



TRIUNFO SANITATION DISTRICT

A PUBLIC AGENCY

Board of Directors
Triunfo Sanitation District
Ventura County, California

April 20, 2011

ORDINANCE NO. TSD-71 – PRESCRIBING FEES & CHARGES FOR POTABLE WATER

The Triunfo Sanitation District (TSD) Board contracted with Raftelis Financial Consultants, Inc. (RFC) to review rates, develop a financial plan, and perform a potable water cost of service rate study. Goals of the rate study are to ensure revenue sufficiency to meet operating and capital costs, determine the costs to provide service TSD's customers and determine rates that conform to cost of service principles and encourage water conservation.

RFC presented findings of its study (attached) to your Board on February 28 and March 14, 2011. TSD is proposing increased water rates for the next three fiscal years to provide water service to properties served by the District. The increases are necessary to cover the escalating costs of providing water service to customers.

The factors upon which the proposed water rate increases are based include the following:

Repair and Replacement of Aging systems:

The oldest water tank in the OPWS water delivery system must be replaced. The District has devoted several years to identifying an appropriate site for a new water storage tank. The new water tank will afford OPWS the ability to increase the amount of water in storage for both drinking water reserves and fire protection. The cost of constructing the new tank and decommissioning the old infrastructure is estimated at seven million seven hundred sixty thousand dollars (\$7,760,000). The Triunfo Sanitation District obtained financing for the entire estimated cost of this project. The cost components included in the proposed rates are for the following:

1. Principal and interest payments for new debt (Principal amount: \$7,760,000).
2. The terms of the financing require that the District maintain adequate net revenues in excess of total debt service (minimum coverage of 1.25x total debt). The increased water rates are designed to ensure that the District meets this test.
3. In order to qualify for financing, the District was obligated to retire existing debt of approximately one million eight hundred thousand dollars (\$1,800,000). The retirement of existing debt significantly depleted potable water system operating

reserves. The proposed rates are designed to re-establish adequate operating reserves.

Wholesale Water Rate Increases:

The Triunfo Sanitation District (TSD) owns and operates Oak Park Water Service (OPWS), which receives 100% of its water via the California state water project. The water is actually conveyed by three separate entities as the water is moved from Northern California to Southern California. The three water wholesalers are the State of California, the Metropolitan Water District of Southern California (MWD), and the Calleguas Municipal Water District (CMWD). As the cost to obtain and move this water increases across the state the cost to TSD/OPWS directly goes up. There are no other available local potable water sources within the TSD/OPWS service area.

The proposed Triunfo Sanitation District Ordinance No. TSD-71 will replace TSD-69. The proposed rate increases include the current wholesale water cost of \$981 per acre foot. Increases to the wholesale water rates will be implemented as described under the "Pass-Through" adjustment section of the attached Proposition 218 notice.

SCHEDULE OF PROPOSED INCREASES TO MONTHLY SERVICE CHARGES

Meter Size	Existing Service Charges	Proposed FY12	Proposed FY13	Proposed FY14
5/8"	\$13.16	\$13.75	\$14.51	\$15.23
3/4"	\$19.74	\$20.63	\$21.76	\$22.85
1"	\$32.91	\$34.39	\$36.28	\$38.10
1-1/2"	\$65.81	\$68.77	\$72.55	\$76.18
2"	\$105.30	\$110.04	\$116.09	\$121.90
3"	\$197.43	\$206.31	\$217.66	\$228.54
4"	\$329.06	\$343.87	\$362.78	\$380.92
6"	\$658.07	\$687.68	\$725.51	\$761.78

SCHEDULE OF PROPOSED INCREASE TO WATER RATES

The schedule below allows property owners to calculate their likely cost of service. The proposed rates incorporate three quantity rate ties, "0-6 HCF," "7-28 HCF," and ">28HCF."

Tier	Monthly Use	Existing Rate	Proposed FY12	Proposed FY13	Proposed FY14
1	0-6 HCF	\$2.95	\$3.16	\$3.33	\$3.50
2	7-28 HCF	\$3.67	\$3.90	\$4.11	\$4.32
3	> 28 HCF	\$4.63	\$5.02	\$5.30	\$5.56

HCF= 100 cubic feet of water = 748 gallons

Proposition 218 notifications of the proposed increase in water rates were mailed to Oak Park residents and property owners on April 1, 2011. The notifications state that TSD will conduct a public hearing on Monday, May 23, 2011. A copy of the 218 notification is attached.

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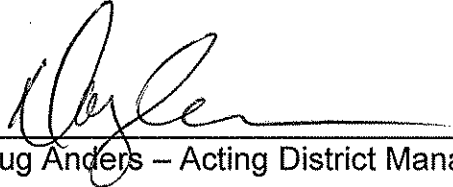
I can be reached by email at douganders@vrzd.com or by telephone at 805-658-4602 with any questions regarding this item.

RECOMMENDATION

It is recommended the Board:

- a. Conduct the first reading, by title only, of proposed Ordinance No. TSD-71, Prescribing Fees and Charges for Potable Water to the Oak Park Water Service, and schedule a public hearing and Board action on May 23, 2011.

