



March 3, 2022

TO: LOCSD Board of Directors
FROM: Ron Munds, General Manager
SUBJECT: **REVISED Agenda Item 2A - 03/03/2022 Board Meeting**
Consideration of the Draft 2022 Water Rate Study

STAFF RECOMMENDATION

Provide direction to staff on any provisions to the Study prior to final review on April 7, 2022.

DISCUSSION

Background

In 2016, the Board formed a volunteer Water Rate Study Working Group (Working Group) comprised of Rob Miller, Richard Margetson and Ron Munds. The Working Group was tasked with reviewing the District's capital project program, Fund 500 water reserves policies, the allocation of Zone A property tax revenues and the water rates sufficient to meet the financial obligations to support the water operations and capital needs of the District.

At the April 11, 2017 Special Board meeting, the Board supported the recommended actions recommended by the Working Group and on June 15, 2017, the Board approved a three-year rate increase as shown in the table below. The most significant outcome of the rate structure was the decision to sufficiently fund the District's CIP program in the following amounts based on net revenues of:

- Fiscal Year 2017/18: \$500,000
- Fiscal Year 2018/19: \$700,000
- Fiscal Year 2019/20: \$900,000

The following table summarizes the water rates approved in June 2017.

Summary of Board Approved Water Rates (2016-17 base year)					
		2016-17	2017-18	2018-19	2019-20
Base Fee		\$59.32	\$65.00	\$70.00	\$76.00
Tier 1	0 - 5 ccf	\$2.35	\$5.00	\$6.00	\$7.00
Tier 2	6 -10 ccf	4.40	6.75	7.75	8.75
Tier 3	11-20 ccf	6.75	8.50	9.50	10.50
Tier 4	>20 ccf	9.20	10.25	11.25	12.25

At the June 6, 2019 Board meeting, the Board decided to defer the 2019-2020 rate increase based on the higher than projected revenue from the previous two fiscal years. Higher rates combined with revised operational budgets and consistent water sales resulted in meeting the goal of \$900,000 by the end of Fiscal Year 2018-19.

2022 Water Rate Study

Rob Miller and Richard Margetson agreed to review the information that is being presented to the Board at this meeting. The following decision points and information is what the Working Group considered when making the recommendation made in this report.

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Decision Points Discussed:

- **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.

As previously discussed, the net revenue goal from the last rate increase was \$900,000. For the past three years, the average has been approximately \$700,000 due to increases in the operating program budget and cost allocation overhead. After reviewing the Five-Year Capital Improvement Plan (Capital Plan), the consensus of the Working Group was that the goal should be decreased to \$800,000 to better match the capital outlay in the Capital Plan.

The following cash flow analysis was developed to help inform the decision on the appropriate amount of revenue to be generated for capital reserves. As a matter of explanation, there are two scenarios presented below. One includes potential grant funding from the State for the new Program C well and the estimated net revenue generated from the proposed rate increase; the second assumes the net revenue only. It was determined that it be prudent to strive for an ending balance of at least \$1 million dollars in Capital Outlay Reserve at the end of each year. The cash flow analysis predicts there would only be one year (year 4) in the Non-Grant Version where this goal would not be met. The Working Group is strongly recommending that the water rates are reevaluated after three years.

Net revenue		0.8 (\$ million)			
Grant Version					
FY	Starting Balance	Capital Expenditures	Grant	Net revenue	Ending Balance
21-22	2.7	1.5	0.6	0.8	2.6
22-23	2.6	1.1	0.5	0.8	2.8
23-24	2.8	1.2	0.5	0.8	2.9
24-25	2.9	1	0	0.8	2.7
25-26	2.7	1.1	0	0.8	2.4
26-27	2.4	0.2	0	0.8	3
Non-Grant Version					
FY	Starting Balance	Capital Expenditures	Grant	Net Revenue	Ending Balance
21-22	2.7	1.5	0	0.8	2
22-23	2	1.1	0	0.8	1.7
23-24	1.7	1.2	0	0.8	1.3
24-25	1.3	1	0	0.8	1.1
25-26	1.1	1.1	0	0.8	0.8
26-27	0.8	0.2	0	0.8	1.4

Working Group Recommendation: \$800,000
 UAC Recommendation: \$800,000

- **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 Funds 301 and 500 with most going to Fund 500. During the 2017 Water Rate Study deliberations, the Working Group recommended and the Board approved reducing the amount that goes to Fund 500 by 50% over a three-year period. Part of that discussion was to completely eliminate the Zone A contribution to Fund 500 but no action was taken by the Board on this issue.

