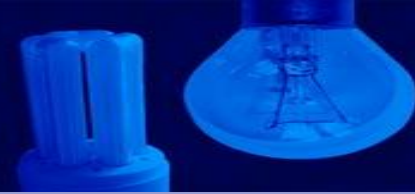


Action Item # 12

***Approve the Notice of Proposed
Water Rates for
2016 through 2020 and
Set a Hearing Date
Regarding Establishment of New
Water Rates***

June 3, 2015

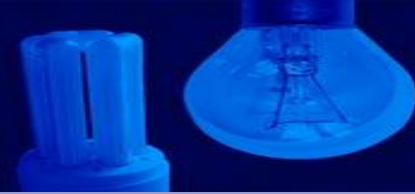
Water Rates 2016 through 2020 and Set a Public Hearing Date



Background / History

- 2013 District contracted HDR Engineering
 - Review cost of service
 - Review water rates
- HDR recommended raising rates annually based on 2013 assumptions
 - 3.0% from 2014 through 2017
 - 2.5% from 2018 through 2023
- In 2013, Board adopted 3% annual increases for 2014 and 2015 only

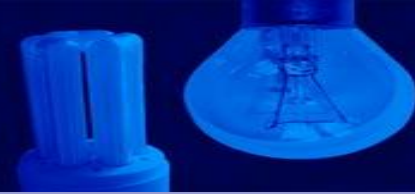
Water Rates 2016 through 2020 and Set a Public Hearing Date



Background / History

- Proposition 218 requirements
 - Rates must be based on actual cost of service
 - Rate adjustments may be adopted five years in advance
 - District *must* mail a notice to all rate payers and *may* mail a notice to property owners of the proposed change in rates
 - District must hold a public hearing at least 45 days after the mailing of the notices
 - Proposed change in rates is considered rejected if written protests are received from the majority of the affected owners
 - If not rejected, the rates can become effective 30 days after the public hearing and adoption of an ordinance

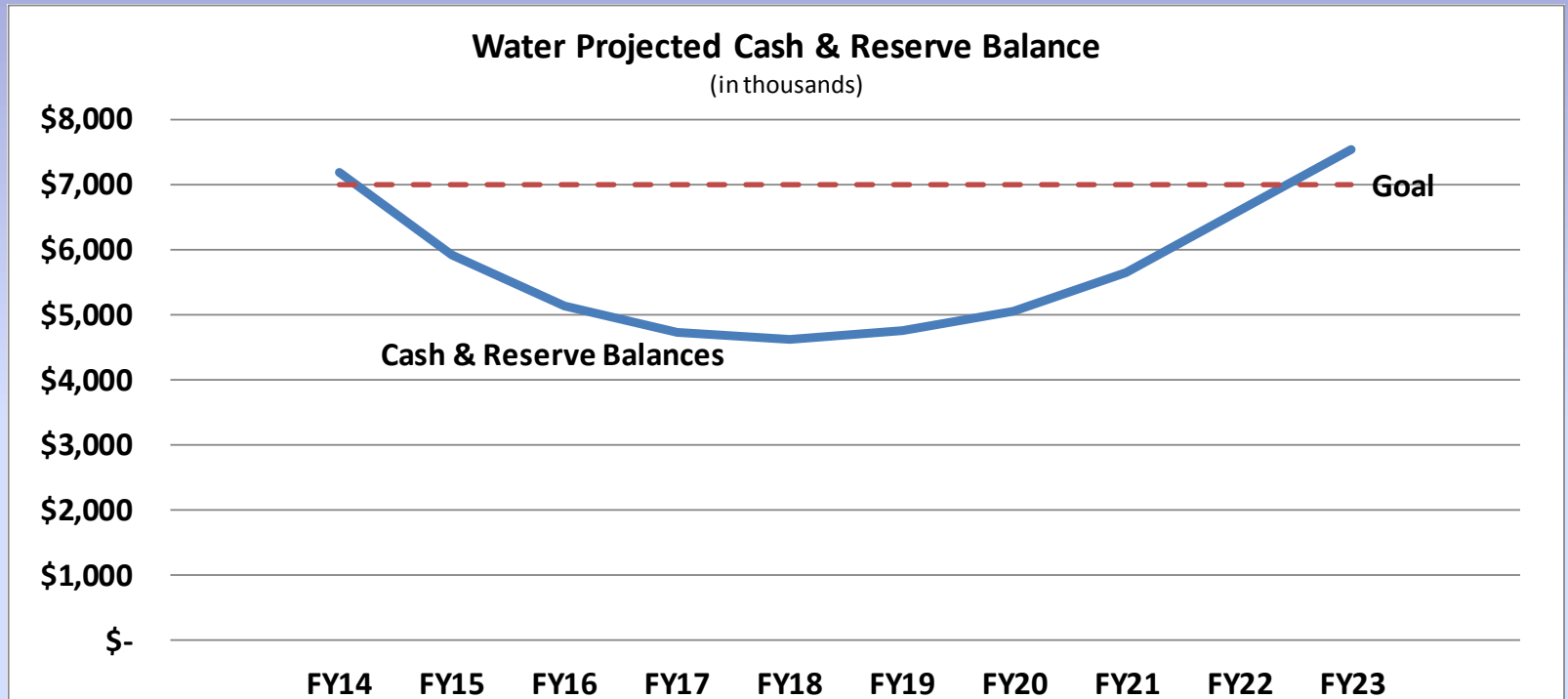
Water Rates 2016 through 2020 and Set a Public Hearing Date



