



March 3, 2025

TO: Finance Advisory Committee

FROM: Ron Munds, General Manager

SUBJECT: **Agenda Item 3 - 03/03/2025 FAC Meeting**
Water Rate Analysis Decision Points and Assumptions

STAFF RECOMMENDATION

Provide recommendations to the Board regarding the key decision points and assumptions to be used in the water rate analysis.

DISCUSSION

Background

Since 2018, it has been the Board's philosophy that small incremental water rate increases from year to year are more desirable than large increases every few years. This helps both the customer and District budget accordingly and provides the revenue to do the necessary capital projects to provide clean, safe drinking water for the District's water service area.

On June 2, 2022, the Board approved a three-year plan for increasing water rates. The final water rate increase from the plan was implemented on July 1, 2024. As part of the past rate analysis process, the Board has been asked to provide input into key decision points and assumptions that would be used in the water rate model to determine if a water rate increase was warranted. The following section of the report provides background information on the points and assumptions to be used in the upcoming analysis.

- **What level(s) of net revenue should be included in the rate model?**
For the purpose of this discussion, the term "net revenue" means revenue available after expenses, debt service, administration, and non-capital reserves are fully funded. Net revenue may be used to fund projects in the same year that it is generated or can also be saved in a capital reserve account for future years.

The net revenue goal from the last rate increase was \$800,000. For the past three years, the net revenue dipped in 2022-23 due to a large reduction in water use but has been in the \$700,000 range due to increases in the operating program budget caused by inflation and increases in staff salaries.

Staff believes the net revenue goal should be somewhere between \$700,000 and \$800,000. Obviously, the higher the goal, the higher the rate increase will need to be.

- **What level of Zone A property tax revenue should be included in the rate model for Fund 500?**

Zone A property tax is a district wide tax that historically has been allocated by the Board to the various District funds based on need. In the past, the major recipient of the tax revenue has been allocated to Fund 301. Part of that discussion during the last rate analysis was to eliminate the Zone A contribution to Fund 500 but no action was taken by the Board on this issue and decided to allocate \$50,000 to each of the three years

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Currently, Zone A revenue for 2024-25 is \$317,120.00. The amount to allocate to Fund 500 is open for discussion and recommendation.

- **What base year water sales/consumption should we use?**

Water sales have fluctuated since the 2021 water rate evaluation. The following table summarizes the number of billing units (in hundred cubic feet = 748 gallons) since the evaluation. The current plan assumed that 210,000 billing units (HCF) would be used by the District’s customers.

Fiscal Year	Units (HCF rounded)
2020-21	215,456
2021-22	209,192
2022-23	191,619
2023-24	211,055

The significant increase in water sales in 2020-21 can be attributed to the COVID pandemic where many residents were working from home and/or children were being home schooled. The low water usage in 2022-23 can be attributed to the higher-than-average rainfall that winter/spring.

Staff would recommend that slight reduction in the estimated water sales be anticipated as customers adjust to higher rates.

- **What inflation rate should we use for years two and three?**

In the last rate analysis, a 4% per year inflation rate was used when calculating the rates over the three-year period. Inflation over the past three years has been highly variable. It is difficult to predict, at least in the near term, what the rate of inflation will be for the next three years.

According to recent data, the annual percentage change for the "water and sewer and trash collection services" CPI is currently around 3.0%. This means the cost of water and sewer services has increased by approximately 3% over the past year. Again, staff is requesting that the FAC provide comments and a recommendation to the Board on the appropriate inflation rate to use.

- **How should we handle Base Fee increases?**

An integral component of the rates is the Base Fee which is assessed on every account. In the past, we tried to keep the Base Fee increase as low as possible since it does noticeably impact the cost for low water using customers. The current Bi-Monthly Base Fee is \$75.00. Staff would recommend small increases to the base year over the three years of \$77.00, \$78.00 and \$80.00.

Bi-Monthly Base Fee Increases				
	2021-22	2022-23	2023-24	2024-25
	\$70.00	\$73.00	\$74.00	\$75.00

Summary

Based on the input provided, staff will begin running water rate increase scenarios for the Board’s consideration and bring back a report and recommendation at the April Board meeting.