APPROVED FOR APRIL 25, 2011 AGENDA



Doug Anders – Acting District Manager

increases across the state the cost to TSD/OPWS directly goes up. There are no other available local potable water sources within the TSD/OPWS service area.

The proposed rate increases include the current wholesale water cost of \$981 per acre foot. Increases to the wholesale water will be implemented as described under the "Pass-Through" charge adjustment.

SCHEDULE OF PROPOSED INCREASES TO MONTHLY SERVICE CHARGES

Meter Size	Existing Service Charges	Proposed FY12	Proposed FY13	Proposed FY14
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SCHEDULE OF PROPOSED INCREASES TO WATER RATES

The schedule below allows property owners to calculate their likely cost of service. The proposed rates incorporate three quantity rate tiers, "0-6 HCF," "7-28 HCF," and ">28 HCF".

The District proposes the following increases in water rates:

Tier	Monthly Use	Existing Rate	Proposed FY12	Proposed FY13	Proposed FY14
1	0-6 HCF	\$2.95	\$3.16	\$3.33	\$3.50
2	7-28 HCF	\$3.67	\$3.90	\$4.11	\$4.32
3	> 28 HCF	\$4.63	\$5.02	\$5.30	\$5.56

Notes:

Fiscal Year 2012 begins July 1, 2011

HCF= 100 cubic feet of water = 748 gallons

"Pass-Through" Charge Adjustment for Wholesale Water Rate Increases: Pursuant to Government Code section 53756, the District reserves the right to "pass-through" on the District's water rates any increases in the wholesale water cost to the District, as calculated per hundred cubic feet of water (HCF). The District will provide written notice as required by law to all affected property owners prior to passing through any wholesale water rate increase. Under no circumstance will the District's water rate exceed the cost of services.

PROTEST REQUIREMENTS

Any affected property owner wishing to protest the proposed water charge increases must do so in writing (Email protests will not be accepted). Written protests must contain the address or parcel number of the property. Written protests must be submitted in writing to the Clerk of the Board by 3:00 p.m. on Monday, May 23, 2011, at the following address: Triunfo Sanitation District, Attn: Clerk of the Board, 1001 Partridge Drive, Suite 150, Ventura, California, 93003-0704. Written protests will also be accepted at the May 23, 2011 Public Hearing provided they are received prior to close of that hearing.

IF YOU HAVE ANY QUESTIONS ON THE PROPOSED INCREASE PLEASE CALL (805) 658- 4600.

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TRIUNFO SANITATION DISTRICT

**ORDINANCE NO. TSD-71
PRESCRIBING FEES AND CHARGES FOR POTABLE WATER
SUPPLIED BY THE TRIUNFO SANITATION DISTRICT TO THE
OAK PARK WATER SERVICE AREA**

WHEREAS, the Triunfo Sanitation District ("District") is duly organized and established under the laws of the State of California, and as such is empowered to impose fees and charges relative to the District's provision of services to its service area; and

WHEREAS, the District provides retail potable water service to its customers within the Oak Park Water Service area and charges these customers appropriate service fees designed to cover operating and maintenance expenses associated with the provision of the services; and

WHEREAS, the District has estimated the costs of providing retail potable water service to its customers within the Oak Park Water Service area based on financial information for the current year and the entire operating history of the enterprise; and

WHEREAS, this Ordinance prescribes fees and charges pertaining to the provision of retail potable water service to the District's customers within the Oak Park Water Service area; and

WHEREAS, on May 23, 2011, in accordance with Article XIII D of the California Constitution (enacted by Proposition 218, November 6, 1996 Statewide election), a public hearing was held not less than 45 days after mailing notice of the proposed fees and charges prescribed in this Ordinance to the record owners and certain tenants of each identified parcel upon which said proposed fees or charges were to be imposed; and

WHEREAS, all persons present at said hearing and interested in the matter were heard and given the opportunity to be heard on the enactment of the proposed fees and charges prescribed in this Ordinance; and

WHEREAS, at said public hearing the District's Board considered all protests against the proposed fees and charges prescribed by this Ordinance; and

WHEREAS, written protests against the proposed fees or charges prescribed by this Ordinance were not presented by a majority of owners of the identified parcels; and

WHEREAS, on _____, 2011 notice was published in the Ventura County Star, a newspaper of general circulation published and circulated in the District,

providing a summary of this Ordinance and noticing a May 23, 2011 public hearing to consider adoption of this Ordinance; and

WHEREAS, after considering the financial information, hearing a staff presentation, considering the testimony received at the public hearing and discussion of the issues, the Board of Directors concludes that the proposed fees and charges prescribed in this Ordinance are necessary for the District's provision of services and do not exceed the cost of those services; and

WHEREAS, the adoption of this Ordinance is statutorily exempt under the California Environmental Quality Act pursuant to the provisions of Public Resources Code Section 21080(b)(8) and California Code of regulations Section 15273(a).

