



May 30, 2019

TO: LOCSD Board of Directors

FROM: Rate Study Working Group
Rob Miller, Richard Margetson, Ron Munds

SUBJECT: Agenda Item 7B – 6/6/2019 Board Meeting
Review of Approved Water Rate Increase Scheduled for
July 1, 2019

President
Marshall E. Ochylski

Vice President
Charles L. Cesena

Directors
Matthew D. Fourcroy
Vicki L. Milledge
Christine M. Womack

General Manager
Renee Osborne

District Accountant
Robert Stilts, CPA

Unit Chief
Scott M. Jalbert

Battalion Chief
George Huang

Mailing Address:
P.O. Box 6064
Los Osos, CA 93412

Offices:
2122 9th Street, Suite 102
Los Osos, CA 93402

Phone: 805/528-9370
FAX: 805/528-9377

www.losososcsd.org

DESCRIPTION

The Rate Study Working Group has conducted a review of the performance of the District's Water Fund (Fund 500) as it relates to the three-year water rate increase approved in June 2017. The purpose of the review was to determine if sufficient net revenues have been generated to fund planned Capital Improvement Projects. The Working Group has determined that current water rates are expected to generate at least \$900,000 of net revenue in FY 18/19, thereby meeting the goal established for the three-year rate increase, even though the rate increase planned for FY19/20 has not yet taken effect.

SUMMARY OF STAFF RECOMMENDATION

Considering that the Water Fund has met net revenue goals with current water rates, staff recommends that the Board review the performance of Fund 500 in terms of available net revenue and provide direction to staff on the implementation of the planned water rate increase scheduled for July 1, 2019.

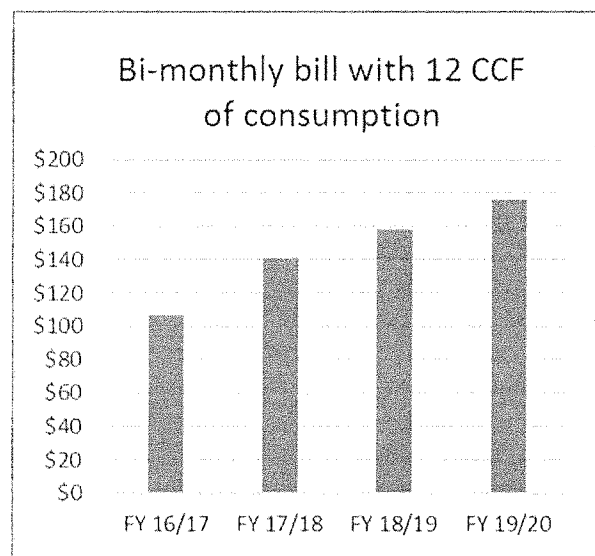
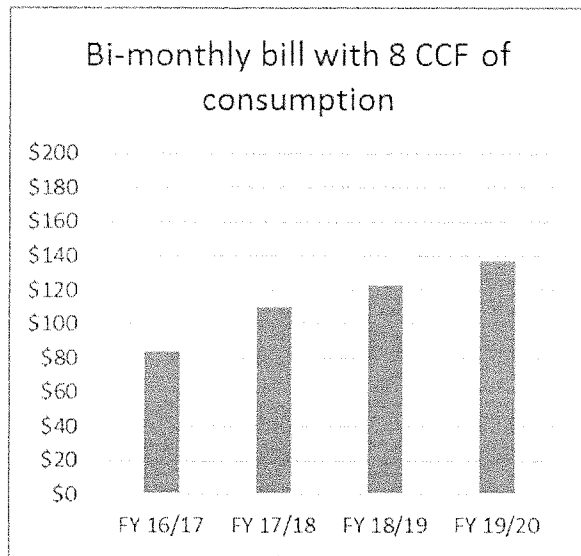
DISCUSSION

In June 2017, the Board adopted a three year water rate increase to provide adequate revenue to operate the water system, fund a portion of District administration, and provide for critical capital projects necessary to sustain the District's water supply and address deficiencies within its aging water infrastructure. The approved rates are summarized in Table 1 on the following page. These rates have been used to show the implemented and planned increases in bi-monthly water bills at two different levels of consumption. The most common residential bi-monthly water bill reflects a consumption of 8 CCF. The adopted and planned bi-monthly bill amounts are reflected in the figures below Table 1.

For the purpose of this discussion, the term "net revenue" means revenue available after expenses, debt, administration, and non-capital reserves are fully funded. Net revenue may be used to fund projects in the same year that it is generated, similar to the approach taken in the proposed FY 19/20 budget. It can also be saved in a capital reserve account for future years. In the proposed FY 19/20 budget, an operational cost of \$175,000 will be allocated for major repair and replacement that will generally not continue in future years, including water meter replacement (Fund 7256) and water distribution repairs (Fund 7241). Capital Improvement Projects are also planned for FY 19/20 (Fund 9006).

