



Supplemental Rate Review

Finance Committee Briefing

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Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

Very Complex Study

■ Services

- Water
- Sewer

■ Scope

- Revenue Requirements
- Rate Structure
- ✓ ● Capacity Charges
 - ❖ *New development's share of improvement costs to serve it*
 - ❖ *Chevron participation scenarios*

Revenue requirements vs rate structure

- Separate issues that can make review of both at the same time difficult
 - Revenue Requirements
 - ❖ *How much revenue needs to be generated from rates in recovering costs?*
 - Rate Structure
 - ❖ *Who pays?*
 - ◆ *Any rate structure can be designed to meet revenue requirements*
 - ◆ *“Average user” will pay about the same under any rate structure – how is the “non-average” user affected?*

Both are policy issues

■ Revenue Requirements

- Driven by policy decisions on service levels
 - ❖ Operating, capital and debt service costs needed to achieve them
 - ❖ Typically determined via the budget process and long-term plans

■ Rate Structure

- Driven by policy decisions on rate goals and principles

Rate-Setting Goals

- Outlined in NBS study
 - Revenue adequacy
 - Equity among customer classes
 - ✦ ● **Revenue stability**
 - ✦ ● **Promotes water conservation**
 - Subsidy to low income users
- Possible addition
 - Customer service: easy for customers to understand and for staff to administer

① Determining Rate Revenue Requirements

■ Four Steps

- Determine total cost recovery needs
 - ❖ *Projected operating, capital, debt service costs*
- Subtract non-rate revenues
 - ❖ *Property tax, capacity charges, interest earnings, other revenues*
- Identify rate revenue needs
 - ❖ *Difference between steps 1 and 2*
- Determine new rate-based revenues
 - ❖ *Difference between revenues under current rates and amount from step 3*

② Determining Rate Structure

- Easier to consider rate structure after determining revenue requirements
- Many rate structure options, but all need to generate the same amount of revenue

Sample Water Rate Structures

Flat versus Use Rates

| Customer Use (Billing Units Per 100 Cubic) | Alternative Rate Structures | | | | Monthly Difference |
|--|-----------------------------|-----------|------------------------|-----------|--------------------|
| | Flat Rate @ \$55.56/Month | | Use Rate @ \$5.56/Unit | | |
| | Monthly Bill | Cost/Unit | Monthly Bill | Cost/Unit | |
| 5 | \$55.56 | \$11.11 | \$ 27.80 | \$5.56 | (\$27.76) |
| 10 | 55.56 | 5.56 | 55.60 | 5.56 | \$0.04 |
| 15 | 55.56 | 3.70 | 83.40 | 5.56 | \$27.84 |
| 20 | 55.56 | 2.78 | 111.20 | 5.56 | \$55.64 |

- 15,000 accounts
- \$10 million revenue requirement from rates

NBS Proposed Rate Structures

- Like current rate structure, includes elements of both minimum and use (commodity) charges
- But structured differently
 - Water
 - ❖ *No usage included in minimum (encourages conservation)*
 - ❖ *Minimums based on meter size (mitigates impact of change on smaller users)*
 - Sewer
 - ❖ *Major shifts in cost distribution between user types*

Key Revenue Requirements Factors

- Key Assumptions
 - Operating costs
 - Capital projects
 - Debt service (sewer only)
 - Reserves
 - Consumption
 - Current shortfalls

Revenue Requirement Increases

■ Water

- 2013-14: 12%
- 2014-15: 12%
- 2015-16: 12%
- 2016-17: 4%
- 2017-18: 0%
- Cumulative over four years: 46.1%

■ Sewer

- 2013-14: 25%
- 2014-15: 25%
- 2015-16: 25%
- 2016-17: 20%
- 2017-18: 0%
- Cumulative over four years: 134.4%

NBS Rate Structure Methodology

- Assign costs to user types
 - Water
 - ❖ Fixed versus variable costs
 - ❖ Allocate minimum based on potential capacity (meter size)
 - Sewer: More complicated
 - ❖ Flows
 - ❖ Total suspended solids (TSS)
 - ❖ Biological oxygen demand (BOD)