NOW, THEREFORE, THE BOARD OF THE TRIUNFO SANITATION DISTRICT DOES ORDAIN AS FOLLOWS:

Section 1. Short Title. This Ordinance shall be known as the TSD Potable Water Fee and Charge Ordinance, effective with the first full billing cycle after its adoption and may be cited as such.

Section 2. Purpose. The purpose of this Ordinance is to establish fees and charges for the retail potable water services provided by TSD to the Oak Park Service Area for Fiscal Years 12, 13, and 14 as described in Section 4 below.

Section 3. Definitions. The following words as used in this Ordinance shall have the meanings set forth below unless otherwise apparent in the context in which they are used:

- a. "Board of Directors" or "Board" means the TSD Board of Directors.
- b. "Customer" means any person, firm, association, partnership, corporation, or governmental agency supplied or entitled to be supplied with water by the District for compensation.
- c. "District" or "TSD" means the Triunfo Sanitation District.
- d. "Hundred Cubic Feet" or "HCF" or "Unit of Water" means 100 cubic feet or 748 gallons of water.

Section 4. Fees and Charges. The following fees and charges are hereby prescribed:

a. Monthly Service Charge:

Meter Size	Existing Service Charges	Proposed FY12	Proposed FY13	Proposed FY14
5/8"	\$13.16	\$13.75	\$14.51	\$15.23
3/4"	\$19.74	\$20.63	\$21.76	\$22.85
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b. The Quantity Rate for water furnished shall be:

Tier	Monthly Use	Existing Rate	Proposed FY12	Proposed FY13	Proposed FY14
1	0-6 HCF	\$2.95	\$3.16	\$3.33	\$3.50
2	7-28 HCF	\$3.67	\$3.90	\$4.11	\$4.32
3	> 28 HCF	\$4.63	\$5.02	\$5.30	\$5.56

Section 5. Findings. The TSD Board of Directors finds the foregoing fees and charges are for the purpose of (1) meeting operating expenses, including but not limited to the District's operations, maintenance and management contract; (2) purchasing or leasing supplies, equipment and materials; (3) meeting financial reserve needs and requirements; (4) obtaining funds for constructing and maintaining water facilities necessary to maintain service within existing service areas; (5) improvements and repairs; and (6) debt service and refunds.

The TSD Board of Directors further finds that the foregoing fees and charges (1) do not exceed the funds required to provide the service; (2) are not used for any purpose other than that for which they are imposed; (3) as imposed upon any parcel or person as an incident of property ownership, do not exceed the proportional cost of the service attributable to the parcel; and, (4) are imposed only for service that is actually used by, or immediately available to, the owner of the property in question.

Section 6. Fee Review Period. On or about January 1 of each year, the District Manager is hereby empowered and shall review the estimated cost of providing the services described and the impact of any pending or anticipated changes in the service level. The District Manager shall report these findings to the Board of Directors at a duly noticed public hearing and recommend any adjustment to this fee or other action that may be required.

Section 7. Effective Date. The Board hereby finds and determines that the public necessity is best served by the timely adoption of this Ordinance. The Ordinance shall take effect with the first full billing cycle after its adoption.

Section 8. Repeal. Ordinance No. TSD-69 is hereby repealed as of the effective date specified in Section 7 above.

PASSED, APPROVED AND ADOPTED this 23rd day of May 2011 by the following vote:

AYES:

NOES:

ABSENT:

TRIUNFO SANITATION DISTRICT

MICHAEL PAULE, Chair
Board of Directors

ATTEST:

JOSIE GUZMAN
Clerk of the Board

**NOTICE OF MAY 23, 2011 PUBLIC HEARING
ON
PROPOSED INCREASE IN WATER RATE**

NOTICE OF PUBLIC HEARING

Pursuant to Proposition 218 (California State Constitution Article XIIIID) and the Proposition 218 Omnibus Implementation Act (Government Code section 53750 et seq.), the Triunfo Sanitation District will conduct a public hearing on **Monday, May 23, 2011** on a proposed water rate increase effective July 1, 2011.

DATE, TIME, AND LOCATION OF THE PUBLIC HEARING

The Public Hearing will be held on **Monday, May 23, 2011** at **5:15 p.m.** at the Film & Lecture Room, Oak Park Library, **899 North Kanan Road**, Oak Park, California.

BASIS FOR PROPOSED INCREASED WATER RATE

The Triunfo Sanitation District is proposing increased water rates for the next three fiscal years to provide water service to your property and other properties serviced by the District. The increases are necessary to cover the escalating costs of providing water service to our customers. The proposed increased rates are based on studies conducted by the District, and reflect the District's cost of providing water service.