Currently, Zone A revenue for 2021-22 is \$262,718.00. The three-year revenue projection in the rate model for the Zone A contribution to Fund 500 is \$50,000 each year. There is no specific rationale for this amount so the amount is open for discussion and recommendation. The Fiscal Year 2021-22 contribution is approximately \$108,800. Again, it is at the Board's discretion how much Zone A revenue is allocated to any of the District's funds.

Working Group: \$50,000 but no specific rationale for this amount

UAC Recommendation: Increase above the \$50,000 up to 50% of the Zone A revenue

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

Water sales have fluctuated since the 2017 water rate evaluation. The following table summarizes the number of billing units (in hundred cubic feet = 748 gallons) since the evaluation.

Fiscal Year	Units (HCF rounded)
2016-17	195,500
2017-18	207,130
2018-19	194,260
2019-20	205,380
2020-21	216,000

The Working Group attributed the significant increase in water sales in 2020-21 to the COVID pandemic where many residents were working from home and/or children were being home schooled. The projected water use for this fiscal year is estimated to be in the 210,000-unit range. The importance of this number is that it informs the model on how to calculate revenue by tier as follows:

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	74,344	35.4%	\$ 6.25	\$464,647
Tier 2	52,946	25.2%	\$ 8.10	\$428,867
Tier 3	44,399	21.1%	\$ 9.90	\$439,551
Tier 4	38,311	18.2%	\$ 11.70	\$448,237
Total	210,000			\$1,781,302
Base Fee			\$ 73.00	\$1,202,310
Total				\$2,983,612

Attached to this report are the two alternatives the Working Group analyzed, one using 2020-21 data and the second using the estimated water sales for this fiscal year. Alternative 2 is what the Working Group is recommending. Staff is requesting that the Board weigh in on this number since it will significantly impact the rate analysis moving forward.

Working Group Recommendation: 210,000 units

UAC Recommendation: 210,000 units

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

In the last rate analysis, a 3% per year inflation rate per year was used when calculating the rates over the three-year period. The Working Group decided to use 4% in the calculation since inflation for utility related operations tend to rise faster than the Consumer Price Index (CPI). It is difficult to predict, at least in the near term, what the rate of inflation will be for the next three years. Again, staff is requesting that the Board provide comments and a recommendation on the appropriate inflation rate to use.

Working Group Recommendation: 4%

UAC Recommendation: Look at the impacts on revenue if using a higher inflation rate

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

An integral component of the rates is the Base Fee which is assessed on every account. The Working Group tried to keep the Base Fee increase as low as possible since it does noticeably impact the cost for low water using customers. In the rate model, the Base Fee rose from \$70 to \$73 in the first year, then increased by \$1.00 in years two and three.

Working Group Recommendation: As indicated

UAC Recommendation: As indicated

Proposed Three-Year Water Rates

Based on the assumptions previously discussed the following table summarizes the resulting water rates using Alternative 2.

Proposed Three-Year Water Rates					
		2021-22	2022-23	2023-24	2024-25
Base Fee		\$70.00	\$73.00	\$74.00	\$75.00
Tier 1	0 - 5 ccf	\$6.00	\$6.25	\$6.45	\$6.65
Tier 2	6 -10 ccf	7.75	8.10	8.40	8.65
Tier 3	11-20 ccf	9.50	9.90	10.25	10.55
Tier 4	>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 \$4013.80 bi-monthly (6.90 monthly) at the end of year 3 of the rate increases.

Average Water Customer – 11 units				
Year	Base Fee	Volume Charge	Total	Increase (bi-monthly)
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%
			Cumulative Total	\$13.80

Water Rate Increase Schedule

It is staff's goal to have the water rates in place on July 1, 2022. The following is the timeline and milestones that will need to be met to have a new rate in place by July 1st.

Action	Date
UAC Review	February 16, 2022
FAC Review	February 28, 2022
Board Input	March 3, 2022
UAC follow-up	March 16, 2022
FAC follow-up	April 4, 2022
Board Approval of Rates	April 7, 2022
Proposition 218 Notification	April 15, 2022
Public Hearing/Board Adoption of Rates	June 2, 2022
Effective Date	July 1, 2022

Attachments

Alternative 1 & 2 Revenue and Expense Calculators

Alternative 1

CURRENT

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	76,428	35.4%	\$ 6.00	\$458,568
Tier 2	54,431	25.2%	\$ 7.75	\$421,840
Tier 3	45,644	21.1%	\$ 9.50	\$433,618
Tier 4	39,385	18.2%	\$ 11.25	\$443,081
Total	215,888			\$1,757,108
Base Fee			\$ 70.00	\$1,134,000
Total				\$2,891,108
Other Revenue			# Accounts	
Base Fee w/ no consumption			425	\$29,750
Property Tax				\$91,951
Water Service Charges				\$33,000
Recycled Water Revenue				\$0.00
Other				\$27,000
Use of Reserves				
Total				\$154,701
Require Inputs			TOTAL	\$3,045,809

Recycled Water Revenue Calculator

	CCF	Revenue	
Tier 1	-	\$ -	
Tier 2	-	\$ -	School Irrigation
Tier 3	-	\$ -	Commercial ccf
Tier 4	-	\$ -	Irrigation ccf
Total	-	\$ -	- Total/yr.