Proposed Water Rates: New Structure

| Water Rate Schedule | Current Rates | Proposed Rates | | | | |
|--|---------------|----------------|------------|------------|------------|------------|
| | | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 | FY 2017/18 |
| <i>Projected Annual Increase in Revenue Requirements</i> | | 12.00% | 12.00% | 12.00% | 4.00% | 0.00% |
| Fixed Meter Charge (currently, this is the base/minimum charge) | | | | | | |
| 5/8 x 3/4 inch | \$40.70 | \$55.42 | \$62.07 | \$69.52 | \$72.30 | \$72.30 |
| 1 inch | \$40.70 | \$145.43 | \$162.88 | \$182.42 | \$189.72 | \$189.72 |
| 1 1/2 inch | \$40.70 | \$181.43 | \$203.20 | \$227.58 | \$236.69 | \$236.69 |
| 2 inch | \$40.70 | \$361.44 | \$404.81 | \$453.39 | \$471.52 | \$471.52 |
| 2 inch compound | \$40.70 | \$577.45 | \$646.74 | \$724.35 | \$753.32 | \$753.32 |
| Commodity Charge (per hcf) | | | | | | |
| All Users | | | | | | |
| 0 - 5 hcf | \$0.00 | \$3.90 | \$4.36 | \$4.89 | \$5.08 | \$5.08 |
| 5 + hcf | \$8.14 | \$3.90 | \$4.36 | \$4.89 | \$5.08 | \$5.08 |

Note: Low-income customers will receive a \$10 credit on their monthly water bill (subject to qualification by ABCSD staff).

Water Rate Structure Impacts: Fixed vs Variable

| Revenue from Fixed vs. Variable Charges | Existing Rates | | Proposed Rates | |
|---|------------------|-------------|------------------|-------------|
| | Fixed Charges | \$164,591 | 46% | \$291,309 |
| Variable Charges | \$194,188 | 54% | \$124,159 | 30% |
| Total Revenue | \$358,779 | 100% | \$415,467 | 100% |

Water Rate Structure Impacts

| Rates | Usage (Per 100 Cubic Feet) | | | | | | | |
|----------------------------------|----------------------------|---------|---------|---------|---------|---------|---------|----------|
| | 1 | 2 | 3 | 4 | 5 | 10 | 20 | 100 |
| Current Plus 12% Increase | | | | | | | | |
| Minimum Per Account | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 |
| Commodity Charge @ \$9.12/unit | - | - | - | - | - | 91.20 | 182.40 | 912.00 |
| Total | 45.25 | 45.25 | 45.25 | 45.25 | 45.25 | 136.45 | 227.65 | 957.25 |
| Cost Per Unit | 45.25 | 22.62 | 15.08 | 11.31 | 9.05 | 13.64 | 11.38 | 9.57 |
| Proposed | | | | | | | | |
| Minimum Per Meter Size | | | | | | | | |
| Commodity Charge @ \$3.90/unit | | | | | | | | |
| 5/8x3/4 Inch: \$55.42 | 59.32 | 63.22 | 67.12 | 71.02 | 74.92 | 94.42 | 133.42 | 445.42 |
| 1 Inch: \$145.43 | 149.33 | 153.23 | 157.13 | 161.03 | 164.93 | 184.43 | 223.43 | 535.43 |
| 1 1/2 Inch: \$181.43 | 185.33 | 189.23 | 193.13 | 197.03 | 200.93 | 220.43 | 259.43 | 571.43 |
| 2 Inch: \$361.44 | 365.34 | 369.24 | 373.14 | 377.04 | 380.94 | 400.44 | 439.44 | 751.44 |
| 2 Inch Compound: \$577.45 | 581.35 | 585.25 | 589.15 | 593.05 | 596.95 | 616.45 | 655.45 | 967.45 |
| Increase (Decrease) | | | | | | | | |
| 5/8x3/4 Inch | 14.07 | 17.97 | 21.87 | 25.77 | 29.67 | (42.03) | (94.23) | (511.83) |
| 1 Inch | 104.08 | 107.98 | 111.88 | 115.78 | 119.68 | 47.98 | (4.22) | (421.82) |
| 1 1/2 Inch | 140.08 | 143.98 | 147.88 | 151.78 | 155.68 | 83.98 | 31.78 | (385.82) |
| 2 Inch | 320.09 | 323.99 | 327.89 | 331.79 | 335.69 | 263.99 | 211.79 | (205.81) |
| 2 Inch Compound | 536.10 | 540.00 | 543.90 | 547.80 | 551.70 | 480.00 | 427.80 | 10.20 |

