

## M E M O R A N D U M

**TO:** Board of Trustees

**THROUGH:** Steven J. Pinkerton  
General Manager

**FROM:** Joseph J. Pomroy, P.E.  
Director of Public Works

**SUBJECT:** Utility Rate Study Presentation - 2018

**DATE:** January 12, 2018

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### **I. RECOMMENDATION**

1. That the Board of Trustees provide direction and comment to Staff on the 2018 Five Year Utility Rate Study and proposed utility rate increase for 2018.
2. That the Board of Trustees direct staff to prepare documents and Ordinance 2 and Ordinance 4 amendments for a one year average 3.0% utility rate increase in accordance with the 2018 Utility Rate Study.

### **II. DISTRICT STRATEGIC PLAN**

The Utility Rate Study supports Long Range Principle #2, Finance; The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management. Under Objectives for 2015-17, it specifically states, Prepare a five-year projection of financial results and performance measures for operations, capital improvement and debt service as a part of budget deliberations.

### **III. FINANCIAL IMPACT AND BUDGET**

#### **2018 Five Year Rate Study**

The utility rate study for 2018 has been prepared to determine the next five years of operating and capital expenses and to provide sufficient and stable revenue to meet the operating cost increases and the near term capital needs. The analysis

is done on a cash flow basis in order to achieve a target reserve fund balance. The reserve fund is set by Board Policy and is currently a target value of \$1.8 million. In the five-year period of this rate study, reserves will be above target policy levels while the District accumulates additional savings to fund the Effluent Export Project.

Funding for capital asset replacement in Public Works is a blend of funds already collected for that purpose in previous years and current year capital revenues. The District also uses borrowing to pay replacement of capital assets to place some of the financial burden on future beneficiaries of the assets. These have been the traditional methods used in paying for capital in Public Works. We are currently using about 15% of the collected capital revenue to pay for debt. In 2012/13 we began payments on the new \$3 million, 20-year State Revolving Fund Loan that financed the Burnt Cedar Water Disinfection Plant Project that renovated our water disinfection facilities to achieve compliance with Federal Regulations. The District has a total of four State Revolving Fund Loans for water and sewer infrastructure.

The rate model is prepared to determine the revenue needs to meet operating and capital expenses while maintaining prudent reserves. Once a revenue target is established, the water and sewer rates are adjusted to generate that revenue in the most equitable way possible. The revenue is also balanced among the various rate components to pay for fixed, variable and capital components. Then the new rate structure is modeled for all of the customer classes and analyzed for equity among the customer classes.

The proposal is to increase water rates by 3.4% and sewer rates by 2.7% for a total utility rate increase of 3.0%. The utility rates are scheduled for an average 3.2% increase for the next five years to meet the projections presented in this memo.

#### 5-Year Look Back to the 2013 Utility Rate Study

In 2013, the five-year utility rate study was presented to the Board with the following information. (Excerpt from Board Memo, February 17, 2013).

*The rates are currently scheduled for an average 5.2% increase per year for five years to meet the projections presented here. This is the same as last year's projection that rates would increase by 5.2% per year for five years. Years 2013 and 2014 will have large sewer rate increases to continue to raise capital for the \$23 million Effluent Export Project. The sewer rate increase is expected to be greater than 10% in each of those years to generate the capital revenue needed going forward. Water rate increases are expected to be in the 2-4% range*

Looking back now that the five years are complete the rates increased for all customers by an average of 3.8% per year as compared to the projected 5.2% increase per year. Over five years, the rates actually increased a total of 20.7% compared to the projected increase of 28.8% projected in the 2013 utility rate study. The driver of the rate increases during that period was the need to increase the sewer capital improvement rate in 2013 and 2014 to collect funds for the effluent export project because the Section 595 Program was no longer being authorized at the time. The rate increase was less than projected because there were costs savings on the expense side as well. There was a significant savings on electrical costs during that period.

### Utility Rates

The utility rates are being adjusted to meet expected cost increases and to fund future capital replacement. Increasing rates by a constant percentage is a basic concept but it must be verified that in adjusting the rates that no customer class sees a disproportionate change in rates that would unfairly shift the cost burden to other rate payers.

The following table compares the current and the proposed residential water rate. The rates below include a \$1.05 total defensible space charge to each user. The base rate for water is increasing by \$1.02 per month. The water consumption and tier rates were thoroughly analyzed this year to confirm the cost basis for those rate components per thousand gallons of usage. The base consumption charge and the 2<sup>nd</sup> tier water rate saw five and four cent increases respectively in the unit rate while the 1<sup>st</sup> tier water rate was decreased by two cents to align with expenses.

### Residential Water Rate Comparison

Current 2017 Rate Component	2017 Rate	Proposed 2018 Rate Component	2018 Rate	Change
Base Rate	\$ 10.65	Base Rate	\$ 11.23	\$0.58
Capital Improvements	\$ 14.47	Capital Improvements	\$ 14.80	\$0.33
Customer Account Fee	\$ 3.65	Customer Account Fee	\$ 3.76	\$0.11
Defensible Space	\$ 1.05	Defensible Space	\$ 1.05	-
<b>Monthly Water Bill</b>	<b>\$ 29.82</b>	<b>Monthly Water Bill</b>	<b>\$ 30.84</b>	<b>\$1.02</b>
Consumption	\$ 1.45	Consumption	\$ 1.50	\$0.05
1st Tier	\$ 0.95	1st Tier	\$ 0.93	(\$0.02)
2nd Tier	\$ 1.26	2nd Tier	\$ 1.30	\$0.04

The following table compares the current and the proposed residential sewer rate. The base rate for sewer is increasing by \$1.31 per month and the sewer use rate is increasing by \$0.10 per thousand gallons of water use. The sewer use is capped in the summer months for residential customers

### Residential Sewer Rate Comparison

Current 2017 Rate Component	2017 Rate	Proposed 2018 Rate Component	2018 Rate	Change
Base Rate	\$ 17.55	Base Rate	\$ 18.30	\$ 0.75
Capital Improvements	\$ 30.25	Capital Improvements	\$ 30.70	\$ 0.45
Customer Account Fee	\$ 3.65	Customer Account Fee	\$ 3.76	\$ 0.11
<b>Monthly Sewer Bill</b>	<b>\$ 51.45</b>	<b>Monthly Sewer Bill</b>	<b>\$ 52.76</b>	<b>\$ 1.31</b>
Sewer Use Rate	\$ 3.00	Sewer Use Rate	\$ 3.10	\$ 0.10

Operating Revenues and Expenses

The operating revenue is the portion of revenue generated from the water and sewer rates that is not the CIP charge. The operating revenue is increasing by an average of 4.2% per year for five years and is a blend of rate increases and sales of water and sewer. The information below represents the net income for operating, excluding the capital revenue and the depreciation expense. The rate study goal is to keep a balance between operating expenses and revenues over the five-year period. The variance between operating revenue and expense is within 3.4% and there is a net increase to reserves over 5 years. The rate model is revisited annually and recalibrated with actual financial results from the completed fiscal year. Any budget savings stay in the utility fund to offset future rate increases. The larger variance between revenues and expenses in year 4 and year 5 will be recalibrated to reflect predicted conditions in future years. The estimates are currently straight line based on current expenses and revenues.