EXPENSES CALCULATOR

RESERVES			
Capital Outlay		see below	
Rate Stabilization		\$ -	
General Contingency		\$ 57,000	
Designation for Basin Mgt.		In O&M budget	
Designation for Water Cons.		\$ -	
Restricted	I-Bank Loan	\$ 276,000	
	TOTAL	\$ 333,000	
GENERAL			
Capital (Outlay reserve, future debt, pay as you go)		\$ -	
Operating		\$ 1,422,181	
Admin Overhead		\$ 568,550	
	TOTAL	\$ 1,990,731	
	TOTAL	\$ 2,323,731	
Require Inputs			

REVENUE VS. EXPENSES

\$ 722,078

YEAR 1

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	76,428	35.4%	\$ 6.20	\$473,854
Tier 2	54,431	25.2%	\$ 8.00	\$435,448
Tier 3	45,644	21.1%	\$ 9.80	\$447,311
Tier 4	39,385	18.2%	\$ 11.60	\$456,866
Total	215,888			\$1,813,479
Base Fee			\$ 72.00	\$1,185,840
Total				\$2,999,319
Other Revenue				
Base Fee w/ no consumption			# Accounts 425	\$30,600
Property Tax				\$ 50,000
Water Service Charges				\$33,000
Recycled Water Revenue				\$ -
Other				\$27,000
Use of Reserves				\$0
Total				\$140,600
Require Inputs			TOTAL	\$3,139,919

2.86%

Rev. Incr.

3.09%

Recycled Water Revenue Calculator

	CCF	Revenue	
Tier 1	\$ -	-	
Tier 2	\$ -	-	School Irrigation
Tier 3	\$ -	-	Commercial ccf
Tier 4	\$ -	-	Irrigation ccf
Total	- \$ -	-	- Total/yr.

EXPENSES CALCULATOR

RESERVES			
	Capital Outlay		see below
	Rate Stabilization	\$ -	
	General Contingency	\$ 57,000	
	Designation for Basin Mgt.		In O&M budget
	Designation for Water Cons.	\$ -	
Restricted	I-Bank Loan	\$ 276,000	
	TOTAL	\$ 333,000	
GENERAL			
	Capital (Outlay reserve, future debt, pay as you go)	\$ 800,000	
	Operating	\$ 1,422,181	
	Admin Overhead	\$ 568,550	
	TOTAL	\$ 2,790,731	
	TOTAL	\$ 3,123,731	
Require Inputs			

REVENUE VS. EXPENSES

\$ 16,188

YEAR 2

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	76,428	35.4%	\$ 6.40	\$489,139
Tier 2	54,431	25.2%	\$ 8.25	\$449,056
Tier 3	45,644	21.1%	\$ 10.10	\$461,004
Tier 4	39,385	18.2%	\$ 11.95	\$470,651
Total	215,888			\$1,869,850
Base Fee			\$ 73.00	\$1,202,310
Total				\$3,072,160
Other Revenue				
Base Fee w/ no consumption			# Accounts 425	\$31,025
Property Tax				\$ 50,000
Water Service Charges				\$35,000
Recycled Water Revenue				\$ -
Other				\$30,000
Use of Reserves				
Total				\$146,025
Require Inputs			TOTAL	\$3,218,185

1.39%

Rev. Incr.
2.49%

Recycled Water Revenue Calculator		
	CCF	Revenue
Tier 1	\$ -	-
Tier 2	\$ -	-
Tier 3	\$ -	-
Tier 4	\$ -	-
Total	\$ -	-

School Irrigation
Commercial ccf
Irrigation ccf
- Total/yr.

