

# Staff Report

for the meeting of the Water Rates Committee on July 28, 2020

**TO:** Board of Directors

**FROM:** Marvin Davis, MBA, CPA, Finance Manager/Treasurer  
Alex T. Handlers, MPA, CIPMA, Bartle Wells Associates

**DATE:** July 21, 2020

**SUBJECT:** Water 2020 Cost of Service Rate Development

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***FINANCE***

## **RECOMMENDATION:**

Continuing to develop 2020 Water Rates with Board recommendations

## **BACKGROUND:**

- At the April 24, 2019 Board meeting, the Board adopted resolution 2019-06, receiving the 2019 Water Cost of Service (“COS”) report. During the meeting, the General Manager was directed to develop a COS report that determines the costs to provide raw and treated water based on actual costs.
- Following Procurement Policy 3080, staff issued the Request for Proposal (RFP) to eleven firms and received two responses. After review of responses, the District entered into a contract on September 6, 2019, with Bartle Wells Associates. This firm is familiar with the District’s internal costs structure and was used to provide the District’s 2009 Water COS report.
- Staff brought the first phase of the 2020 Water COS report to the Board at the February 26, 2020 meeting. This first phase of the 2020 COS Report focused on the cost to operate and maintain infrastructure within the District. The Board formed the ad hoc Water Rates Committee (the “WRC”) to develop further phases of a COS study and, eventually, new proposed water rates based upon the reports.

- Staff reviewed the administrative procedures with the Board (Proposition 218 and 26) to adopt new water rates on June 19, 2020.
- Staff met with the WRC on June 30, 2020, to begin the development of the water rates and require specific direction to continue the process.
- The WRC received the below recommendation from the Board at July 8<sup>th</sup> meeting which are included within the Water Rates Forecast

During the July 8<sup>th</sup> Board meeting, the WRC received the below direction to include within the forecast.

- 1) Use a Hybrid approach to allocate the forecasted cost of service between the treated water and raw water customer base. The allocation base will be the direct historical costs for delivery departments and number of accounts for support departments.
- 2) Develop the rates to the rates to recover 50% of the fixed costs in the base rate and 50% in the commodity rates.
- 3) Develop the rates assuming a sustainable transfer-in amount from the Hydroelectric revenues and reserves over the forecast.
- 4) Develop the rates assuming the use of property tax to service a portion of the debt over the forecast.

During the previous Water Rates Committee meeting, the Committee discussed continuing with the previously adopted 5.72%, 3-yr rate package as adopted on April 24, 2019 (Resolution 2019-06). Staff and Committee will review the financial model to identify budgetary and cost savings associated with this rate structure for 2021.

### Strategic Goal

The implementation of the appropriate rate structure achieves Goal Number 1 of the District's Strategic Plan by demonstrating proactive management of our financial resources.

### **BUDGETARY IMPACT:**

To be discussed

/MD, AH