The factors upon which the proposed water rate increases are based include the following:

Repair and Replacement of Aging systems:

The oldest water tank in the OPWS water delivery system must be replaced. The District has devoted several years to identifying an appropriate site for a new water storage tank. The new water tank will afford OPWS the ability to increase the amount of water in storage for both drinking water reserves and fire protection. The cost of constructing the new tank and decommissioning the old infrastructure is estimated at seven million seven hundred sixty thousand dollars (\$7,760,000). The Triunfo Sanitation District obtained financing for the entire estimated cost of this project. The cost components included in the proposed rates are for the following:

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Wholesale Water Rate Increases:

The Triunfo Sanitation District (TSD) owns and operates Oak Park Water Service (OPWS), which receives 100% of its water via the California state water project. The water is actually conveyed by three separate entities as the water is moved from Northern California to Southern California. The three water wholesalers are the State of California, the Metropolitan Water District of Southern California (MWD), and the Calleguas Municipal Water District (CMWD). As the cost to obtain and move this water



Triunfo Sanitation District

Potable Water Rates Update Study

Executive Summary Report 2011

RFC
RAFTELIS FINANCIAL
CONSULTANTS, INC.



RAFTELIS FINANCIAL
CONSULTANTS, INC.

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www.raftelis.com

April 4, 2011

Mr. Doug Anders
Principal Analyst
Triunfo Sanitation District
1001 Partridge Drive, Suite 150
Ventura, California 93003

Subject: Executive Summary Report for Potable Water Rates Update Study

Dear Mr. Anders:

Raftelis Financial Consultants Inc. (RFC) is pleased to present this executive summary report on the water rates update study to the Triunfo Sanitation District (District). This report summarizes the recommendations and findings of the study.

RFC recommends that the District retains the existing three-tiered rate structure for all customer classes and implements a revenue adjustment of 5.5 percent each year for FY 2012 and 2013, and 5 percent for FY 2014. The District's reserves are currently depleted, and under the proposed plan, will still be below the target level during the five year plan period. However, the District has the flexibility to borrow \$1.2 million from the wastewater (WW) enterprise, on short notice, at an interest rate of 0.5 percent more than what WW earns, to supplement the water reserve if necessary.

The overall revenue adjustments and adjustments to the service charges and commodity rates are shown below. In the first year service charges increase at 4.5% and commodity rates at 6.3% to ensure an overall increase of 5.5%.

	Overall Revenue Adjustment	Change in Meter Service Charge	Average Change in Commodity Rate
FY 2012	5.5%	4.5%	6.3%
FY 2013	5.5%	5.5%	5.5%
FY 2014	5.0%	5%	5%
FY 2015 – 16	0%	No Change	No Change

We appreciate the assistance you and Ms. Linda Moyer provided during the course of the study. If you have any questions, please call me at (626) 583-1894.

Sincerely,

Sudhir Pardiwala, Project Manager

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BACKGROUND

In 2008, Raftelis Financial Consultants, Inc. (RFC) reviewed and updated the rate structure of Triunfo Sanitation District (District), which included a three-tiered increasing water rate structure for all customer classes. In fiscal years (FY) 2009-11, the District's water enterprise is facing challenges from decreasing water sales, increasing operating cost and depleting reserves. Moreover, the recommended full rates from last rate study had not been implemented in FY 2010 and rates were effective for only nine months. Recommended revenue adjustments for FY 2011 and FY 2012 were not implemented as well. Therefore, water reserves were depleted below target level after paying off the 2003 refunding loan of \$1.726 million in FY 2011; therefore, revenue adjustments are needed to support operating expenses and meet debt coverage level for the \$7.76 million bond for water tank. The water sales have also decreased 10 percent since the last rate study. To address these challenges and ensure the financial stability of the water enterprise, the District engaged RFC to update its financial planning model and potable water rates.

The objective of the rate study was to develop a five-year financial plan that would allow the District to meet its financial objectives, primarily the funding of the increasing water operating and capital costs and ensuring long-term financial stability. Additionally, the rates should promote conservation.

PROCESS

RFC utilized an approach that is consistent with industry standards for conducting a water rate study. The process includes the following steps:

1. Calculation of revenues under existing rates;
2. Identification of revenue requirements:
 - a. O&M expenses
 - b. Capital expenses and capital financing;
3. Cash flow analysis that compares the revenue under existing rates with the revenue requirements to determine the necessary revenue adjustments;
4. Cost of service analysis to allocate costs appropriately to customer classes; and
5. Rate structure design and rate calculation to promote conservation.

DATA AND ASSUMPTIONS SUMMARY

In order to conduct the rate study, RFC compiled current and historical data from the District. This data included number of accounts, billable water usage, operating budgets and capital improvement projects. The current budgeted data was the starting point for the financial plan. Historical data was used to help determine appropriate escalation factors. The following table shows the key assumptions RFC has used in this rate study.

Table 1 – Escalation Factors and Assumptions

Key Inputs	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Inflation	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Reserve Interest Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Capital Inflation Rate	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Accum. Capital Inflation	100.0%	103.0%	106.1%	109.3%	112.6%	115.9%

RFC used the FY 2011 budgeted expenses to make projections for future years.