EXPENSES CALCULATOR

RESERVES		
Capital Outlay	see below	
Rate Stabilization	\$ -	
General Contingency	\$ 57,000	
Designation for Basin Mgt.	In O&M budget	
Designation for Water Cons.	\$ -	
Restricted		
I-Bank Loan	\$ 276,000	
TOTAL	\$ 333,000	
GENERAL		
Capital (Outlay reserve, future debt, pay as you go)	\$ 800,000	
Operating	\$ 1,479,068	
Admin Overhead	\$ 591,292	
TOTAL	\$ 2,870,360	
TOTAL	\$ 3,203,360	
Require Inputs		

REVENUE VS. EXPENSES \$ 14,825

YEAR 3

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	76,428	35.4%	\$ 6.55	\$500,603
Tier 2	54,431	25.2%	\$ 8.45	\$459,942
Tier 3	45,644	21.1%	\$ 10.35	\$472,415
Tier 4	39,385	18.2%	\$ 12.25	\$482,466
Total	215,888			\$1,915,427
Base Fee			\$ 74.00	\$1,218,780
Total				\$3,134,207
Other Revenue			# Accounts	
Base Fee w/ no consumption			425	\$31,450
Property Tax				\$ 50,000
Water Service Charges				\$37,000
Recycled Water Revenue				\$ -
Other				\$32,000
Use of Reserves				
Total				\$150,450
Require Inputs			TOTAL	\$3,284,657

1.37%

Rev. Incr.

2.07%

	CCF	Revenue
Tier 1	\$ -	-
Tier 2	\$ -	-
Tier 3	\$ -	-
Tier 4	\$ -	-
Total	\$ -	-

School Irrigation

Commercial ccf

Irrigation ccf

- Total/yr.

EXPENSES CALCULATOR

RESERVES	
Capital Outlay	see below
Rate Stabilization	
General Contingency	\$ 57,000
Designation for Basin Mgt.	In O&M budget
Designation for Water Cons.	\$ -
Restricted	
I-Bank Loan	\$ 278,000
TOTAL	\$ 335,000
GENERAL	
Capital (Outlay reserve, future debt, pay as you go)	\$ 800,000
Operating	\$ 1,538,231
Admin Overhead	\$ 614,944
TOTAL	\$ 2,953,175
TOTAL	\$ 3,288,175
Require Inputs	

REVENUE VS. EXPENSES \$ (3,518)

Alternative 2

CURRENT-Revised

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	74,344	0.354	\$ 6.00	\$446,061
Tier 2	52,946	0.252	\$ 7.75	\$410,335
Tier 3	44,399	0.211	\$ 9.50	\$421,792
Tier 4	38,311	0.182	\$ 11.25	\$430,997
Total	210,000			\$1,709,185
Base Fee			\$ 70.00	\$1,134,000
Total				\$2,843,185
Other Revenue			# Accounts	
Base Fee w/ no consumption			425	\$29,750
Property Tax				\$91,951
Water Service Charges				\$33,000
Recycled Water Revenue				\$0.00
Other				\$27,000
Use of Reserves				
Total				\$154,701
Require Inputs			TOTAL	\$2,997,886

Recycled Water Revenue Calculator

	CCF	Revenue	
Tier 1	-	\$ -	
Tier 2	-	\$ -	School Irrigation
Tier 3	-	\$ -	Commercial ccf
Tier 4	-	\$ -	Irrigation ccf
Total	-	\$ -	- Total/yr.

EXPENSES CALCULATOR

RESERVES			
	Capital Outlay		see below
	Rate Stabilization	\$	-
	General Contingency	\$	57,000
	Designation for Basin Mgt.	In O&M budget	
	Designation for Water Cons.	\$	-
Restricted	I-Bank Loan	\$	276,000
	TOTAL	\$	333,000
GENERAL			
	Capital (Outlay reserve, future debt, pay as you go)	\$	-
	Operating	\$	1,422,181
	Admin Overhead	\$	568,550
	TOTAL	\$	1,990,731
	TOTAL	\$	2,323,731
Require Inputs			

REVENUE VS. EXPENSES **\$ 674,155**

YEAR 1

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	74,344	35.4%	\$ 6.25	\$464,647
Tier 2	52,946	25.2%	\$ 8.10	\$428,867
Tier 3	44,399	21.1%	\$ 9.90	\$439,551
Tier 4	38,311	18.2%	\$ 11.70	\$448,237
Total	210,000			\$1,781,302
Base Fee			\$ 73.00	\$1,202,310
Total				\$2,983,612
Other Revenue				# Accounts
Base Fee w/ no consumption			425	\$31,025
Property Tax				\$ 50,000
Water Service Charges				\$33,000
Recycled Water Revenue				\$ -
Other				\$27,000
Use of Reserves				\$0
Total				\$141,025
Require Inputs			TOTAL	\$3,124,637

4.29%

Rev. Incr.