New Information

- Upward pressure on rates
 - Accelerated pipeline replacement needed
 - Approximately \$600,000 annually in addition to current levels
 - Reduce District's unaccounted for water
 - State unfunded mandate
 - Reduce consumption by 28% from 2013
 - Requires District to absorb the costs of compliance
- District contracted with HDR to update the water rate study and propose rates
- May 20, 2015 staff presented rate study and Board directed staff to proceed with “Scenario 1”
 - 6% in 2016, 5% in 2017, and 3% in 2018, 2019, and 2020

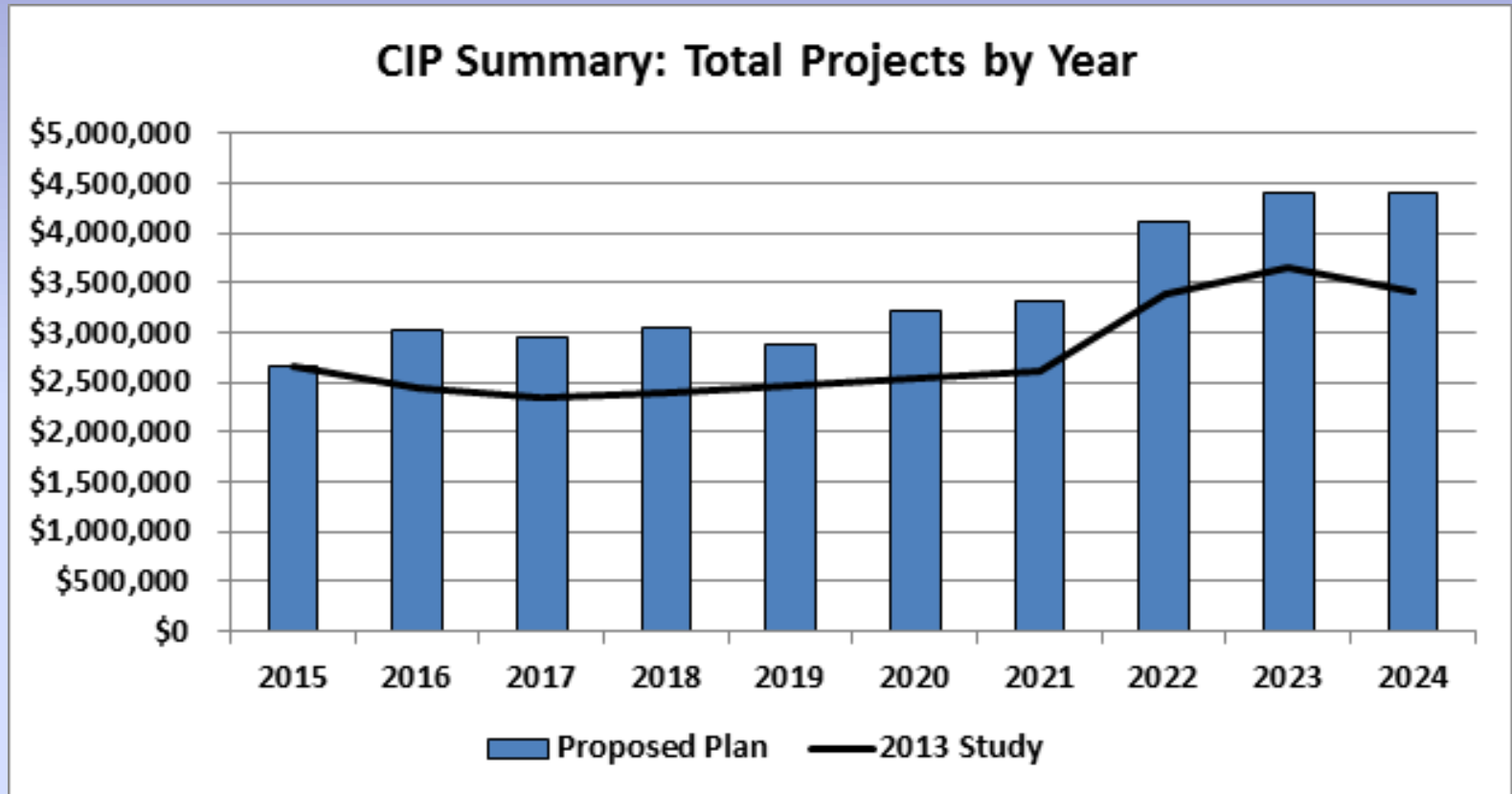
Summary of the 2013 Financial Plan