The operating expenses are the staff costs, services and supplies, utilities, insurance, legal and audit fees, central services expense and the defensible space costs but it does not include depreciation. The 2018-19 values are the completed Utility Fund budget. Final budget numbers are approved in May by the Board of Trustees. We are budgeting increases in wages and benefits, service and supplies and a decrease in utility expenses to match actual water production, operational cost savings and current electric rates. The five-year rate study is presented below for operating revenues and expenses.

<b>5-Year Plan</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>5-Yr Sum</b>
Operating Revenue	7,035,000	7,353,000	7,686,000	8,036,000	8,403,000	\$38,513,000
Operating Expense	(7,014,000)	(7,237,000)	(7,440,000)	(7,647,000)	(7,861,000)	(\$37,199,000)
					<b>Subtotal</b>	<b>\$1,314,000</b>

### Capital Revenues and Expenses

The capital revenue is the summation of monthly capital fees collected in the utility rates, connection fees, and interest income and increases by approximately 1.1% per year averaged over 5 years.

The capital expense is the capital improvement projects net of grants. This is the current five-year capital plan that is being developed as part of the budget process. The five-year capital expenses and revenues are presented in the following table.

<b>5-Year Plan</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>5-Yr Sum</b>
Capital Revenue	4,913,000	4,960,000	5,014,000	5,073,000	5,133,000	25,093,000
Capital Expense	(4,786,000)	(4,881,000)	(4,736,000)	(4,424,000)	(4,715,000)	(23,542,000)
					<b>Subtotal</b>	<b>\$1,551,000</b>

It is important to remember that the capital expenses are budget estimates with further refinement to occur in the CIP budgeting process. The goal of the rate study is to collect sufficient revenues to fund capital expenses over the following five years.

For the 2012-13 through the 2016-17 budget year, the District accumulated \$2,000,000 per year in savings for the construction of the Effluent Export Project. In 2017-18 the District accumulated \$1 million while work was performed on necessary sewer pumping station work. In 2018-19 the District will begin accumulating \$2 million annually for the project. The Effluent Export Project is an on-going project with planning, design and construction costs that have occurred every year since the Phase II project began in 2010-11.

### Summary

The proposed utility rate increase is to raise water rates by 3.4% and sewer rates by 2.7% for a total utility rate increase of 3.0%. The rates are currently scheduled

for an average 3.2% increase per year for five years to meet the projections presented in this memo.

In 2017-18, total water and sewer revenues for Public Works are budgeted to be \$11.56 million and are proposed to be \$11.85 million in 2018-19 under this rate study. This is an increase in revenues of \$290,000 from increased commodity sales, additional users and from the rate increase.

The reserve balance is a critical fund to be managed in Public Works. The amount of the bonding will be adjusted to insure the reserve fund remains at a prudent balance while also considering the costs of borrowing, the economic conditions in Nevada and the susceptibility of the funds. The contributions to the reserve will be \$2.9 million over the next five years.

<b>2018 Five Year Rate Study</b>	<b>5-Year Total</b>
Operating and Capital Revenues	\$63,606,000
Operating and Capital Expenses	\$60,741,000
<b>Net increase in reserves</b>	<b>\$2,865,000</b>

### Schedule

The schedule for rate adoption is proposed as follows.

<b>Utility Rate Study</b>	<b>Date</b>
Utility Rate Study Revisions if Directed by Board	February 7, 2018
Set Date for Public Hearing to Adopt New Utility Rates	March 7, 2018
Notice of Public Hearing Published in Bonanza Newspaper	March 22, 2018
Courtesy Ad for Public Hearing Published in Bonanza Newspaper	April 19, 2018
Conduct Public Hearing and Adopt New Utility Rates	April 25, 2018
New Utility Rates become effective pending approval	May 18, 2018

#### **IV. BACKGROUND**

##### Rate Study Fundamentals

The Public Works Department conducts an annual rate study to calculate the appropriate rates for water and sewer service to meet revenue and expense demands while maintaining an appropriate reserve fund balance. The rate study includes a five-year projection for revenues and expenses with an eye out for large capital projects outside of the five-year window. This annual effort insures rates are meeting the needs of the District and that adjustments can be made efficiently and effectively. The rate study is based on utility management strategies and industry best practices that are briefly described below.

##### Effective Utility Management

In 2006, the Environmental Protection Agency (EPA) worked alongside the six largest water and wastewater professional organizations (American Water Works Association (AWWA), Water Environment Federation (WEF), American Public Works Association (APWA), National Association of Water Agencies, National Association of Clean Water Agencies, Association of Metropolitan Water Agencies) collaboratively to develop a benchmarking document called the “Ten Attributes of Effectively Managed Water Sector Utilities”. The major strategies that were identified are as follows:

- Financial Viability
- Product Quality
- Customer Satisfaction
- Employee and Leadership Development
- Operational Optimization
- Operational Resiliency
- Community Sustainability
- Infrastructure Stability
- Stakeholder Understanding
- Support and Water Resource Adequacy

Public Works uses all of these management strategies to maximize our resources, improve performance, and safeguard the community's assets for the future. The primary purpose of our annual rate study is to make sure we utilize the management strategy of financial viability as stated above and more fully described in the next section.

### Financial Viability

The water utility sector management strategy defines financial viability as understanding the full life-cycle cost of the utility and establishing and maintaining an effective balance between long-term debt, asset values, operations and maintenance expenditures, and operating revenues. It also establishes predictable rates consistent with community expectations and acceptability to recover costs, provide for reserves, maintain support from bond rating agencies, and plan and invest for future needs.

In other words, the water and sewer rates need to collect revenues equal to the full cost of operations, maintenance and capital replacement of the utility over the long term. This has been dubbed, Full Cost Pricing. Without fully funding a Utility, the value of the community asset will suffer and jeopardize disinfection and the delivery of safe potable water and the collection and treatment of wastewater. Conversely, performing long term financial planning insures that future generations will enjoy the same benefits as customers today in being able to rely on safe potable drinking water and properly collected and treated wastewater to protect the environment. This allows the customer to make personal and economic decisions based on the signaling they receive from the utility rates and system performance.

