SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-C**

FROM: Ed Fortner, General Manager

Meeting Date: May 2, 2019

SUBJECT: DISCUSSION OF NEED FOR COST OF SERVICE STUDY PRIOR TO FY 2021

RECOMMENDED ACTION:

None

FISCAL IMPACT:

Cost ~$20,000

DISCUSSION:

This item has been discussed by the Board at previous meetings and Board asked GM to lead further discussion of Cost of Service Study need, components of COSS, California law and its impact on a COSS, and what assumptions would be made in forming the revenue requirement including the pro-forma portion. California Government Code Section 54999 mandates agencies to conduct a thorough cost of service analysis every ten years in determining the utility rates. Typically, a COSS would entail using the most recent audited financial statements including all operating, Capital revenues and expenses, debt service, reserves, and pro-forma Capital expenditures looking forward 3-5 years to formulate a revenue requirement. The next step would be formulating and allocating rates across the various classes to meet the revenue requirement number. Asset management and ranking of developed Capital projects is key in forming the pro-forma portion of the COSS. Also, a new consideration must be included in the revenue needs, the unfunded pension liability. The last step in the rate-making process is rate adoption complying with Prop 218 requirements. Below are links to articles/ examples detailing typical COSSs:

http://cityofdavis.org/home/showdocument?id=1251

https://www.ranchowater.com/116/Rates-Fees

http://wmwd.com/DocumentCenter/View/3851/WMWD-Riverside-Cost-of-Service-Final-Report?bidId=

https://www.mercurynews.com/2015/04/20/california-drought-court-rules-tiered-water-rates-violate-state-constitution/

https://www.cityofimperial.org/sites/default/files/rfp/RFP-utility-rate-study-2016.pdf

http://www.cityofukiah.com/NewWeb/wp-content/uploads/2012/04/2016-Final-Water-Rate-Study-2-23-16.pdf