



MEETING DATE: October 7, 2020
To: Board of Directors
FROM: Brian Wright, Assistant General Manager/Water Utility Director
SUBJECT: Workshop #2 - Water Utility Rate Study 2020

APPROVED BY _____
Brian Wright, Assistant General Manager/Water Utility Director

RECOMMENDATION:

- 1.) Approve water rates for FY2021-2025;
- 2.) Approve the notice of proposed water rate increases for FY2021-2025 as substantially completed;
- 3.) Set a Public Hearing for December 2, 2020 to receive input related to proposed water rate increases.

BACKGROUND:

This is the second of two workshops scheduled as part of the District's public process for conducting a water rate study, review cost of service, and finally the adoption of water utility rates beginning in FY 2021. Following review of the finalized water rate and cost of service study, as well as proposed water rate design scenarios, staff is recommending approval of a water rate increase for FY2021-2025 and the scheduling of a public hearing.

The development and adoption of cost-based water utility rates, fees and charges is integral to the District's ability to effectively fund the construction, maintenance and operation of a safe, reliable and sustainable public water system. The water utility rate development process includes:

- Revenue and Cost of Service Analysis
- Design of a Multi-year Rate Plan
- Prop 218 Process
- Adoption by Board of Directors

In 2015 the Board adopted Ordinance 2015-01 setting the maximum water rate increases for FY16-20. The resulting Board approved water rates schedule will expire at the end of

FY20:

Fiscal Year	2016	2017	2018	2019	2020
Approved Maximum Rate Increase	6%	5%	3%	3%	3%

As discussed at the September 2, 2020 Board meeting, in preparation for the proposal of new water rates and eventual adoption by the Board, the District approved a professional services contract with Farr West Engineering for the development of an updated 10-year Capital Improvement Plan (CIP), and HDR Engineering to conduct the 2020 Water Rate Study Update.

The District's updated Water Infrastructure 10-year CIP was presented to the Board for review at the meeting held on May 20, 2020. The completion of the updated CIP plan revealed the District would require significant increases in rate funded capital expenditures over the next 10 years in order to address the ongoing need to harden water system reliability with additional emergency power supply generators, construction of additional pipelines for system redundancy, continued maintenance of critical water system facilities as well as replacing other facilities approaching the end of their useful life. Based upon an assessment of water system infrastructure and operational needs, the CIP study conducted by Farr West Engineering identified an annual capital budget equivalent of approximately \$7M. This is a significant increase from recent annual budget targets of approximately \$2.3M.

Utilizing the updated Water Infrastructure 10-year CIP, the water rate study completed by HDR Engineering is intended to align rate generated revenues with the District's financial goals. Some additional concerns to be accounted for in the 2020 Water Rate Study Update are:

- Significant and yet to be determined unfunded State mandates associated with water use reduction and water loss performance standards; and
- Address the continuing rise in costs exceeding that of inflationary expectations for general repair and replacement services and materials.

At the September 2, 2020 Board meeting staff and HDR Engineering presented three potential water rate design scenarios (provided below), outlining the fiscal impacts to the District's water utility operating and capital budgets, projected utility reserve fund balances, as well as the estimated increases in monthly water bills for the average TDPUD customer.

- **Scenario 1**: A baseline annual water rate increase consistent with the rate of inflation. In this rate design the District's current annual capital budget targets of \$2.0M to \$2.5M would remain in place with no additional spending
- **Scenario 2**: An annual rate increase from 2021-2025, equivalent to a cumulative average monthly residential bill increase of \$20.32 over five years. This rate scenario provides for a gradual increase in annual rate funded capital investment starting at \$2.75M in 2021 and increasing incrementally to \$4M in 2025. There

would be a very moderate initial draw on reserve balances, but ultimately meeting the Water Utility Reserve Balance Goals in 2025

- **Scenario 3:** A series of annual water rate increases designed to generate the necessary financial capacity to meet the identified capital needs of the District. This rate scenario accounts for the annual capital budget requirements identified in the District's updated 10-year CIP starting with \$6.7M in 2021 and increasing incrementally to \$7.1M in 2025.

Following the presentation and subsequent workshop discussions, the Board directed staff and HDR Engineering to develop revised rate design proposals that would better position the District financially to address the significant capital improvement needs identified in the updated 10-year CIP, in addition to building utility reserve fund balances to meet budgetary goals.

