



April 7, 2022

**TO:** LOCSO Board of Directors  
**FROM:** Ron Munds, General Manager  
Water Rate Study Working Group - Rob Miller, Richard Margetson  
**SUBJECT: Agenda Item 5A – 04/07/2022 Board Meeting Date**  
Consideration of Water Rates for Fund 500

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### **DESCRIPTION**

After collaborating with the Financial Advisory and Utilities Advisory Committees and receiving Board input, the Water Rate Working Group (Working Group) and staff is recommending the implementation of revised water rates over a three-year period that will provide for adequate revenue for water operations and the critical capital requirements of the water system.

### **STAFF RECOMMENDATION**

Staff recommends that the Board adopt the following motion:

#### ***Motion:***

#### ***I move that the Board:***

- 1. Approve the water rate analysis and direct staff to issue the appropriate public notice in accordance with Proposition 218, and***
- 2. Set the date of a public hearing to consider adopting the water rate increase on June 2, 2022.***

### **DISCUSSION**

#### **Background**

At the March 3, 2022 Board meeting, the Board received a presentation regarding a proposed water rate increase. As part of the presentation, the Board was provided comments from the Utilities and Finance Advisory Committees concerning the five key “decision points” requested by the Water Rate Working Group in order to finish the water rate analysis. After the Board deliberations, the Board agreed on the following:

- Level of “net” revenue to be included in the analysis: \$800,000
- Level of Zone A property tax contribution to Fund 500: \$50,000 for each three years
- Water base sales assumption: 210,000 billing units (HCF)
- Inflation rate for years 2 and 3: 4%
- Base fee increases: increase to \$73 year one, \$74 year two and \$75 year three

#### **Proposed Water Rate Increase**

Based on the input from the committees and the Board, staff has assembled a three-year rate structure to provide adequate revenues to support the Fund 500 operations and sufficiently fund the District’s CIP

program. The following table summarizes the proposed water rate increase:

<b>Proposed Three-Year Water Rates</b>					
		<b>2021-22 (current)</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
<b>Base Fee</b>		\$70.00	\$73.00	\$74.00	\$75.00
<b>Tier 1</b>	0 - 5 ccf	\$6.00	\$6.25	\$6.45	\$6.65
<b>Tier 2</b>	6 -10 ccf	\$7.75	\$8.10	\$8.40	\$8.65
<b>Tier 3</b>	11-20 ccf	\$9.50	\$9.90	\$10.25	\$10.55
<b>Tier 4</b>	>20 ccf	\$11.25	\$11.70	\$12.10	\$12.45

### **Impact on the Average Residential Customer**

The average water use for the residential customer is about 11 units of water during a two-month (bi-monthly) billing cycle. The following tables summarize the impact of the rate increase on a single-family residential customer. The cumulative impact of the rate increase is \$13.80 bi-monthly (\$6.90 monthly) at the end of year 3 of the rate increases.

<b>Average Water Customer – 11 units</b>				
<b>Year</b>	<b>Base Fee</b>	<b>Volume Charge</b>	<b>Total</b>	<b>Increase (bi-monthly)</b>
Current	\$70	\$78.25	\$148.25	
2022-2023	\$73	\$81.65	\$154.65	\$6.40 – 4.32%
2023-2024	\$74	\$84.50	\$158.50	\$3.85 – 2.49%
2024-2025	\$75	\$87.05	\$162.05	\$3.55 – 2.24%
			<b>Cumulative Total</b>	<b>\$13.80</b>

### **FINANCIAL IMPACT**

If the Board chooses to implement staff's recommendations, net revenues within the Water Fund are expected to be \$800,000 per year for the next three years. The Board and committees were in agreement that the water rates should be revisited and evaluated in two years. It is important to note that the rate analysis was completed at no cost to the District through the efforts of the Water Rate Working Group, UAC, and FAC.