During the forecast period, the District is assumed to have no growth in the number of accounts. Due to the drought, Metropolitan Water District of Southern California (MWD) has mandated a water usage cutback on its agencies. Calleguas Municipal Water District (Calleguas), a wholesaler for MWD and water supplier for the District, also sets water allocation limit. The District's water usage is currently within Calleguas' allocation and the District is assumed to maintain the same level of water usage from FY 2010 to the end of the forecast period. Due to conservation, the usage has decreased about 10 percent from FY 2008. The account and usage data used for the study are shown in Table 2.

Table 2 – Accounts and Usage Data

FY 2010 Data	# of Accounts	Usage (HCF)	Usage (AF)
SFR (Single-family Residence)	4,388	893,642	2,052
MFR (Multi-family Residence)	114	59,543	137
Commercial	30	9,555	22
Institutional Education	21	6,170	14
Landscape	92	99,205	228
Other	1	817	2
Total	4,646	1,068,932	2,454

In this rate study, RFC has adopted five percent for unaccounted water, the same percentage we used in last rate study. Water sales data are shown in Table 3 below.

Table 3 – Water Sales Projections

WATER SALES (ACRE FOOT)	Actual	Projected	Projected	Projected	Projected	Projected	Projected
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Potable Water Purchases	2,583	2,583	2,583	2,583	2,583	2,583	2,583
Total Water Sales	2,454	2,454	2,454	2,454	2,454	2,454	2,454
Unaccounted Water	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Tables 4 and 5 represent the projected O&M and capital expenses for the District in the next five years. The operating expenses projections are based on the District's FY 2011 budget and the capital expenses are based on data the District provided in last rate study. The District has already secured a 20-year bond of \$7.76 million for the water tank replacement project, with interest rate of 4.68 percent.

The escalation factors are based on the assumptions in Table 1.

Table 4 – Operation and Maintenance (O&M) Expenses

Description	Projected	Projected	Projected	Projected	Projected	Projected
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Potable Water Costs	\$ 2,699,158	\$ 2,772,895	\$ 2,772,895	\$ 2,772,895	\$ 2,772,895	\$ 2,772,895
VRSD Contract/ Operations	\$ 1,300,000	\$ 1,339,000	\$ 1,379,170	\$ 1,420,545	\$ 1,463,161	\$ 1,507,056
Operating Materials & Supplies/ Admin/Overhead	\$ 227,680	\$ 234,510	\$ 241,546	\$ 248,792	\$ 256,256	\$ 263,944
Professional Services	\$ 21,600	\$ 22,248	\$ 22,915	\$ 23,603	\$ 24,311	\$ 25,040
Insurance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Permits, Licenses and Fees	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319
Depreciation	\$ 457,920	\$ 471,658	\$ 485,807	\$ 500,382	\$ 515,393	\$ 530,855
TOTAL O&M EXPENSES	\$ 4,708,358	\$ 4,842,371	\$ 4,904,455	\$ 4,968,402	\$ 5,034,267	\$ 5,102,108

Table 5 – Capital Improvement Projects (CIP) – Inflated

Description	Projected	Projected	Projected	Projected	Projected	Projected
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Conifer Tank Replacement Project	\$ 185,000	\$ 7,097,500	\$ 445,000	\$ -	\$ -	\$ -
Add SolarBee to Savoy Tank	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deerhill Tank pumping arrangement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Connection to Las Virgenes (Kanan)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Connection to Cal Water (Pathfinder)	\$ 51,510	\$ -	\$ -	\$ -	\$ -	\$ -
Water Conservation Program	\$ 20,604	\$ 21,222	\$ 21,859	\$ 22,515	\$ -	\$ -
Operating documentation-Atlas update	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
System valves regular exercise, overhaul	\$ -	\$ 53,055	\$ 54,647	\$ 112,573	\$ 115,950	\$ 59,714
Reservoir Maintenance-coating steel tanks	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Major Electrical-Generators, switchgear	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95,543
Access Road/Parking Paving	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,714
Copper service lines - check/renewal	\$ 41,208	\$ -	\$ -	\$ 45,029	\$ -	\$ -
Pipeline break repairs	\$ 61,812	\$ 63,666	\$ 218,588	\$ 225,145	\$ 231,900	\$ 238,857
Energy efficiency and generation projects	\$ -	\$ -	\$ 109,294	\$ 56,286	\$ 57,975	\$ 59,714
Future CIP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CIP (Inflated)	\$ 360,134	\$ 7,235,444	\$ 849,387	\$ 461,548	\$ 405,825	\$ 513,542

REVENUE ADJUSTMENTS

RFC reviewed the operating and capital expenses and the revenues under the current rates to determine the revenue adjustments over the planning period.

Revenue requirements for the five-year planning period are projected from the District’s FY 2011 budget. The projections indicated that the District needs rate adjustments over the next few years. The key reasons for the rate increases are to provide adequate cash from rate revenues to meet expenses and build up reserves, as well as to meet debt coverage requirement for the \$7.76 million bond for water tank. The proposed rate adjustments will be effective in July of each year.

RFC recommends the District to maintain an operating reserve balance of 25 percent or 90 days of O&M expenses for emergency and rate stabilization purposes. The District’s reserves are currently depleted because the District is planning to pay off the 2003 refunding loan of \$1.726 million in FY 2011.