Based upon the feedback received in the first workshop, staff and HDR Engineering have completed the second phase of the water rate study, incorporating the cost of service review data, and providing two additional water rate design proposals for consideration. A copy of the proposed rate design scenarios have been included with this staff report as Attachment 1.

- **Scenario 4:** An average year over year annual water bill increase of approximately \$5.91/month. This rate design scenario builds water utility reserve fund balances to nearly \$9.8M in FY2025, and incrementally increase annual capital expenditures to \$6.5M in FY 2025 through a combination of rate generated revenue and additional debt service
- **Scenario 5:** An average year over year annual water bill increase of approximately \$7.10/month. This rate design scenario builds water utility reserve fund balances to nearly \$7.5M in FY2025, and incrementally increase annual capital expenditures to \$8.1M in FY 2025 through a combination of rate generated revenue and additional debt service

Staff is recommending a rate design in alignment with scenario 5 as it provides a year over year increase in annual water utility revenue of approximately \$1.4M, while incrementally building toward the District's water utility capital investment needs and reserve fund balance goals over the course of the next five years. The proposed scenario will have an average cumulative net rate increase of approximately \$35.52/month for the average TDPUD water utility customer over the course of the 5-year rate plan.

A presentation has been prepared for this workshop to facilitate a review and discussion of the revised water rate design scenarios, cost of service analysis as well as the various components of the rate structures.

The District's water utility rates are adopted by the Board of Directors and are subject to the provisions of California Proposition 218 (Prop 218). Prop 218, also known as the "Right to Vote on Taxes Act", was adopted in 1996. In the State of California, utility rates for the consumption of water adopted by a government agency are considered "property-related

fees” and are subject to Prop 218.

Compliance with CA Prop 218 requires the following criteria be met:

- Water rates must be based on actual cost of service;
- District must provide notification by mail to parcel owners within the District boundaries of the intended rate adjustments;
- District must hold at least one public hearing not sooner than 45 days after the mailing of notices;
- District must provide an opportunity for parcel owners to formally protest rate increase (requires majority protest to reject rate increase);
- If proposed rates are not rejected, they may become effective 30 days after the public hearing and adoption by ordinance.

In order to meet the requirements of Prop 218, the following timeline has been implemented:

- **September 2, 2020** – Workshop #1 to review the results of the rate study and proposed new rates;
- **October 7, 2020** - Workshop #2, Approval of new water rates and schedule a public hearing;
- **October to November** – Notification and advertisement of scheduled public hearing
- **December 2, 2020** – Hold public hearing regarding proposed water rates and adopt ordinance setting new water utility rates
- **January 1, 2021** – New water utility rates become effective

Staff will issue notifications of the proposed water utility rate increase and public hearing date to owner(s) of record for all parcels receiving potable water service from the District no later than October 16, 2020. A substantially completed copy of the proposed notification (pending rate approval) has been included with this staff report as Attachment 2.

This workshop is being conducted in support of the following District objectives and goals:

1.05.020 Objectives:

3. Provide reliable and high quality water supply and distribution system to meet current and future needs

1.05.030 Goals:

1.1 Conduct the District’s business in a legal, ethical, open, and transparent manner
6.0 Manage the District in an effective, efficient and fiscally responsible manner

FISCAL IMPACT:

This item includes a recommendation to the Board to approve and set water rates for FY2021-2025. The approved water rates will have a direct impact on annual water utility rate generated revenues and budgeted expenditures for water utility operations and capital improvements over the next 5 years.

ATTACHMENTS:

1. Truckee Donner PUD Water Utility Revenue Requirement Summary Scenarios 4-5 (HDR Engineering)
2. Notice of Public Hearing for Proposed Water Rate Increases for 2021-2025

Attachment 1

**Truckee Donner PUD
Water Utility
Revenue Requirement Summary
Scenario 4 - Updated Mid Cap Funding**

(Values in \$1,000s)