### AWWA Principal of Water Rates, Fees and Charges

The American Water Works Association (AWWA) has 61 Manuals of Practices. The AWWA manual on Principles of Water Rates, Fees and Charges was first

written in 1954, and is over 300 pages long covering the detailed practice of setting water rates and charges for a financially viable utility. Manuals such as this are developed by industry experts over decades using the best practices that have been implemented in the industry. This shared knowledge base assists all water agencies in developing and implementing rate structures. It also helps customers when they move from town to town across the United States so they can expect some consistency in how water and sewer services will be charged because of agency acceptance of these best practices.

The District has a long history (25 plus years) of using the principles in this AWWA Manual for determining the type of rate structure that we have to collect the necessary revenues to pay for all costs to operate the water and sewer system. The rate structure used by the District is called the commodity demand method where costs of service are divided into commodity costs, demand costs, customer costs and direct fire protection costs. This is more fully explained under the rate structure section where fixed, variable and capital improvement costs are described. Generally, it is important to know that the rate structure utilized by the District is a best practice supported by the AWWA and is similar to water rate structures across the United States.

### Rate Structure

The Public Works budget is comprised of water, sewer, and trash funds. Water is further broken down into water supply, pumping, treatment, transmission and compliance services. Sewer is further broken down into effluent disposal, pumping, treatment, collection and compliance. General administration includes billing, meter reading, customer service, legal, lobbying, central services and other utility wide expenses. The general administration is spread evenly between sewer and water. Trash will not be a part of the utility rate study.

The water and sewer rates are based on the water and sewer budgets and are made up of three main components - fixed charges, variable charges, and capital improvement charges. Each major division in the water and sewer budget has a portion of fixed and variable costs and the rates are designed to fund these expenses. The fixed, variable and CIP rate components are discussed in more detail below.

### Fixed Charges (Water and Sewer Base and Admin Rates)

To provide water and sewer services, there is a portion of the costs that are fixed charges. These are sometimes called the ready to serve costs. Essentially, there is a certain level of costs that are incurred to staff, operate and maintain our system prior to delivering any water or treating any wastewater from our

customers. There is a regulatory requirement for minimum staffing to be prepared to provide service, a certain amount of supplies such as tools, training, and equipment that are needed to be ready to serve and there are electrical and gas charges to our facilities so that they can be ready to serve. These fixed charges are calculated as a percentage of the budget components to determine the fixed charges of operating the water and sewer system.

### Variable Charges (Water and Sewer Consumption)

To provide water and sewer services, there is a portion of the costs that are variable charges. These charges are the costs to treat and distribute water and to collect, treat and dispose wastewater. The variable charge for water is essentially the cost to pump it out of Lake Tahoe, treat the water and deliver it to the customer. The variable charge for sewer is essentially what it costs to collect the wastewater from each property and deliver it to the wastewater plant, treat the wastewater, pump and dispose of the effluent and biosolids to the Carson Valley per State and TRPA requirements. This requires staff, chemicals, supplies, tools, equipment, and energy to perform these services.

### Capital Improvement Charge

The capital improvement charge funds the replacement of water and sewer infrastructure. There are separate connection fees to new customers to buy into existing infrastructure. The capital charge is based on funding the costs of the five-year capital improvement plan with a consideration for the multi-year capital plan out a total of twenty years.

### Summary of CIP Rate Changes for the Effluent Export Project

The Effluent Export Project has been the major driver in raising the sewer rates. The District currently does not have sufficient reserves to fund this project and it has been necessary to collect the funds through sewer rates in advance of the project. The District has initiated Phase II of the Effluent Export Project to replace the remaining six miles of effluent export pipeline in the Tahoe Basin at a cost of \$23 million. Previous capital budgets showed that up to 75% of this work was to be funded through the Section 595 Program. The District is still working with our Federal Legislative Advocate to secure new funding through the Section 595 program. The capital plan has been modified to show that we receive no funding for the Effluent Export. The District is also pursuing funding options with other project partners.

The District has worked with the Tahoe Transportation District (TTD) for the last three years on the feasibility of co-locating the new section of effluent export

pipeline with the Tahoe Bike Path. At the October 2014 Board of Trustees meeting, the District entered into an amendment of the existing Interlocal Agreement that would allow the completion of the next steps of the project: completion of preliminary engineering and design and conducting the necessary environmental analysis of the proposed alignment to satisfy the National Environmental Policy Act (NEPA) and the Tahoe Regional Planning Agency (TRPA) requirements.

Should TTD be able to secure funding for the final design and construction of the proposed SR-28 bikeway, District Staff estimates there will be substantial savings by co-locating the pipeline within the bikeway. Depending on the total length of pipeline eventually replaced, the District could save upwards of \$7,000,000 via co-location and cost sharing with TTD over replacing the pipeline entirely within the SR-28 roadway.

At this time, borrowing costs for loan terms greater than 10-years are relatively high. The District is also a low priority on the Clean Water State Revolving Loan Fund Project list and we do not expect to receive funding under current State Loan funding levels.

#### Residential Utility Rate Summary

The following table provides the average monthly water and sewer utility bill for our average residential user (71,578 gallons water use per year) in the District's service area from 2011 to the proposed 2016 rates.

Year	Monthly Water Charge	Monthly Sewer Charge	Total Monthly Water and Sewer Charge
2013	\$34.66	\$51.24	\$85.90
2014	\$35.41	\$55.75	\$91.16
2015	\$36.15	\$57.96	\$94.11
2016	\$37.15	\$60.24	\$97.39
2017	\$38.47	\$62.22	\$100.69
Proposed 2018	\$39.79	\$63.89	\$103.67

The average residential rate has increased \$17.78 per month from \$85.90 in 2013 to \$103.67 in 2018. There has been an increase of \$8.42 per month to pay capital improvements and \$9.36 for operating cost increase of the total rate increase of \$17.78 per month over the last five years. The following table presents the five year total and annual average rate increases for the median residential customer.

	Monthly Water Charge	Monthly Sewer Charge	Total Monthly Water and Sewer Charge
% of Change 2013-2018	14.8%	24.7%	20.7%
Annual Change over 5 yrs.	2.8%	4.5%	3.8%

Over the last five years, the residential family median user has seen an average rate increase of 3.8% per year. The capital rate has increased by 4.2% and the operating rate has increased by 3.6% per year for 5 years.

#### **IV. ALTERNATIVES**

The rate structure used by the District has been in place since the installation of water meters over 25 years ago.