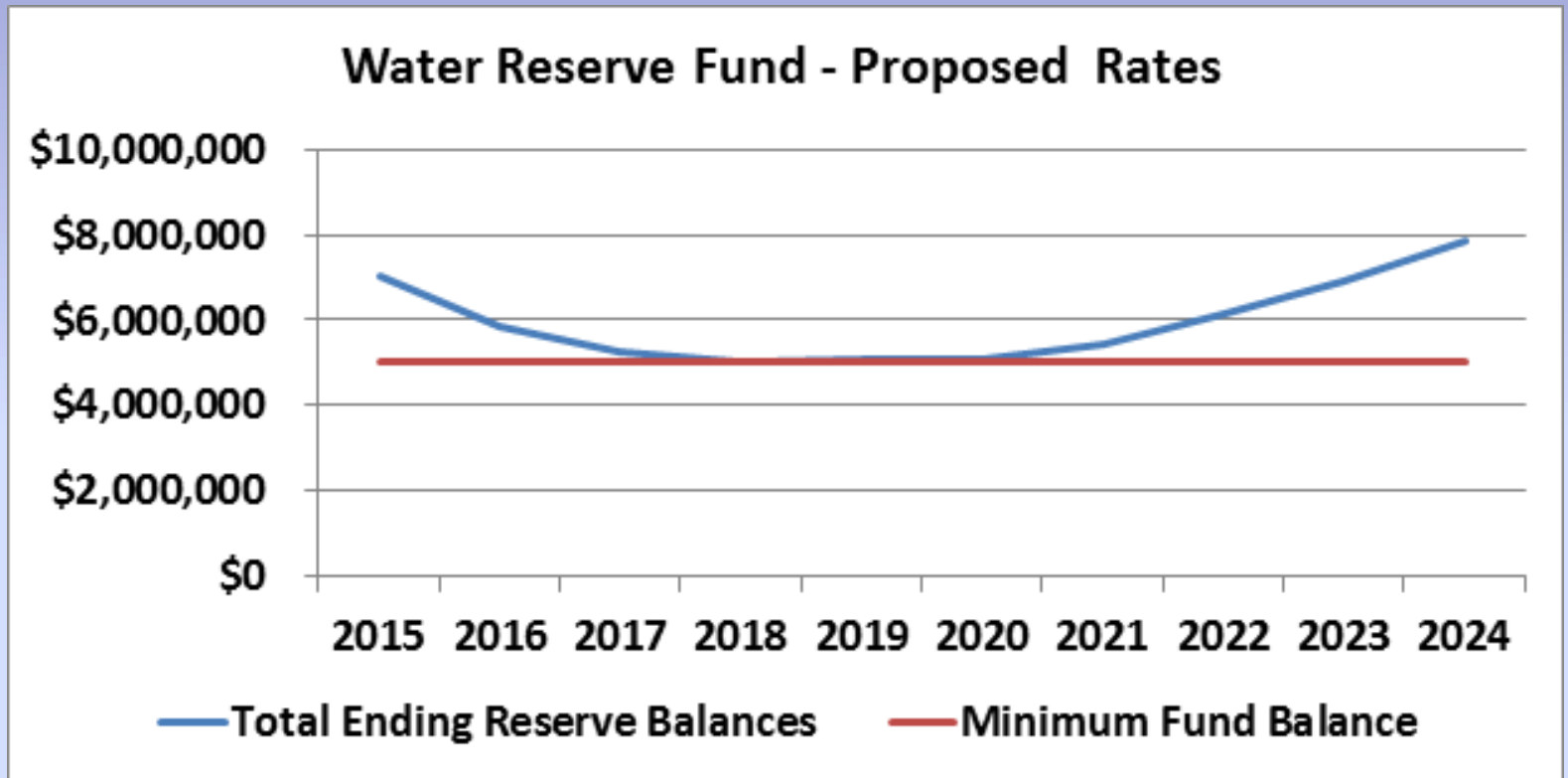
Key Assumptions

- Starting point for the study was the 2015 budget
 - Test period for the review was 2015 - 2024
 - Escalation factors were used to project the budget over the test period
- Rate revenues were calculated at present rates and escalated similarly to expenses
 - Customer growth estimated at 1% annually
 - Consumption was reduced by 18% for 2015 and 0% (flat) thereafter
- Operating and Maintenance costs increased approximately 2.9% annually
- Capital plan was developed based on the District's current CIP with accelerated pipeline replacement
 - No additional long-term debt was assumed