	Budget		Projected								
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenue											
Rate Revenue at Current Rates	\$13,020	\$13,128	\$13,242	\$13,357	\$13,473	\$13,590	\$13,709	\$13,829	\$13,950	\$14,071	\$14,195
Miscellaneous Revenue	644	655	609	616	632	652	678	699	719	734	757
Total Revenue	\$13,664	\$13,784	\$13,852	\$13,973	\$14,105	\$14,242	\$14,387	\$14,528	\$14,668	\$14,805	\$14,952
Expenditures											
Board of Directors	\$276	\$166	\$171	\$176	\$182	\$187	\$193	\$198	\$204	\$210	\$217
General Manger	688	812	836	862	888	915	943	971	1,001	1,031	1,062
Adminisitrative Services	1,463	1,446	1,499	1,554	1,611	1,670	1,732	1,796	1,862	1,931	2,003
Conservation	103	107	110	113	117	120	124	128	131	135	139
Water Operations	5,809	6,543	6,713	6,888	7,067	7,252	7,442	7,637	7,838	8,044	8,257
IT/GIS	757	775	799	823	848	873	899	926	954	983	1,012
Interdepartmental Rent	507	537	568	585	603	621	639	658	678	699	719
Additional Expenditures	0	0	493	507	522	538	554	571	588	606	624
Total Expenditures	\$9,602	\$10,386	\$11,189	\$11,508	\$11,837	\$12,176	\$12,525	\$12,885	\$13,256	\$13,639	\$14,034
Rate Funded Capital	\$2,093	\$3,000	\$3,700	\$4,200	\$4,700	\$5,200	\$5,700	\$6,200	\$6,700	\$6,800	\$7,000
Debt Service	\$2,829	\$2,659	\$1,983	\$1,982	\$2,129	\$2,132	\$1,476	\$1,476	\$1,623	\$1,623	\$1,772
Transfers	(\$1,105)	(\$1,092)	(\$978)	(\$1,057)	(\$1,010)	(\$1,060)	(\$256)	(\$248)	(\$243)	(\$239)	(\$229)
Total Revenue Requirement	\$13,419	\$14,954	\$15,894	\$16,633	\$17,656	\$18,448	\$19,444	\$20,313	\$21,337	\$21,822	\$22,577
Balance/(Deficiency) of Funds	\$246	(\$1,170)	(\$2,042)	(\$2,660)	(\$3,550)	(\$4,206)	(\$5,057)	(\$5,785)	(\$6,669)	(\$7,017)	(\$7,624)
Rate Adj. as a % of Rate Rev	-1.9%	8.9%	15.4%	19.9%	26.4%	30.9%	36.9%	41.8%	47.8%	49.9%	53.7%
Proposed Rate Adjustment	0.0%	9.0%	8.0%	7.0%	6.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Rate Revenue After Adjustment	\$13,020	\$14,310	\$15,589	\$16,825	\$17,988	\$19,052	\$19,796	\$20,568	\$21,370	\$22,203	\$23,070
Debt Service Coverage Ratio											
Before Rate Asjument	1.44	1.28	1.34	1.24	1.07	0.97	1.26	1.11	0.87	0.72	0.52
After Rate Adjustment	1.44	1.72	2.53	2.99	3.19	3.53	5.39	5.68	5.44	5.73	5.53
Average Monthly Residential Bill	\$73.56	\$80.18	\$86.59	\$92.66	\$98.22	\$103.13	\$106.22	\$109.41	\$112.69	\$116.07	\$119.55
\$ Change Per Month	0.00	6.62	6.41	6.06	5.56	4.91	3.09	3.19	3.28	3.38	3.48
Cumulative \$ Change per Month	0.00	6.62	13.03	19.10	24.66	29.57	32.66	35.85	39.13	42.51	45.99
Ending Reserve Balance	\$6,375	\$6,413	\$7,838	\$7,556	\$9,682	\$9,848	\$12,008	\$11,917	\$13,850	\$13,969	\$16,450
Low Interest Loan	\$0	\$0	\$2,200	\$0	\$2,200	\$0	\$2,200	\$0	\$2,200	\$0	\$2,200
Funding Available for Capital	\$2,253	\$3,270	\$5,000	\$5,500	\$6,000	\$6,500	\$7,000	\$7,500	\$8,000	\$8,100	\$8,300

Truckee Donner PUD
Water Utility
Revenue Requirement Summary
Scenario 5 - Updated Mid Hi Cap Funding

(Values in \$1,000s)