Based on revenue requirements, RFC has recommended three scenarios. The scenarios have primarily distinguished by whether the District will borrow money from wastewater (WW) reserves. If the District borrows money from wastewater reserves, then the scenario will differ by whether the WW loan will be interest only for the first two years, or interest and principle for five years. The scenarios and the corresponding revenue adjustments are summarized in table 6.

Table 6 – Scenarios and Revenue Adjustments

Revenue Adj. \ Scenarios	1 – Not borrow from WW	2 – Borrow \$1.2M from WW	
		2A – Interest only for first two years	2B – Interest and principle for five years
FY 2012	14%	5%	5.5%
FY 2013	0%	5%	5.5%
FY 2014	0%	5%	5.0%
FY 2015	0%	0%	0%
FY 2016	0%	0%	0%

After discussions with District staff and the Board, the Board decided to adopt Scenario 2B, but indicated that the District would borrow money from WW at an interest rate of 0.5 percent more than what WW earns, only if necessary. Therefore, the following revenue adjustments are recommended to be implemented over the five year plan period:

FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
5.5%	5.5%	5.0%	0%	0%

Under the proposed plan, the District will meet the debt coverage requirement of 125 percent. Figure 1 shows the revenue adjustments and debt coverage level during the plan period. As shown, the revenues projected to be generated from rates are sufficient to maintain a debt coverage ratio above the 125 percent requirement.

Figure 1 – Revenue Adjustments and Debt Coverage

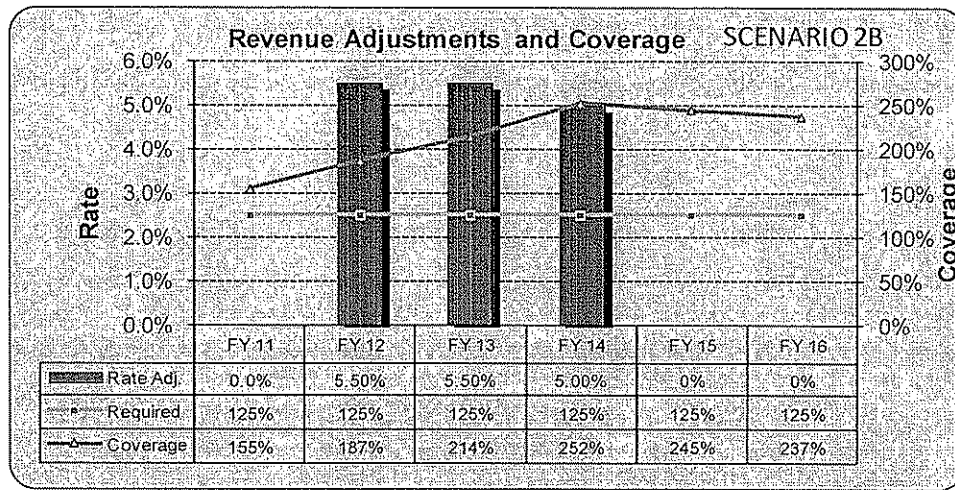
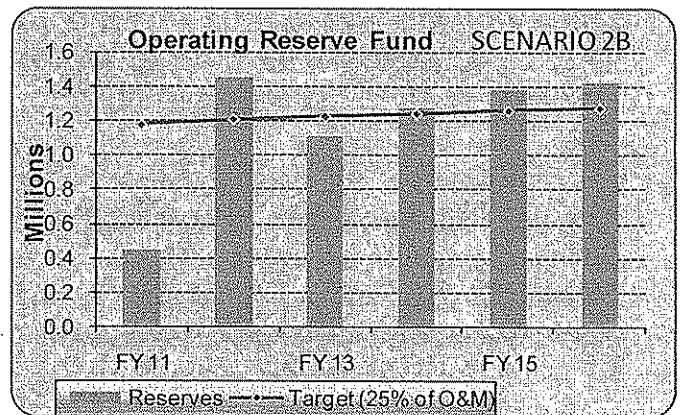
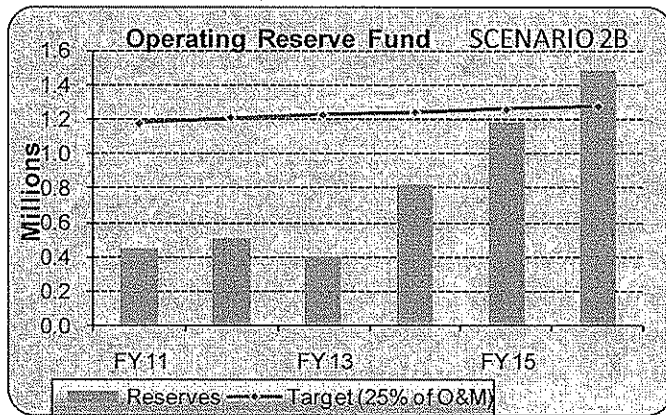


Figure 2 shows the water reserve balance levels. The reserve is being depleted in FY 2011 due to the payoff of the 2003 loan. The District’s reserve level is below the target level under this scenario. However, the District has the flexibility to borrow \$1.2M from WW, on short notice, to supplement the water reserve fund. If the District borrows the money from WW in FY 2012, it should replenish the reserves immediately in FY 2012 after the WW loan, so that they will meet targets throughout the plan period. Figure 3 shows the water reserve level after the WW loan. This will be accomplished from revenues generated from proposed rates.