Capital Improvement Plan



Projected Ending Reserve Balances



Financial Plan Review:

Conclusions and Recommendations

- Rate adjustments are necessary to fund the utility
- Reserve levels are projected to reach minimum fund levels (\$5 million)
- With either proposed rate transition plan, reserve levels meet Board target reserve levels in year 10
- Focus for rates is on the next 5 years (Prop. 218)

Proposed Rate Plan					
	2016	2017	2018	2019	2020
	6.0%	5.0%	3.0%	3.0%	3.0%

Rate Design Key Assumptions

- Developed rates for a 5-year period
- Provided accelerated pipeline replacement
- Maintained current rate structure
- Adjusted rates “across the board”
 - Developed rates for both rate transition plans
 - Increased the pump zone charges to transition to recover the pumping electric costs

Legal Requirements

- San Juan Capistrano decision
 - Reviewing the cost of providing water service
 - Developing an allocation by tier for residential customers
 - Analysis provides the rationale of the tier pricing and differential between Tier 1 and Tier 2

Proposed Residential Rates

	Present	2016	2017	2018	2019	2020
Meter Charge						
5/8" x 3/4"	\$57.28	\$60.72	\$63.75	\$65.67	\$67.64	\$69.66
3/4"	57.28	60.72	63.75	65.67	67.64	69.66
1"	68.32	72.42	76.04	78.32	80.67	83.09
Consumption Charge						
0 - 8,000 Gallons	\$0.64	\$0.68	\$0.71	\$0.73	\$0.76	\$0.78
8,000 + Gallons	0.80	0.85	0.89	0.92	0.94	0.97

Residential Bill Comparison

Proposed Average Monthly Residential Bill*							
		Present	2016	2017	2018	2019	2020
	Winter	\$59.84	\$63.43	\$66.60	\$68.60	\$70.66	\$72.78
	Summer	\$64.00	\$67.84	\$71.23	\$73.37	\$75.57	\$77.84

**Bill comparison assumes 3/4" meter and 4,000 gallons in winter and 10,000 gallons in summer*

Proposed Commercial Rates

	Present	2016	2017	2018	2019	2020
Meter Charge						
3/4"	\$57.28	\$60.72	\$63.75	\$65.67	\$67.64	\$69.66
1"	68.32	72.42	76.04	78.32	80.67	83.09
Consumption Charge						
All Consumption (\$/1,000 Gal)	\$1.57	\$1.66	\$1.75	\$1.80	\$1.85	\$1.91

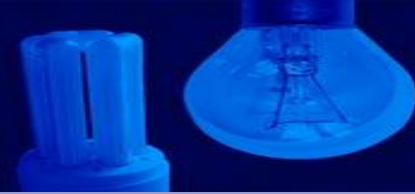
Proposed Zone Charges

	Present	2016	2017	2018	2019	2020
Zone 1	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Zone 2	0.35	0.40	0.45	0.50	0.55	0.60
Zone 3	0.70	0.80	0.90	1.00	1.10	1.20
Zone 4	1.05	1.20	1.35	1.50	1.65	1.80
Zone 5	1.40	1.60	1.80	2.00	2.20	2.40
Zone 6	1.75	2.00	2.25	2.50	2.75	3.00
Zone 7	2.10	2.40	2.70	3.00	3.30	3.60

Summary of the Water Rate Study

- Rate adjustments are necessary over the next 5-year period
 - Fund operating and accelerated pipeline replacements
 - Absorb impacts of State mandated conservation
 - Maintain minimum reserve targets

Water Rates 2016 through 2020 and Set a Public Hearing Date



New Information

- Proposed schedule if Board adopts new rates
 - June 3, 2015 approve water rate increase subject to public hearing (tonight)
 - June 30, 2015 or before, mail notices of proposed rates and public hearing
 - July and August 2015 advertise in local newspaper the proposed rates and public hearing
 - August 19, 2015 hold a public hearing and adopt an ordinance for the new water rates
 - Rates would be effective the first bill printed after January 1st of each year

Water Rates 2016 through 2020 and Set a Public Hearing Date



Fiscal Impact

- This action item is part of the overall Prop 218 process that may affect the District's spending for the next five years
- In 2016, a typical monthly residential water bill would increase about \$3.70
- In 2016, the District's revenue would increase about \$640,000

Water Rates 2016 through 2020 and Set a Public Hearing Date



Recommendation

- Approve the notice of proposed water rates for 2016 through 2020
- Set a public hearing date on August 19, 2015 to receive input related to the proposed rates