	Budget		Projected								
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Revenue											
Rate Revenue at Current Rates	\$13,020	\$13,128	\$13,242	\$13,357	\$13,473	\$13,590	\$13,709	\$13,829	\$13,950	\$14,071	\$14,195
Miscellaneous Revenue	644	655	609	613	616	617	632	647	671	702	744
Total Revenue	\$13,664	\$13,784	\$13,852	\$13,970	\$14,088	\$14,207	\$14,341	\$14,476	\$14,621	\$14,773	\$14,939
Expenditures											
Board of Directors	\$276	\$166	\$171	\$176	\$182	\$187	\$193	\$198	\$204	\$210	\$217
General Manger	688	812	836	862	888	915	943	971	1,001	1,031	1,062
Adminisitrative Services	1,463	1,446	1,499	1,554	1,611	1,670	1,732	1,796	1,862	1,931	2,003
Conservation	103	107	110	113	117	120	124	128	131	135	139
Water Operations	5,809	6,543	6,713	6,888	7,067	7,252	7,442	7,637	7,838	8,044	8,257
IT/GIS	757	775	799	823	848	873	899	926	954	983	1,012
Interdepartmental Rent	507	537	568	585	603	621	639	658	678	699	719
Additional Expenditures	0	0	493	507	522	538	554	571	588	606	624
Total Expenditures	\$9,602	\$10,386	\$11,189	\$11,508	\$11,837	\$12,176	\$12,525	\$12,885	\$13,256	\$13,639	\$14,034
Rate Funded Capital	\$2,093	\$3,000	\$4,000	\$5,200	\$6,300	\$6,800	\$7,100	\$7,100	\$7,100	\$7,100	\$7,100
Debt Service	\$2,829	\$2,659	\$1,983	\$1,982	\$2,129	\$2,132	\$1,476	\$1,476	\$1,623	\$1,623	\$1,772
Transfers	(\$1,105)	(\$1,092)	(\$978)	(\$1,057)	(\$1,010)	(\$1,060)	(\$256)	(\$248)	(\$243)	(\$239)	(\$229)
Total Revenue Requirement	\$13,419	\$14,954	\$16,194	\$17,633	\$19,256	\$20,048	\$20,844	\$21,213	\$21,737	\$22,122	\$22,677
Balance/(Deficiency) of Funds	\$246	(\$1,170)	(\$2,342)	(\$3,663)	(\$5,167)	(\$5,841)	(\$6,504)	(\$6,737)	(\$7,116)	(\$7,349)	(\$7,737)
Rate Adj. as a % of Rate Rev	-1.9%	8.9%	17.7%	27.4%	38.4%	43.0%	47.4%	48.7%	51.0%	52.2%	54.5%
Proposed Rate Adjustment	0.0%	9.0%	9.0%	8.0%	8.0%	7.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Rate Revenue After Adjustment	\$13,020	\$14,310	\$15,733	\$17,139	\$18,670	\$20,151	\$20,938	\$21,754	\$22,603	\$23,483	\$24,401
Debt Service Coverage Ratio											
Before Rate Asjument	1.44	1.28	1.34	1.24	1.06	0.95	1.23	1.08	0.84	0.70	0.51
After Rate Adjustment	1.44	1.72	2.60	3.15	3.50	4.03	6.13	6.45	6.17	6.50	6.27
Average Monthly Residential Bill	\$73.56	\$80.18	\$87.40	\$94.39	\$101.94	\$109.08	\$112.35	\$115.72	\$119.19	\$122.77	\$126.45
\$ Change Per Month	0.00	6.62	7.22	6.99	7.55	7.14	3.27	3.37	3.47	3.58	3.68
Cumulative \$ Change per Month	0.00	6.62	13.84	20.83	28.38	35.52	38.79	42.16	45.63	49.21	52.89
Ending Reserve Balance	\$6,375	\$6,413	\$7,683	\$6,712	\$7,903	\$7,532	\$9,388	\$9,531	\$12,249	\$13,316	\$17,015
Low Interest Loan	\$0	\$0	\$2,200	\$0	\$2,200	\$0	\$2,200	\$0	\$2,200	\$0	\$2,200
Funding Available for Capital	\$2,253	\$3,270	\$5,300	\$6,500	\$7,600	\$8,100	\$8,400	\$8,400	\$8,400	\$8,400	\$8,400



NOTICE OF PUBLIC HEARING - PROPOSED WATER RATE INCREASES FOR 2021—2025

The TDPUD has determined the need for a water utility rate increase to address the increasing cost associated with the operation and maintenance of a public water system, as well as the construction of new and replacement water utility infrastructure identified in the updated 10-year Capital Improvement Plan.