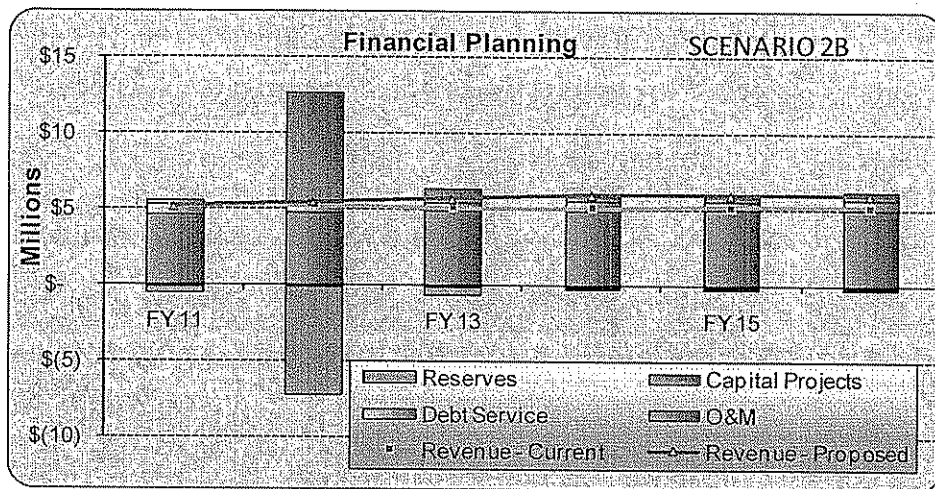
Figure 2 – Water Reserves before WW loan

Figure 3 – Water Reserves after WW loan



The total projected revenue requirements for the District, which include projected O&M expenses, debt service, rate funded capital costs, revenues under existing and proposed rates, as well as the replenishment/depletion of the reserve fund are shown in Figure 4. The negative reserve will be replenished by the \$7.76 million bond for water tank and the potential money borrowed from WW.

Figure 4 – Water Operating Financial Plan



COST OF SERVICE

The cost of service is developed to recover all revenue requirements needed from the District’s users. The cost of service allocations in this study are based on the Base-Extra Capacity method endorsed by the American Water Works Association (AWWA), a nationally recognized industry group. Under the Base-Extra Capacity Method, revenue requirements are allocated to different user classes proportionately to their use of the water system. Allocations are based on average day (Base) usage, maximum day (Max Day) usage, maximum hour peak (Max Hour) usage, meter services, as well as billing and collection. For this rate study, RFC used the same peaking factors that were used in the last water rate study for all customer class.

PROPOSED RATES

RFC recommends that the District retains the use of a rate structure that includes both a fixed monthly service charge and a quantity charge.

Service Charge: We suggest that the District continues to utilize a monthly service charge varying with meter sizes. The service charge is composed of a fixed customer billing charge that is constant for all meters and a meter charge that varies with the capacity of the meter. The meter charges are recommended to increase 4.5 percent across all meter sizes. The recommended monthly service charges are:

Monthly Meter Size	Existing Service Charges	Proposed Service Charges	% Change
5/8"	\$ 13.16	\$ 13.75	4.5%
3/4"	\$ 19.74	\$ 20.63	4.5%
1"	\$ 32.91	\$ 34.39	4.5%
1-1/2"	\$ 65.81	\$ 68.77	4.5%
2"	\$ 105.30	\$ 110.04	4.5%
3"	\$ 197.43	\$ 206.31	4.5%
4"	\$ 329.06	\$ 343.87	4.5%
6"	\$ 658.07	\$ 687.68	4.5%

Quantity Charge: RFC recommends retaining the same three-tiered rate structure and tiers for all customers. The recommended monthly quantity charges and usage levels in each tier are:

Customer Class	Average Monthly Quantity Rate	Monthly Usage Block (hcf)	Annual Water Use (hcf)	Percent of Use in block	Proposed FY 2012 Rates \$/hcf
Average Uniform Rate	\$ 3.90				
All Customers	Tier 1	6	238,245	26.7%	\$ 3.16
	Tier 2	28	544,585	60.9%	\$ 3.90
	Tier 3	28 +	110,812	12.4%	\$ 5.02

Table 7 shows the proposed rates for the five year plan period.

