

# Working Session for LOCSD Water Rates

## Rate Study Working Group

# Water Sales Trends

- 2014 rate analysis predicted 236,000 CCF of water sales in FY16/17
- Current water sales projection is 194,000 CCF, a difference of 42,000 CCF
- Reduced sales results in \$250,000 to \$300,000 of reduced revenue

# Understanding LOCSD Water Revenue

- For FY 16/17, fixed bimonthly charge of \$59.32 raises \$986,000 per year
- Water charge on 194,000 CCF is expected to raise \$1,000,000 per year in FY 16/17
- Each **\$10** raise in bi-monthly fixed charge raises **\$166,000** per year
- Each **\$1** raise in water charge per CCF raises approximately **\$194,000** per year

# Potential Reductions in Revenue

- Baywood and Los Osos Middle School  
Conversion to recycled water: \$10,000 to \$15,000 annual reduction
- Future reductions in water sales after additional conservation

# Potential Revenue Reductions: Property Taxes

- Current revenue: \$224,000
- Need Board direction, but discussion has included phased in reduction to 50% of current level over 2 years
- Potential impact in FY 17/18: \$56,000
- Potential impact in FY 18/19: \$112,000
- Represents \$7 increase in base fee (11%), or \$0.57 increase per CCF

# Potential Revenue Reductions: Admin Allocation

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- Current allocation: 62% or \$365,000/year
- Need Board direction, but discussion has included future allocation of 80% (\$469,000)
- Potential impact in FY 17/18: \$104,000
- Represents \$6 increase in base fee (10%), or \$0.54 increase per CCF

# Potential Revenue Reductions: Totals

- Recycled water: \$15,000
- Property taxes: \$112,000
- Admin allocation: \$104,000
- Potential total impact pending Board direction: \$231,000 per year
- Add to this reduced water sales valued at \$250,000 to \$300,000
- Total impact compared to 2014 rate study: approximately \$500,000 per year

# Capital Improvement Needs

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- Adopted Capital Improvement Plan still valid with minor refinements
- Debt service necessary next FY in order to accomplish Program C well and pipeline (Approx. \$1.6M), which includes South Bay Upper and Lower Wells connection to main zone
- Net revenue required in 2014 rate study still applicable, approximately \$500,000/year for pay as you go + new debt service



# Reserve Summary

- Rate stabilization
- General contingency
- Water conservation
- Capital outlay
- Existing Water Quality Trust Fund (no new funding)
- Vehicle and equipment replacement
- Clarify policies and amounts during Board discussion

# Rate Stabilization Reserve

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- Target is 10% of annual O&M
- Annual O&M is currently \$1.4M, so target funding level is approx. \$140,000 for this reserve fund
- \$32,000/year contribution
- At end of FY 16/17, predicted to be \$78,000
- Consider continuing with this policy

# General Contingency Reserve

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- Target is 60% of annual O&M
- Annual O&M is currently \$1.4M, so target funding level is approx. \$840,000 for this reserve fund
- \$25,000/year contribution
- At end of FY 16/17, predicted to be \$209,000
- Consider continuing with this policy

# Other Reserve Policies for Discussion

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- Capital outlay reserve – previously set at \$150k/year
- Water quality trust fund (no annual contribution)– use for current supply projects
- Water conservation reserve (\$25k/year) – consider line item in budget
- ISJ/ basin management – manage as line item in budget
- Vehicle replacement reserve – consider continuing

# General Contingency Reserve 13

- Target is 60% of annual O&M (approx. \$140k)
- \$32,000/year contribution
- At end of FY 16/17, predicted to be \$78,000
- Consider continuing with this policy

# Addressing shortfall

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- Approved increases on July 1, 2017 and July 1, 2018:
  - Adds total of \$11 to base rate over 2 years, raising \$183k/year
  - Adds to water charge for each tier, raising \$120k to \$160k per year after 2 years
- Reasonable inflation of expenses should be anticipated
- Only meets current needs with modified property tax and admin. allocation, but not capital

# Addressing shortfall

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- Consider raising additional \$300,000 to \$500,000 per year over and above approved increases

<b>Total Annual Revenue Increase</b>	<b>Increase in Bimonthly Fixed Charge</b>	<b>Increase in Water Charge per CCF</b>
\$300,000	\$9	\$0.77
\$400,000	\$12	\$1.03
\$500,000	\$15	\$1.29

# Next Steps

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- Board to confirm property tax, admin allocation, and reserve policies
- Confirm amount of increase and allocation to fixed and variable charges
- Begin Proposition 218 process to supersede approved increases for July, 2017 and July, 2018