscal Impact: Undetermined at this time.

Discussion: Staff has worked very closely with Jack Locey of B & R Engineering during the development of this rate study. The purpose of the Study was:

a) Establish water rates that will generate sufficient revenues
b) Get revenue from customer classes (individual if possible) in accordance with the cost of their service requirements.
c) Reflect, to the extent possible, the actual cost to provide service to the various account classes

This study is very complex, and if fully implemented will fundamentally change the way the District currently assigns rates, and determines charges. District rates and charges are composed of five primary components:

1. **Capital Debt Reduction Charge**, which currently is used to repay State Loan debt service ($170,500/yr.) Current bi-monthly CDRC: $8.00/account.

2. **Base Water Rate Charge**, which covers the primary infrastructure, costs to operate and maintain the District. Should reflect the operating expenses necessary to make service to the average SFR Customer.

3. **Water Usage Charge**, which covers the cost of production, and delivery of the water.

- Should be tiered to discourage water waste.

4. **Multiple Unit Charge** (when applicable) should reflect the additional cost t the District to provide service to additional non-metered accounts on same property. Currently $25.00 per unit.

5. **Flat Charge**, which is used to pay the USDA loan capital debt service per year, (+- $682,000 per year) Presently $198.00/parcel/year/

Each component is currently structured to ensure that the District meets its obligations of collecting enough revenue to satisfy expenses. However as the Sta has demonstrated, and the Rate Study clearly indicates, expenses have been rising rapidly, and revenues must be raised to keep pace to ensure the financial solvency of the District.

The primary purpose of the Rate Study was to identify rates and charges that will generate sufficient revenues to meet total revenue requirements. In order for the rate structure to be equitable, revenue sources should be derived from the appropriate customer class in accordance with the cost of their service requirements. One of the charges by the Board was to eliminate as much as possible any areas of rates, which demonstrated subsidies by other rate classes. This rate Study has attempted to do so as much as was feasible.

The challenge facing this Board is to determine whether to accept all of this study portions of it, fazed implementation, or make no changes at all.

A secondary, but very important component of this Rate Study is to determine ho to fund the "Capital Improvement Program". Total project costs for funding these projects currently is estimated to be approximately $9M, and the identification of appropriate funding instruments will be a daunting task. Regardless of funding sources, any costs not procured by grants must be born by the ratepayers.

The options for funding are as follows:

1. Grants (CDC, Feds, State) No cost to District
2. General Obligation Bonds, typically 30-40 years, range 4-8%
3. Private Placement Funding, 15-20 years, currently approximately 4-6%
4. Low interest Government Loans (I-Bank), 15-20 years, currently 2.5%
5. Lease/Purchase, 1-15 years

6. Raising rates annually using District Funds, self funding. Generally considered the most expensive.

Each of these options has both good and bad features for the District. Each will need to be thoroughly explored. I am currently making arrangements with Financial Institutions to make presentations to the Board regarding our options. Based upon the most recent actions taken by the Sonoma County Board of Supervisors, I feel that it is critical for this District move forward to replace its aging, leaky infrastructure, and add additional water storage in a timely manner.

Jack used the existing customer database for historical water sales for FY 2002/2003 through FY 2005/2006 to develop these recommendations. It should b noted that although small changes occur each year, this represents an excellent basis for the study.

To most fairly develop a defensible and to most fairly distribute costs, the Single Family Residential (SFR) Accounts was determined to be the beginning base use to develop the structure, and the appropriate modifiers to arrive at an accurate rat would adjust all other accounts.

All District Accounts fall under one of the following categories.

1. Single Family Residential
2. Multi Family Residential
3. Commercial/Public

Additionally all District accounts are assigned a meter, based upon their flow requirements. The District currently uses the following sized meters.

1. 5/8
2. 1"
3. 1 ½ "
4. 2"

Study Recommendations

Reflect, to the extent possible, the actual cost to provide service to the various classes.

Water Rates and charges should:

Include varying tier ranges for account types

Recommendations Summary

1. ***Adopt the following bi-monthly base water rates***:

SFR Accounts	$50.00
MFR Accounts	$50.00 + $27.50 per Additional living unit
COM/Public Accounts	$60.00 (5/8" meter) $150.00 (1" meter) $300.00 (1 ½" meter) $480.00 (2" meter)

2. ***Adopt the following tier ranges for SFR accounts and water usage charges for all water usage charges for all account types:***

0-8 Units	$1.10 per unit
6-20 Units	$2.20 per unit
> 20 Units	$3.00 per unit

3. ***Adopt the following tier range modifies for COM and Public Accounts***

5/8" Meter	1.0 times SFR account tier ranges
1" Meter	2.5 times SFR account tier ranges
1-1/2"Meter	5.0 times SFR account tier ranges
2" Meter	8.0 times SFR account tier ranges

4. ***Adopt the following tier range modifier for MFR Accounts***

   Extend first and second tier ranges by 55% (rounding down to the nearest whole unit)

5. ***Include a provision in the enabling ordinance that will permit the Board to make annual adjustments to the water base rates and user charges (up to at least 4%).***

Flat charge would stay the same as it is now.

6. ***Adopt the following flat charge schedule that more accurately reflects a parcel's capacity utilization of the water system:***

Parcels with SFR Accounts	$167.00	
Parcels with MRA Accounts	$167.00+$91.80per additional living unit.	
Parcels with COM Accounts	$167.00	(5/8" meter)
	$417.50	(1" meter)
	$835.00	(1 ½ meter)
	$1,336.00	(2" meter)

7. ***Move CDRC to property tax roll (except for Public Accounts) and adopt the following schedule of annual charge:***

SFR Accounts	$42.00	
MFR Accounts	$42.00	Plus $23.10 per additional living unit.
COM Accounts	$42.00	(5/8 " meter)
	$105.00	(1" meter)
	$210.00	(1-1/2" meter)
	$336.00	(2" meter)
Public Accounts	See COM Accounts (collected bi-monthly on water bill)	

Staff Recommendations Regarding Rate Structure

- Recommend Rate Option A- three tier rate structure with a bi-monthly SFR base charge of $50.00. MFR multiplier of .55 and water rates set at $1.10 for the first tier, second tier (6-20 units) at $2.20, and third tier (>20) set at $3.00 per unit.
- Estimated annual income within ~~3~~ 4% of the FY ~~06/07~~ 08/09 budget projection (excluding income from CDRC)
- Recommend base water charges and rates are subject to an annual escalation factor (at least 4%) to moderate future rate increases.

Final Recommendation

Consider authorizing a schedule of CDRC increases for the purpose of financing desired water system improvements.

Consider moving this rate case to the ratepayers for presentation, and considering the comments received, and then after evaluating the ratepayer's comments, make a final decision regarding the rate case, which will adequately reflect the cost of providing the service.