#### **V. COMMENTS**

Staff has investigated the equity of the rate structure for the various customer classes in 2016. Equity is calculated by determining the proportion of fixed and variable demand on the water and sewer system (size of water meter, water consumption, sewer consumption, etc.) by each customer class compared to the fixed and variable revenue collected from each customer class (water and sewer rate revenue). The current rate structure exhibits equity amongst the major user classes. Miscellaneous accounts include effluent sales, state park facilities, construction accounts, etc.

<b>Customer Class</b>	<b>Revenue as % of Water Revenue</b>	<b>Demand as % of Water Demands</b>
Commercial	10.5%	10.5%
Residential	82.2%	81.3%
IVGID Facilities	5.3%	6.2%
IVGID Snowmaking	1.6%	1.8%
Misc. accounts	0.4%	0.2%

<b>Customer Class</b>	<b>Revenue as % of Sewer Revenue</b>	<b>Demand as % of Sewer Demands</b>
Commercial	10.5%	10.2%
Residential	87.6%	88.1%
IVGID Facilities	1.4%	1.4%
IVGID Snowmaking	0%	0%
Misc. accounts	0.5%	0.3%

The current use patterns are showing the rate structure is equitable among the customer classes but we are beginning to see some changes in use patterns that will need to be monitored for the impact to equity. We have seen a change in the multi-family use patterns as occupancy rates are decreasing. The current rate structure is a full service cost model with a pay for what you use commodity charge. This naturally creates a rate structure that is equitable since all customers will pay for what they use. A customer's base rate is calculated from the meter size which is equivalent to the customer's demand potential. The District's irrigation and snowmaking accounts do not pay excess tier charges on water which is why that revenue is less than the demand for those customer classes.

### Area Water and Sewer Rates

The presentation at the Board meeting includes a slide on the area water and sewer rates. The table below shows the area water and sewer rates using the average IVGID customer use pattern of 71,000 gallons per year.

<b>Agency</b>	<b>Monthly Water and Sewer Rate</b>	<b>Agency Water Production in Million Gallons/day</b>	<b>Total Service Connections</b>
South Tahoe PUD	\$ 105.28	4.7	14,025
Incline Village GID	\$ 103.67	2.7	8,063
Round Hill GID	\$ 110.75	0.2	479
North Tahoe PUD	\$ 113.75	1.1	3,903
Truckee Donner PUD	\$ 125.11	3.3	10,150
Tahoe City PUD	\$ 154.04	1.0	4,753
Skyland	\$ 152.18	0.3	593
Kingsbury GID	\$ 158.83	0.8	2,514

**VI. BUSINESS IMPACT**

This item is a "rule" within the meaning of Nevada Revised Statutes, Chapter 237, but it does not impose a direct and significant economic burden on a business, or directly restrict the formation, operation or expansion of a business, and therefore does not require a Business Impact Statement.



**Utility Rate Study Presentation  
January 24, 2018  
Director of Public Works  
Joe Pomroy**

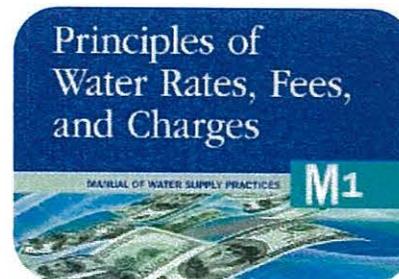
# The Director of Public Works is hired to...



protect our source water.



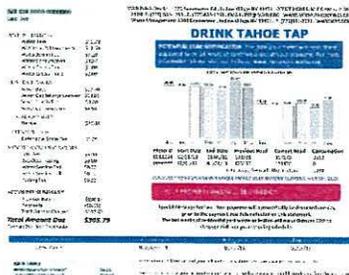
provide safe tap water.



be fiscally responsible.



maintain infrastructure.



provide high quality service.



promote safety.



safely transport effluent.

# Summary

- Rate Study Purpose
- Rate Study Fundamentals
- 2018-19 Water and Sewer Budgets
- Five Year Operating and Capital Projections
- Water and Sewer Rates
- Rate Comparisons
- Timeline
- Recommendation

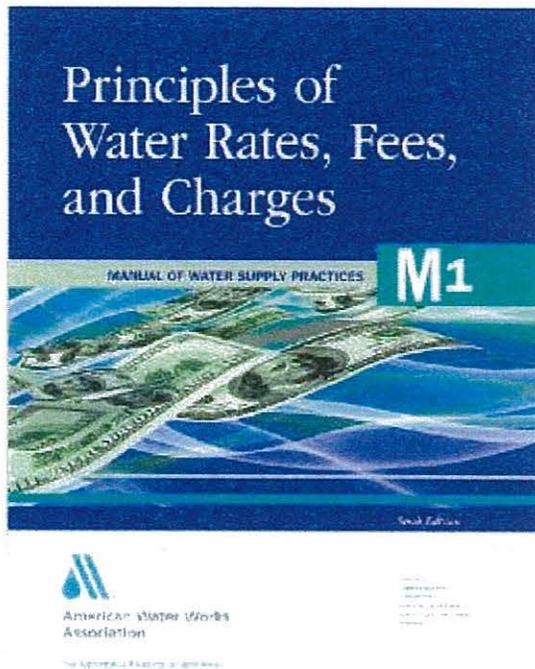
# Rate Study Purpose

- Determine CIP and Operating Expenses
- Determine Revenue Projections
- Examine Full Cost Pricing
- Balance Costs Equitably Among User Classes
- Provide Price Signals to Users
- Determine Needs for Bonding
- Fund Utility for Future Users

# Rate Study Fundamentals

- District Strategic Plan
  - Mission, Vision, Goals and Objectives, Culture Training, & Customer Service Training
- Industry Best Practices
  - Effective Utility Management
  - AWWA Best Practice Manuals
  - Professional Organizations, AWWA & WEF
  - Industry Peers
  - Benchmarking and Performance Measures

# Rate Study Fundamentals



- AWWA Manuals of Practice
- Industry best practices
- Guiding document – 60 years
- 300 pages of rate info
- Commodity demand method
- Increasing block rate structure

# Water Budget Summary

<b>Water Budget</b>	<b>2017-18 Budget</b>	<b>2018-19 Proposed</b>	<b>% Change</b>
<b>Revenue</b>			
Water Revenue	<b>4,973,273</b>	<b>5,138,304</b>	<b>3.3%</b>
<b>Expenditure</b>			
Salaries and Benefits*	1,555,408	1,782,579	14.6%
Professional Services	45,900	46,050	0.3%
Services and Supplies	851,634	907,870	6.6%
Insurance	85,200	93,720	10.0%
Utilities	497,896	471,874	-5.2%
Central Services Cost	147,300	150,000	1.8%
Fuels Management	50,000	50,000	0.0%
<b>Expenditures</b>	<b>3,233,338</b>	<b>3,502,093</b>	<b>8.3%</b>
<b>Debt Service</b>			
Principal	224,515	230,534	
Interest	82,504	76,486	

