



MEETING DATE: September 2, 2020
FROM: Brian Wright, Water Utility Director/AGM
SUBJECT: Water Utility Rate Study 2020

APPROVED BY _____
Brian Wright, Water Utility Director/AGM

RECOMMENDATION:

Provide input and direction on the water rate study.

BACKGROUND:

This is a workshop item to review the public process for the adoption of water utility rates and to provide updates on the water rate study currently being conducted by the District's third party consultant. Staff is seeking feedback from the Board to guide the next steps in the water rate development process as well as to ensure an informed and transparent process.

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%

In preparation for the proposal of new water rates and 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 currently being 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.

HDR Engineering has completed the initial phase of the 2020 Water Rate Study Update, including the evaluation of the District's revenue requirements, potential rate design scenarios, and the projected impacts on the District's reserve funds. HDR Engineering has generated rate design plans to address multiple scenarios:

- **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.

Staff is recommending a rate design in alignment with scenario 2, as it offers a moderate annual rate increase, allows for incremental increases in rate funded capital investments and the building of reserve fund balances over the course of the next five years. This scenario would require some of the capital improvement projects identified within the updated 10-year CIP to be pushed out to later budget cycles, however the plan builds financial capacity to prioritize capital needs over the course of the next ten years.

A presentation has been prepared for this workshop to facilitate a review and discussion of various water rate design scenarios. Based upon the feedback and input generated out of the workshop, staff and HDR Engineering will present recommendations for rate structure components such as base rate, volumetric rates and tiers for consideration by the Board at the October 7, 2020 meeting.

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, staff is proposing the following schedule:

- **September 2, 2020** - Workshop to review the results of the rate study and proposed new rates;
- **October 7, 2020** - Approve 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

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:

There is no direct fiscal impact associated with this workshop item. Discussions and input generated from this workshop will be utilized to facilitate the next steps in the process.

ATTACHMENTS:

1. Truckee Donner PUD Water Utility Revenue Requirement Summary Scenarios 1-3 (HDR Engineering)