Table 7 – Proposed Rates for five year plan period

	Existing FY 2011	Proposed FY 2012	Proposed FY 2013	Proposed FY 2014	Proposed FY 2015	Proposed FY 2016
Monthly Service Charge						
Meter Size						
5/8"	\$ 13.16	\$ 13.75	\$ 14.51	\$ 15.23	No Change ↓	
3/4"	\$ 19.74	\$ 20.63	\$ 21.76	\$ 22.85		
1"	\$ 32.91	\$ 34.39	\$ 36.28	\$ 38.10		
1-1/2"	\$ 65.81	\$ 68.77	\$ 72.55	\$ 76.18		
2"	\$ 105.30	\$ 110.04	\$ 116.09	\$ 121.90		
3"	\$ 197.43	\$ 206.31	\$ 217.66	\$ 228.54		
4"	\$ 329.06	\$ 343.87	\$ 362.78	\$ 380.92		
6"	\$ 658.07	\$ 687.68	\$ 725.51	\$ 761.78		
Quantity Rates						
0-6 HCF	\$ 2.950	\$ 3.16	\$ 3.33	\$ 3.50		
7 - 28 HCF	\$ 3.670	\$ 3.90	\$ 4.11	\$ 4.32		
Over 28 HCF	\$ 4.630	\$ 5.02	\$ 5.30	\$ 5.56		

CUSTOMER IMPACTS

Before implementing any rate structure recommendations, it is important to understand the impacts on customers. RFC worked closely with District staff to ensure that the new rate structure would recover the necessary revenue requirements while at the same time maintaining manageable customer impacts.

Since residential customers represent a large part of the District's customer base, RFC has developed the following table that demonstrates the impacts of the proposed rates for FY 2012 across varying usage levels.

Table 8 shows the rate impacts on customers at varying usage levels and also the percentage of bills falling within that level. Both the dollar and percentage impacts increase with usage level. The table also highlights the impacts on residential customers with average usage of 17 hcf monthly.

Table 8 – Customer Impacts

Monthly Usage (hcf)	Total Existing	Total Proposed	% Increase	\$ Increase
1	\$ 16.11	\$ 16.91	5%	\$ 0.80
2	\$ 19.06	\$ 20.07	5%	\$ 1.01
3	\$ 22.01	\$ 23.23	6%	\$ 1.22
4	\$ 24.96	\$ 26.39	6%	\$ 1.43
5	\$ 27.91	\$ 29.55	6%	\$ 1.64
6	\$ 30.86	\$ 32.71	6%	\$ 1.85
7	\$ 34.53	\$ 36.61	6%	\$ 2.08
8	\$ 38.20	\$ 40.51	6%	\$ 2.31
9	\$ 41.87	\$ 44.41	6%	\$ 2.54
10	\$ 45.54	\$ 48.31	6%	\$ 2.77
11	\$ 49.21	\$ 52.21	6%	\$ 3.00
12	\$ 52.88	\$ 56.11	6%	\$ 3.23
13	\$ 56.55	\$ 60.01	6%	\$ 3.46
14	\$ 60.22	\$ 63.91	6%	\$ 3.69
15	\$ 63.89	\$ 67.81	6%	\$ 3.92
16	\$ 67.56	\$ 71.71	6%	\$ 4.15
17	\$ 71.23	\$ 75.61	6%	\$ 4.38
18	\$ 74.90	\$ 79.51	6%	\$ 4.61
19	\$ 78.57	\$ 83.41	6%	\$ 4.84
20	\$ 82.24	\$ 87.31	6%	\$ 5.07
25	\$ 100.59	\$ 106.81	6%	\$ 6.22
30	\$ 120.86	\$ 128.55	6%	\$ 7.69
35	\$ 144.01	\$ 153.65	7%	\$ 9.64
40	\$ 167.16	\$ 178.75	7%	\$ 11.59
45	\$ 190.31	\$ 203.85	7%	\$ 13.54
50	\$ 213.46	\$ 228.95	7%	\$ 15.49
60	\$ 259.76	\$ 279.15	7%	\$ 19.39
70	\$ 306.06	\$ 329.35	8%	\$ 23.29
80	\$ 352.36	\$ 379.55	8%	\$ 27.19
90	\$ 398.66	\$ 429.75	8%	\$ 31.09
100	\$ 444.96	\$ 479.95	8%	\$ 34.99

RATE SURVEY

Comparing water rates with other representative communities can provide insights into a utility’s pricing policies related to water service. Care should be taken, however, in drawing conclusions from such a comparison. High rates may not mean the utilities are operated and managed poorly. Many factors affect the level of costs and the pricing structure employed to recover those costs. Some of the most prevalent factors include geographic location, demand, water source, customer constituency, level of treatment, level of grant funding, age of system, level of general fund subsidization, and rate-setting methodology.

Figure 5 compares monthly bills under existing and proposed rates to other bills within the region, using regional charges that will be in effect at the time of the District’s rates increase. In order to provide a meaningful comparison, all bills are calculated on a monthly basis for an SFR customer using a 5/8 or 3/4” meter and an assumed monthly usage of 17 hundred cubic feet, which is the average usage for SFR customers in the District. From the figure, the District’s monthly residential water charge is still comparable to other agencies even after the rate adjustments.

Figure 5 –Monthly Single Family Residential Water Charges Comparison