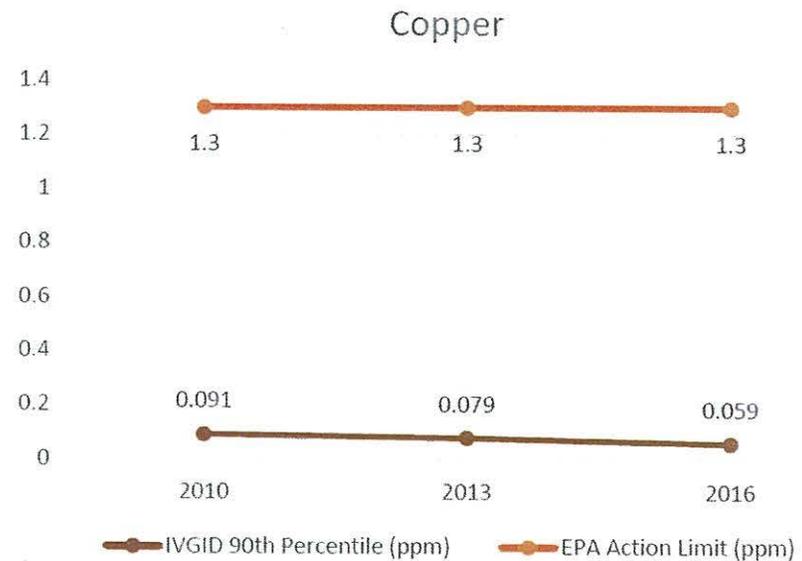
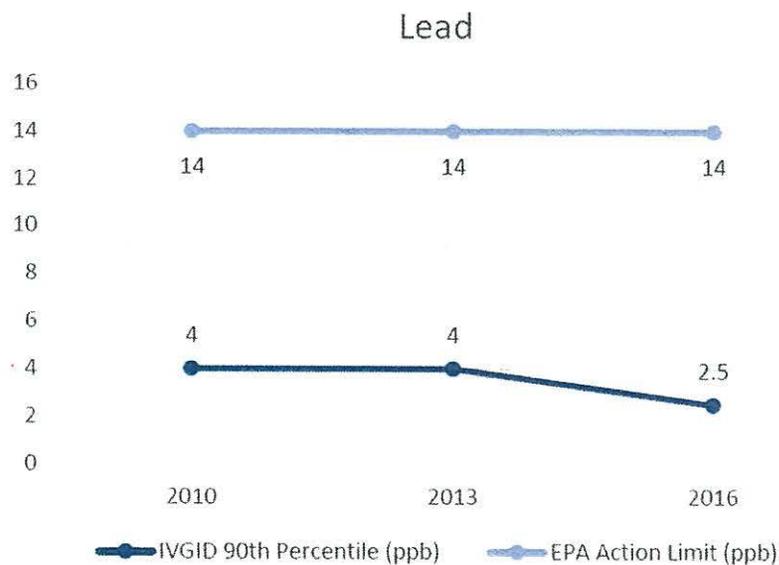
\*Labor Costs reallocated from sewer to water. Combined increase of 4.6%  
 See slide 18 for total labor cost and year to year increase

# Utility Customer Experience

- Reliability – 100% Service Goal
- Consistent product
- Customer conveniences and information
  - On-line accounts, e/bills and e/pay
  - Speak to a person, not a machine
  - Move in and Move out
  - Designating a tenant or agent for the account
  - Leak notification by email and bill

# Protecting our Water - Lead and Copper

- U.S. concern with Lead in water because of Flint Mich.
- Compliance with Federal Lead and Copper Rule
- Sampling at 20 Single Family Homes



# Water Budget - Chemicals

<b>Chemical</b>	<b>Budgeted Expense</b>
Liquid Oxygen to Make Ozone for Water Disinfection	\$30,000
Sodium Hypochlorite for Water Disinfection	\$23,000
Calcium Thiosulfate Disinfection Process Chemical	\$7,000
Sodium Silicate for Corrosion Control and Control of Lead and Copper	\$70,000
<b>Total</b>	<b>\$130,000</b>

# Protecting our Water - Backflow

- Protect the consumer
- Protect the water supply
- Educate the consumer
- Revenue of \$105,000 (1,700 tests)



## Sewer Budget Summary

Sewer Budget	2017-18 Budget	2018-19 Proposed	% Change
<b>Revenue</b>			
<b>Sewer Revenue</b>	6,582,258	6,714,622	2.0%
<b>Expenditures</b>			
Salaries and Benefits*	1,945,545	1,879,350	-3.4%
Professional Services	51,900	52,200	0.6%
Services and Supplies	807,552	820,518	1.6%
Insurance	103,200	113,520	10.0%
Utilities	451,620	446,339	-1.2%
Central Services Cost	147,300	150,000	1.8%
Fuels Management	50,000	50,000	0.0%
<b>Expenditures</b>	<b>3,557,117</b>	<b>3,511,927</b>	<b>-1.3%</b>
<b>Debt Service</b>			
Principal	271,245	279,144	
Interest	64,868	56,970	

\*Labor Costs reallocated from sewer to water. Combined increase of 4.6%  
See slide 18 for total labor cost and year to year increase

# Sewer Budget - Chemicals

<b>Chemical</b>	<b>Budgeted Expense</b>
Solids Dewatering Polymer	\$70,000
Sodium Hypochlorite for Effluent Disinfection	\$26,000
Odor Control Chemicals	\$22,000
Sewer pH Adjustment Chemical	\$27,000
<b>Total</b>	<b>\$145,000</b>

# Sewer Budget – Sewer Mains

<b>Sewer Main Activity</b>	<b>Budgeted Expense</b>
Sewer Main Cleaning 120,000 feet of hydroflush	\$66,000 (\$0.55/foot)
Sewer Main CCTV Inspection 40,000 feet of inspection	\$52,000 (\$1.30/foot)
Sewer Main Repairs	\$42,000
<b>Total</b>	<b>\$160,000</b>

# Utilities Personnel

Budget Year	Full Time	Part Time	Total
2006-07	31.2	0.7	31.9
2011-12	31.2	0.7	31.9
2016-17	31.2	3.4	34.6
2017-18	31.2	3.4	34.6
2018-19	31.2	3.7	34.9