Table 1: Summary of Approved Water Rates by Fiscal Year

	Rates Effective in June 2016	Rates Enacted in June 2017			
		FY 17/18	Current	FY 19/20	
Fixed Bi-Monthly Service Charge	\$59.32	\$65.00	\$70.00	\$76.00	
Water Consumption Charges					
Rate per hundred cubic feet (ccf) per bi-monthly billing period					
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
Expected net revenues available for capital projects (capital reserve, pay-as-you-go, additional debt service)	N/A	\$500,000	\$700,000	\$900,000	



In April 2017, the Working Group recommended three rate increases to meet the following net revenue goals to fund capital projects:

- FY 2017/18 – \$500,000
- FY 2018/19 – \$700,000
- FY 2019/20 – \$900,000

After the second planned water rate increase took effect in July 2018 for FY 18/19, total revenues in the water fund substantially increased. Higher rates combined with consistent water sales have resulted in a projected fiscal year total of approximately \$3M of revenue against expenses, debt, and administration of approximately \$2M. As a result, the Working Group has concluded that the end goal of \$900,000 of net revenue has been met with current FY 18/19 rates. When the third and final approved rate increase takes effect on July 1, 2019, the total revenue is expected to increase by \$280,000, which would then result in net revenues in the range of \$1.1M to \$1.2M, starting in FY 19/20. The previous net revenue

target of \$900,000 per year, in the opinion of the Working Group, is sufficient to fund planned capital improvements for the next 5 years.

The above discussion was summarized in a power point presentation to the Utilities Advisory and Financial Advisory Committees during a joint meeting on April 23, 2019. A copy of the presentation is attached, which includes a summary of the capital projects contemplated over the next 5 years. These projects currently total approximately \$4.6M. After the presentation, the two committees voted unanimously to adopt the following recommendations:

- Continue to allocate 50% of property tax revenue to the Water Fund (no Board action necessary)
- District staff to revisit water rates at least every two years (general direction to staff is sufficient)
- Implement planned water rate increase on July 1, 2019 (no Board action necessary – adopted in June 2017)

FINANCIAL IMPACT

If the Board takes no action, the previously-approved water rate increase will take effect on July 1, 2019. The approved third rate increase is expected to result in additional revenue of \$280,000 in FY 19/20, and it will also raise the average annual water cost to a single family home by \$84 per year for 8 CCF of bi-monthly consumption and \$108 per year for 12 CCF of bi-monthly consumption. The above rate analysis was completed at no cost to the District through the efforts of the volunteer Working Group.

Attachment

LOCSD Water Rate Discussion
Rate Study Working Group

Rate Analysis Process

- Volunteer working group: Ron Munds, Richard Margetson, and Rob Miller
- Review background
- Discuss policy issues
- Follow up with detailed evaluation

Previous Board Actions

- Adopted 3 step water rate increase in June 2017
- Final increase scheduled to take effect in July 2019
- Transitioned 50% of property tax revenue away from water fund. Remaining annual revenue is estimated at approximately \$120k per year
- Board established policy of eventually phasing out property tax revenue from water fund
- Clarified annual reserve goals – target \$900k per year contribution to capital projects or reserve

Table 2: Summary of Approved Water Rates by Fiscal Year (June 2017)

		Rates from June 2016	Rates enacted by Board		
			FY 17/18	Current	FY 19/20
Fixed Bi-Monthly Service Charge		\$59.32	\$65.00	\$70.00	\$76.00
Water Consumption Charges Rate per hundred cubic feet (ccf) per bi-monthly billing period					
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
Expected net revenues available for capital projects (capital reserve, pay-as-you-go, additional debt service)		N/A	\$500,000	\$700,000	\$900,000

Net Revenues at Current Rates

- \$2.9 to \$3.0M total revenue expected for water fund in FY18/19, including property tax at 50%
- Expenses:
 - O&M: \$1.30M (incl. \$70k meter replacement)
 - Ibank Debt: \$0.28M (drops off in 2034)
 - Admin transfer: 0.45M
 - Total: 2.03M
- Net revenue this FY: \$0.9M to \$1M
- \$1.2M in capital reserve available from last FY
- Total available over 5 years: \$5M with 3% inflation in O&M

Capital Improvement Plan

- \$2.2M immediate— operational and supply projects (\$0.3M grant funding possible)
- \$2.4M medium term (within 5 years), including Program C well, other pipelines
- Long term – replace asbestos cement pipelines, >\$15M, schedule uncertain
- Spreadsheet available to discuss details if needed

Understanding LOCSD Water Revenue

- Based on FY 17/18 and year to date, we continue to sell approx. 200,000 CCF per year
- \$1 increase in all tiers raises \$200k per year
- Each **\$1** raise in bi-monthly fixed charge raises **\$16,600** per year, so \$6 increase would raise an additional \$100k
- Working group expected lower water sales based on pricing and conservation. Water sales have increased slightly (3%) since 2016.

Policy Discussion for UAC/FAC

- Property tax allocation for remaining 50% (\$120k per year currently)
- Continue with rate adjustment scheduled for July 2019?
- Board to direct staff to formally review rates every 2 years to confirm assumptions?
- Other issues that working group should assess in preparation for Board discussion?