Proposed Sewer Rates

| Sewer Rate Schedule | Current Rates | Proposed Rates | | | | |
|--|---------------|----------------|------------|------------|------------|------------|
| | | FY 2013/14 | FY 2014/15 | FY 2015/16 | FY 2016/17 | FY 2017/18 |
| <i>Projected Annual Increase in Revenue Requirements</i> | | 25.00% | 25.00% | 25.00% | 20.00% | 0.00% |
| Fixed Charge (currently, this is the base/minimum charge) | | | | | | |
| Single-Family | \$28.70 | \$30.68 | \$38.35 | \$47.94 | \$57.53 | \$57.53 |
| Multi-Family | \$30.35 | \$30.68 | \$38.35 | \$47.94 | \$57.53 | \$57.53 |
| Commercial General ¹ | \$38.70 | \$23.53 | \$29.42 | \$36.77 | \$44.13 | \$44.13 |
| Commercial Hotel | \$38.70 | \$1,262.02 | \$1,577.53 | \$1,971.91 | \$2,366.29 | \$2,366.29 |
| Restaurant | \$41.35 | \$5,100.00 | \$6,375.00 | \$7,968.75 | \$9,562.50 | \$9,562.50 |
| Industrial | \$44.15 | \$29.21 | \$36.51 | \$45.64 | \$54.77 | \$54.77 |
| Public Facility | \$38.70 | \$127.77 | \$159.71 | \$199.64 | \$239.57 | \$239.57 |
| Commodity Charge (per 100 gallons) | | | | | | |
| Single-Family | \$5.74 | \$2.84 | \$3.55 | \$4.44 | \$5.33 | \$5.33 |
| Multi-Family | \$6.07 | \$2.84 | \$3.55 | \$4.44 | \$5.33 | \$5.33 |
| Commercial General ¹ | \$7.74 | \$2.62 | \$3.27 | \$4.09 | \$4.91 | \$4.91 |
| Commercial Hotel | \$7.74 | \$2.74 | \$3.42 | \$4.28 | \$5.14 | \$5.14 |
| Restaurant | \$8.27 | \$5.63 | \$7.03 | \$8.79 | \$10.55 | \$10.55 |
| Industrial | \$8.83 | \$2.41 | \$3.02 | \$3.77 | \$4.53 | \$4.53 |
| Public Facility | \$7.74 | \$2.36 | \$2.95 | \$3.69 | \$4.42 | \$4.42 |

1. For the one customer that is a vacant lot, currently billed as a Restaurant and is expected to develop into a mixed use customer - NBS recommends billing the customer as General Commercial on a temporary basis and should be able to retain their previous designation as a restaurant if/when the customer builds something new.

Sewer Rate Structure Impacts By Class

| Customer Class | COS Allocated Costs - 2014 | | vs. Current Rates | |
|-------------------------|----------------------------|---------------------|--------------------------|--------------------|
| | COS Rev. Reqt. | % of COS Rev. Reqt. | Revenue at Present Rates | Percent Difference |
| Residential (SFR & MFR) | \$ 129,391 | 40.5% | \$ 105,363 | 22.8% |
| Commercial General | \$ 18,558 | 5.8% | \$ 28,669 | -35.3% |
| Commercial Hotel | \$ 64,904 | 20.3% | \$ 57,911 | 12.1% |
| Restaurant | \$ 89,186 | 27.9% | \$ 44,228 | 101.7% |
| Industrial | \$ 2,003 | 0.6% | \$ 3,382 | -40.8% |
| Public Facility | \$ 15,332 | 4.8% | \$ 16,478 | -7.0% |
| Total | \$ 319,375 | 100.0% | \$ 256,031 | 24.7% |

Sewer Rate Impacts

| Water Rate Structure Impacts | | | | | | | | |
|----------------------------------|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------|----------|
| Rates | Usage (Per 100 Cubic Feet) | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 10 | 20 | 100 |
| Current Plus 12% Increase | | | | | | | | |
| Minimum Per Account | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 | \$45.25 |
| Commodity Charge @ \$9.12/unit | - | - | - | - | - | 91.20 | 182.40 | 912.00 |
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| Proposed | | | | | | | | |
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| 1 1/2 Inch | 136.18 | 140.08 | 143.98 | 147.88 | 151.78 | 64.48 | (7.22) | (697.82) |
| 2 Inch | 320.09 | 323.99 | 327.89 | 331.79 | 335.69 | 263.99 | 211.79 | (205.81) |
| 2 Inch Compound | 536.10 | 540.00 | 543.90 | 547.80 | 551.70 | 480.00 | 427.80 | 10.20 |

Similar to Water

Key Issues

- Water and Sewer: Reserves
 - Operating
 - Capital
- Water: Rate structure impact on lower users
 - Mitigating impact will mean higher rates for others
 - Fixed vs variable cost mix
 - Including use allowance in minimum
- Sewer: Restaurants
 - Mitigating impact will mean higher rates for others

Suggested Approach

- First reach agreement/consensus on revenue requirements
 - What added information do you need?
- Then tackle rate structure issues
 - What are key objectives?
 - Look at structures used by other agencies for minimum vs commodity “mix”
 - Consider simplifying sewer rate categories
 - Water tiers: make sense in Avila Beach?

Implementation

- Proposition 218 requires 45 day notice to customers before public hearing
 - Can set multi-year rates in one notice
 - After public hearing, can reduce rates, but increasing them (even if for modest amount affecting few users) requires re-noticing
 - If future budgets show lower revenue requirements, can always reduce rates ... just can't increase them without re-noticing them

Questions?