- **2018–19 Part Time Positions**

- Solid Waste Enforcement Tech – 1.0 – (2015)
- Waste Not Intern –1.0 (increased in 2014, loss of AmeriCorps)
- Truck Driver – 0.63 (2015)
- Customer Service Representative – 0.75 (2018) (increase 0.25)
- Wetlands Hunt Supervisor – 0.3 (pre 2000)

## Budgeted Expenses 2018-19

<b>Budget Item</b>	<b>Budgeted Expense</b>
Customer Service (Billing, meter reading, front office)	\$388,000
Fleet Maintenance Services	\$323,000
Buildings Maint. Services	\$109,000
Fuel	\$74,000
Regulatory Permits (NDEP, NDSL, BSDW)	\$32,000

# Water and Sewer Electrical Cost Savings

Year	Electrical Cost (\$)	Year to Year Change
2009-10	\$ 1,171,063	n/a
2010-11	\$ 1,121,748	4.2%
2011-12	\$ 1,077,339	4.0%
2012-13	\$ 1,001,334	7.1%
2013-14	\$ 1,041,216	-4.0%
2014-15	\$ 983,313	5.6%
2015-16	\$ 884,989	10.0%
2016-17	\$ 804,072	9.1%
<b>Cost Savings</b>	<b>\$ 366,991</b>	<b>31.3%</b>

# Utility Budget Summary

Utility Budget	2017-18 Budget	2018-19 Proposed	% Change
<b>Revenues</b>			
<b>Water and Sewer Revenue</b>	<b>11,555,531</b>	<b>11,852,926</b>	<b>2.6%</b>
<b>Expenditures</b>			
Salaries and Benefits*	3,500,953	3,661,929	4.6%
Professional Services	97,800	98,250	0.5%
Services and Supplies	1,659,186	1,728,388	4.2%
Insurance	188,400	207,240	10.0%
Utilities	949,516	918,213	-3.3%
Central Services Cost	294,600	300,000	1.8%
Fuels Management	100,000	100,000	0.0%
<b>Expenditures</b>	<b>6,790,455</b>	<b>7,014,020</b>	<b>3.3%</b>
<b>Debt Service</b>			
Principal	495,760	509,678	
Interest	147,372	133,456	
<b>Debt Service Total</b>	<b>643,132</b>	<b>643,134</b>	

\*Labor Costs reallocated from sewer to water. Combined increase of 4.6% for Utility Budget

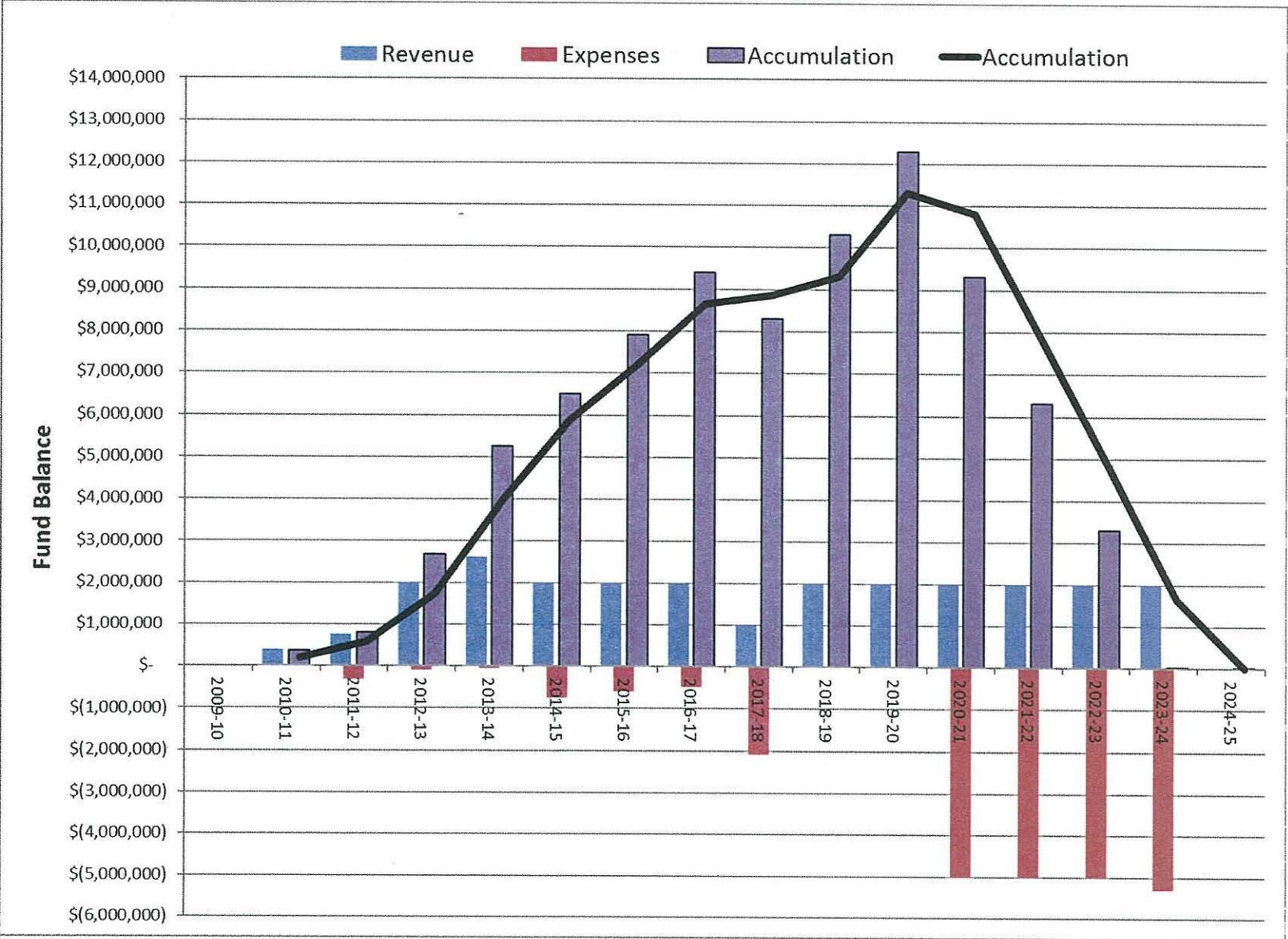
# 2018-19 Capital

- Effluent Export Funding
- Pump and Motor Replacements
- Water Reservoir Safety Improvements
- Burnt Cedar Electrical Improvements
- Sewage Vactor Truck Replacement
- Budget of \$4,188,000
- (Watermain in 2019-20)