The District engaged HDR Engineering, Inc. to complete an updated water rate study. The HDR updated study supports the proposed rate increases and the District's Board of Directors has accepted the study results. The Board is considering the proposed rate changes as outlined on the reverse side of this mailing.

Notice is hereby given that the Board of Directors of the Truckee Donner Public Utility District is considering proposed water rate increases for 2021 - 2025. The District Board of Directors will hold a public hearing and receive public comment:

Date: December 2, 2020
Time: 6:00PM, or as soon thereafter
Place: 11570 Donner Pass Rd, Truckee, California

Notice is further given that the District's Board may continue the public hearing in a virtual format. This notice has been sent to all District property owners receiving water services. You are invited to participate during the public hearing in written or oral form or to submit written views prior to the time of the public hearing at the District office or by mail to 11570 Donner Pass Road, Truckee, CA 96161.

You May File a Protest: Under California Proposition 218, the owner of record for a parcel(s) may submit a protest. If a tenant pays the water fees, then it is the responsibility of the property owner to provide tenants with this water rate change notice. Protests must be filed in writing with the District Clerk before the close of the public hearing. Written protests may be mailed, hand delivered, or emailed to the District Clerk at 11570 Donner Pass Road, Truckee, CA 96161 or emailed to shannakuhlemier@tdpud.org. Written protest must be signed by the property owner and must include the service address or assessor's parcel number (APN). Only one protest may be filed per parcel or service address.



NOTICE OF PUBLIC HEARING - PROPOSED WATER RATE INCREASES FOR 2021—2025

The TDPUD has determined the need for a water utility rate increase to address the increasing cost associated with the operation and maintenance of a public water system, as well as the construction of new and replacement water utility infrastructure identified in the updated 10-year Capital Improvement Plan.

The District engaged HDR Engineering, Inc. to complete an updated water rate study. The HDR updated study supports the proposed rate increases and the District's Board of Directors has accepted the study results. The Board is considering the proposed rate changes as outlined on the reverse side of this mailing.

Notice is hereby given that the Board of Directors of the Truckee Donner Public Utility District is considering proposed water rate increases for 2021 - 2025. The District Board of Directors will hold a public hearing and receive public comment:

Date: December 2, 2020
Time: 6:00PM, or as soon thereafter
Place: 11570 Donner Pass Rd, Truckee, California

Notice is further given that the District's Board may continue the public hearing in a virtual format. This notice has been sent to all District property owners receiving water services. You are invited to participate during the public hearing in written or oral form or to submit written views prior to the time of the public hearing at the District office or by mail to 11570 Donner Pass Road, Truckee, CA 96161.

You May File a Protest: Under California Proposition 218, the owner of record for a parcel(s) may submit a protest. If a tenant pays the water fees, then it is the responsibility of the property owner to provide tenants with this water rate change notice. Protests must be filed in writing with the District Clerk before the close of the public hearing. Written protests may be mailed, hand delivered, or emailed to the District Clerk at 11570 Donner Pass Road, Truckee, CA 96161 or emailed to shannakuhlemier@tdpud.org. Written protest must be signed by the property owner and must include the service address or assessor's parcel number (APN). Only one protest may be filed per parcel or service address.

Truckee Donner Public Utility District
11570 Donner Pass Rd.
Truckee, CA 96161

PLEASE
PLACE
STAMP
HERE

Insert rate grid here

Mailing Address Line 1
Mailing Address Line 2
Mailing Address Line 3
Mailing Address Line 4
Mailing Address Line 5

Truckee Donner Public Utility District
11570 Donner Pass Rd.
Truckee, CA 96161

PLEASE
PLACE
STAMP
HERE

Insert rate grid here

Mailing Address Line 1
Mailing Address Line 2
Mailing Address Line 3
Mailing Address Line 4
Mailing Address Line 5