4.23%

Recycled Water Revenue Calculator

	CCF	Revenue	
Tier 1	\$ -	-	
Tier 2	\$ -	-	School Irrigation
Tier 3	\$ -	-	Commercial ccf
Tier 4	\$ -	-	Irrigation ccf
Total	- \$ -	-	- Total/yr.

EXPENSES CALCULATOR

RESERVES			
Capital Outlay		see below	
Rate Stabilization	\$	-	
General Contingency	\$	57,000	
Designation for Basin Mgt.		In O&M budget	
Designation for Water Cons.	\$	-	
Restricted	I-Bank Loan	\$ 276,000	
	TOTAL	\$ 333,000	
GENERAL			
Capital (Outlay reserve, future debt, pay as you go)	\$	800,000	
Operating	\$	1,422,181	
Admin Overhead	\$	568,550	
	TOTAL	\$ 2,790,731	
	TOTAL	\$ 3,123,731	
Require Inputs			

REVENUE VS. EXPENSES

\$ 906

YEAR 2

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	74,344	35.4%	\$ 6.45	\$479,516
Tier 2	52,946	25.2%	\$ 8.40	\$444,750
Tier 3	44,399	21.1%	\$ 10.25	\$455,091
Tier 4	38,311	18.2%	\$ 12.10	\$463,561
Total	210,000			\$1,842,919
Base Fee			\$ 74.00	\$1,218,780
Total				\$3,061,699
Other Revenue				
			# Accounts	
Base Fee w/ no consumption			425	\$31,450
Property Tax				\$ 50,000
Water Service Charges				\$35,000
Recycled Water Revenue				\$ -
Other				\$30,000
Use of Reserves				
Total				\$146,450
Require Inputs			TOTAL	\$3,208,149

1.37%

Rev. Incr.
2.67%

Recycled Water Revenue Calculator		
	CCF	Revenue
Tier 1	\$ -	-
Tier 2	\$ -	-
Tier 3	\$ -	-
Tier 4	\$ -	-
Total	\$ -	-

School Irrigation
Commercial ccf
Irrigation ccf
Total/yr.

EXPENSES CALCULATOR

RESERVES		
Capital Outlay		see below
Rate Stabilization	\$ -	
General Contingency	\$ 57,000	
Designation for Basin M		In O&M budget
Designation for Water C	\$ -	
Restricted	I-Bank Loan	\$ 276,000
	TOTAL	\$ 333,000
GENERAL		
Capital (Outlay reserve, future debt, pay as you go)	\$ 800,000	
Operating	\$ 1,479,068	
Admin Overhead	\$ 591,292	
	TOTAL	\$ 2,870,360
	TOTAL	\$ 3,203,360
Require Inputs		

REVENUE VS. EXPENSES \$ 4,788

YEAR 3

REVENUE CALCULATOR

Water Sales	Totals	Percentage	Rates	Est. Revenue
Tier 1	74,344	35.4%	\$ 6.65	\$494,385
Tier 2	52,946	25.2%	\$ 8.65	\$457,987
Tier 3	44,399	21.1%	\$ 10.55	\$468,411
Tier 4	38,311	18.2%	\$ 12.45	\$476,970
Total	210,000			\$1,897,752
Base Fee			\$ 75.00	\$1,235,250
Total				\$3,133,002
Other Revenue			# Accounts	
Base Fee w/ no consumption			425	\$31,875
Property Tax				\$ 50,000
Water Service Charges				\$37,000
Recycled Water Revenue				\$ -
Other				\$32,000
Use of Reserves				
Total				\$150,875
Require Inputs	TOTAL			\$3,283,877

1.35%

Rev. Incr.
2.36%

Recycled Water Revenue Calculator		
	CCF	Revenue
Tier 1	\$	-
Tier 2	\$	-
Tier 3	\$	-
Tier 4	\$	-
Total	\$	-

School Irrigation	
Commercial ccf	
Irrigation ccf	
- Total/yr.	

EXPENSES CALCULATOR

RESERVES		
Capital Outlay		see below
Rate Stabilization		
General Contingency	\$	57,000
Designation for Basin Mgt.		In O&M budget
Designation for Water Cons.	\$	-
Restricted	I-Bank Loan	\$ 278,000
	TOTAL	\$ 335,000
GENERAL		
Capital (Outlay reserve, future debt, pay as you go)	\$	800,000
Operating	\$	1,538,231
Admin Overhead	\$	614,944
	TOTAL	\$ 2,953,175
	TOTAL	\$ 3,288,175
Require Inputs		

REVENUE VS. EXPENSES

\$ (4,297)