# Effluent Export Pipeline Phase II

- Phase 1 Years 2006 – 2009
  - Replaced 29,700 linear feet
  - Total Cost - \$15,300,000
  - District Share - \$3,700,000
  - USACE Share - \$11,600,000
- Phase 2 Years 2014 – 2024
  - Replace up to 31,000 linear feet
  - Total Project Cost Estimated at \$23,000,000
  - Accumulate \$2,000,000 per year

# Export Project CIP Funding



# Export Pipeline Replacement Cost Reduction Strategy

- **USACE Funding Support**
  - 50% – 75% potential funding support
  - Lobbying efforts in DC via Marcus Faust continue
  - Discussions with USACE Sacramento District continue
- **Bike Path Co-Location**
  - \$7M potential cost savings
  - Work with TTD continues
  - NEPA effort underway
- **Reduction in Pipeline Replacement**
  - \$2M - \$4M per mile of pipe
  - Based on outcome of condition assessment

# Export Pipeline Phase II

	<b>Annual CIP Expenses</b>	<b>Annual CIP Revenue</b>	<b>Project Balance</b>	<b>Sewer Rate Increase</b>
<b>2010-11 Fiscal Year</b>	\$21,250	\$400,000	\$378,750	3.9%
<b>2011-12 Fiscal Year</b>	\$330,827	\$750,000	\$797,923	9.4%
<b>2012-13 Fiscal Year</b>	\$111,663	\$2,000,000	\$2,686,260	9.9%
<b>2013-14 Fiscal Year</b>	\$59,424	\$2,624,338	\$5,251,174	11.1%
<b>2014-15 Fiscal Year</b>	\$744,805	\$2,000,000	\$6,506,369	9.1%
<b>2015-16 Fiscal Year</b>	\$606,318	\$2,000,000	\$7,900,051	4.0%
<b>2016-17 Fiscal Year</b>	\$494,331	\$2,000,000	\$9,405,720	3.8%
<b>2017-18 Fiscal Year</b>	\$2,100,000	\$1,000,000	\$8,305,720	3.3%
<b>Total</b>	<b>\$4,468,618</b>	<b>\$12,774,338</b>	<b>\$8,305,720</b>	

# Fund Balance

- The audited unrestricted net position for the Utility Fund at the end of Fiscal Year 2016-17 is \$12.5 million with \$9.4 million accumulated for the Effluent Export Project. This equates to \$3.1 million in unencumbered unrestricted net position at the end of Fiscal Year 2016-17. The target fund balance is calculated at \$1.8 million. The Utility Fund meets the fund balance and can rely on funds accumulated for the Effluent Export Project.

# 2018 5-Year Rate Study

- Water Rates - ↑3.4%
- Sewer Rates - ↑2.7%
- Overall Rates - ↑3.0%
- Increase is Spread Across Rate Components
- Average 3.2% Increase for Next 5 Years
- Commodity-Demand Model (fixed, variable, and CIP components)

# Operating Revenues and Expenses

<b>5-Year Plan</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>5-Yr Sum</b>
Operating Revenue	7,035,000	7,353,000	7,686,000	8,036,000	8,403,000	\$38,513,000
Operating Expense	(7,014,000)	(7,237,000)	(7,440,000)	(7,647,000)	(7,861,000)	(\$37,199,000)
					<b>Subtotal</b>	<b>\$1,314,000</b>

Does not include depreciation

# Capital Revenues and Expenses

5-Year Plan	2018-19	2019-20	2020-21	2021-22	2022-23	5-Yr Sum
Capital Revenue	4,913,000	4,960,000	5,014,000	5,073,000	5,133,000	25,093,000
Capital Expense	(4,786,000)	(4,881,000)	(4,736,000)	(4,424,000)	(4,715,000)	(23,542,000)
					<b>Subtotal</b>	<b>\$1,551,000</b>

Note 1 - Capital Expense is net of grants and debt proceeds.

# Total Revenues and Expenses

<b>2018 Five Year Rate Study</b>	<b>5-Year Total</b>
Operating and Capital Revenues	\$63,606,000
Operating and Capital Expenses	\$60,741,000
<b>Net increase in reserves</b>	<b>\$2,865,000</b>

# 2013 5-Year Rate Study

- How did we do on our projections over the 5 year period from 2012 to 2017?

Component	Projected In 2012	Actual Looking Back
Annual Average	5.2% / yr	3.8% / yr

Total Increase

28.8%

20.7%

# Proposed 2018 Water Rates

Current 2017 Rate Component	2017 Rate		Proposed 2018 Rate Component	2018 Rate	Change
Base Rate	\$ 10.65		Base Rate	\$ 11.23	\$0.58
Capital Improvements	\$ 14.47		Capital Improvements	\$ 14.80	\$0.33
Customer Account Fee	\$ 3.65		Customer Account Fee	\$ 3.76	\$0.11
Defensible Space	\$ 1.05		Defensible Space	\$ 1.05	-
<b>Monthly Water Bill</b>	<b>\$ 29.82</b>		<b>Monthly Water Bill</b>	<b>\$ 30.84</b>	<b>\$1.02</b>
Consumption	\$ 1.45		Consumption	\$ 1.50	\$0.05
1st Tier	\$ 0.95		1st Tier	\$ 0.93	(\$0.02)
2nd Tier	\$ 1.26		2nd Tier	\$ 1.30	\$0.04

Consumption, Tier 1 and Tier 2 is cost per 1000 gallons of water use

# Proposed 2018 Sewer Rates

Current 2017 Rate Component	2017 Rate		Proposed 2018 Rate Component	2018 Rate	Change
Base Rate	\$ 17.55		Base Rate	\$ 18.30	\$ 0.75
Capital Improvements	\$ 30.25		Capital Improvements	\$ 30.70	\$ 0.45
Customer Account Fee	\$ 3.65		Customer Account Fee	\$ 3.76	\$ 0.11
<b>Monthly Sewer Bill</b>	<b>\$ 51.45</b>		<b>Monthly Sewer Bill</b>	<b>\$ 52.76</b>	<b>\$ 1.31</b>
Sewer Use Rate	\$ 3.00		Sewer Use Rate	\$ 3.10	\$ 0.10

Sewer Use is cost per 1000 gallons of water use.  
Residential sewer consumption is capped in summer months.

# Utility Bill History – Median User

Year	Monthly Water Charge	Monthly Sewer Charge	Total Monthly Water and Sewer Charge
2013	\$34.66	\$51.24	\$85.90
2014	\$35.41	\$55.75	\$91.16
2015	\$36.15	\$57.96	\$94.11
2016	\$37.15	\$60.24	\$97.39
2017	\$38.47	\$62.22	\$100.69
Proposed 2018	\$39.79	\$63.88	\$103.67

The breakdown of the **\$17.78** Rate Increase from 2013 to 2018

- **\$8.42** for CIP Revenue Increase, average increase of **4.2%** per yr
- **\$9.36** for Operating Revenue Increase, average increase of **3.6%** per yr

# Utility Bill – Median User

<b>Charge</b>	<b>Amount</b>	<b>% of Bill</b>
Variable	\$20.07	19%
Fixed	\$37.05	36%
Capital	\$45.50	44%
Defensible Space (watershed protection)	\$1.05	1%
Total	\$103.67	100%

# Commercial Rates

Meter Size	Water and Sewer Base Rates Monthly Base Bill
3/4"	\$83.60
1"	\$133.87
1 1/2"	\$258.42
2"	\$408.48
3"	\$758.87
4"	\$1,259.32
6"	\$2,509.32
8"	\$4,009.92

# Full Cost Pricing

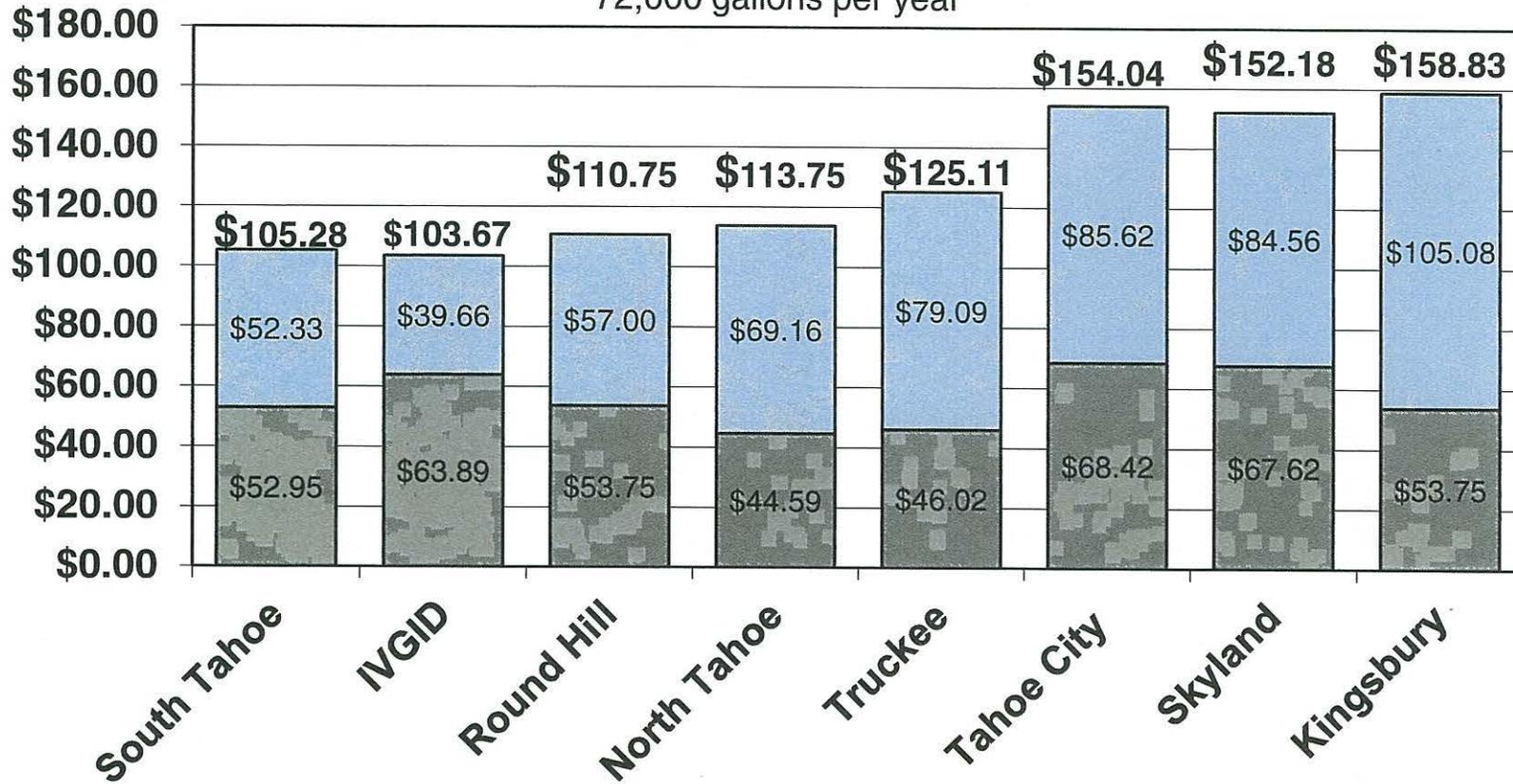
<b>Customer Class</b>	<b>2018-19 Budgeted Expense</b>	<b>2018-19 Budgeted Revenue</b>
Water Rate Fixed	\$1,818,000	\$1,862,000
Water Rate Variable	\$1,684,000	\$1,645,000
Water Rate CIP	\$1,775,000	\$1,679,000
Sewer Rate Fixed	\$2,249,000	\$2,269,000
Sewer Rate Variable	\$1,263,000	\$1,259,000
Sewer Rate CIP	\$3,011,000	\$3,234,000

# 2018 Utility Bill Comparison



**Single Family Average Monthly Bill  
Rates applied to the Median User**

6,000 gallons per month  
72,000 gallons per year



# 2018 5-Year Rate Study

- Water Rates - ↑3.4%
- Sewer Rates - ↑2.7%
- Overall Rates - ↑3.0%
- Increase is Spread Across Rate Components
- Average 3.2% Increase for Next 5 Years
- Commodity-Demand Model (fixed, variable, and CIP components)

# Other Changes

- No change to user fees (backflow, service calls, inspections)
- 5% Increase to connection fees for water and sewer

# Utility Rate Timeline

Activity	Date
Utility Rate Study Presentation	January 24, 2018
Utility Rate Study Revisions if Directed by Board	February 7, 2018
Set Date for Public Hearing to Adopt New Utility Rates	March 7, 2018
Notice of Public Hearing Published in Bonanza Newspaper	March 22, 2018
Courtesy Ad for Public Hearing Published in Bonanza Newspaper	April 19, 2018
Conduct Public Hearing and Adopt New Utility Rates	April 25, 2018
New Utility Rates become effective pending approval	May 18, 2018

# Recommendation

- That the Board of Trustees provide direction and comment to Staff on the 2018 Five Year Utility Rate Study and proposed utility rate increase for 2018.
- Direct staff to prepare documents and Ordinance 2 and Ordinance 4 amendments for a one year average 3.0% utility rate increase in accordance with the 2018 Utility Rate Study.