## WALNUT VALLEY WATER DISTRICT 271 South Brea Canyon Road Walnut, California 91789

## SPECIAL BOARD MEETING THURSDAY, OCTOBER 25, 2012 – 4:00 P.M. AGENDA

NOTE: To comply with the Americans with Disabilities Act, if you need special assistance to participate in any Board meeting, please contact the General Manager's office at least 48 hours prior to a Board meeting to inform the District of your needs and to determine if accommodation is feasible.

Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance, to take action on any item.

Materials related to an item on this agenda submitted after distribution of the agenda packet are available for public review during regular business hours at the District office, located at 271 S. Brea Canyon Road, Walnut, California.

1.	Flag Salute			
2.	Roll Call: Ms. Carrera Mr. Ebenkamp Mr. Hil	den_	Ms. Kwong	Dr. Wu
3.	<ul> <li>Public Comment</li></ul>	d of luestine the	Directors on any Ager ng the privilege of do ne item is discussed, to portunity to comment	nda item may do so oing so at this time chose requesting to on any non-agenda
4.	Consider Approval of Minutes of Special Board Meeting Held A. Discussion	•	otember 18, 2012 Action Taken	
5.	Discussion and Consideration of Possible Water Rate Adju Proposed Adjustments within the Parameters of the Previously A. Discussion	у Ар	•	
6.	Discussion of Process to Develop New Rate Structure A. Discussion	В.	Action Taken	

Adjournment



## MINUTES OF SPECIAL MEETING OF THE BOARD OF DIRECTORS OF WALNUT VALLEY WATER DISTRICT

#### September 18, 2012 At the Offices of the District

DIRECTORS PRESENT: STAFF PRESENT:

Barbara A. Carrera Mike Holmes, General Manager

Theodore L. Ebenkamp Erik Hitchman, Assistant General Manager/Chief Engineer

Edwin M. Hilden Sandra Olson, Director of Administrative Services

Scarlett P. Kwong

Brian Teuber, Director of Finance
Gabriela Sanchez, Executive Secretary

**DIRECTORS ABSENT:** Timothy J. Gosney, Legal Counsel

Allen L. Wu, President

The meeting was called to order at 4:00 p.m. with Vice President Hilden presiding.

Guests and others in attendance: Mr. James Linthicum of Three Valleys Municipal Water District

#### **Item 3: Public Comment – Vice President Hilden**

♦ There were no requests to make public comment.

## <u>Item 4: Consider approval of Minutes of Special Board Meeting Held August 30, 2012 – Vice President Hilden</u>

◆ The Board was asked to consider approval of the minutes of the Special Board meeting held August 30, 2012. (Item 4)

Motion No. 12-09-376: Upon consideration thereof, it was moved by Director Kwong, seconded by Director Carrera and unanimously carried (4-0), to receive, approve, and file the minutes of the Special Board meeting held August 30, 2012. (Item 4)

#### Item 5: Discussion and Consideration of Possible Water Rate Adjustment Effective January 1, 2013

- ♦ The General Manager indicated that effective January 1, 2013, the District's cost for buying water from Three Valleys Municipal Water District will increase to \$849 per acre foot − \$1.95 per ccf. In addition, annual reserve funding at the end of the fiscal year (June 30, 2013) will be approximately \$2.34 million below the District's annual reserve funding goal.
- ♦ With this, the Board was presented with three possible rate scenarios that would address the MWD/TVMWD rate increases and long-term capital project funding. Each proposed rate scenario is below the projected amounts in the District's Proposition 218 Notice.
- ♦ Rate Scenario No. 1 includes a revenue requirement of \$26,957,527, essentially funding only the MWD January 1, 2013 increase.
- ♦ Rate Scenario No. 2 includes a revenue requirement of \$27,857,527, which would cover the MWD increase and an additional \$900,000 to cover debt service and/or reserve funding.
- ♦ Rate Scenario No. 3 includes a revenue requirement of \$28,157,527, which would cover the MWD increase and an additional \$1,200,000 to cover debt services and/or reserve funding.
- Mr. Teuber then reviewed the details for each rate structure scenario.
- ♦ The Board was informed of the necessity to approve a new rate by October 25, 2012, for timely customer notice
- Due to President Wu's absence, staff was given direction, by consensus of the Board, to meet with him to discuss the rate scenarios and gather his input.

## Adjournment at 4:43 p.m.

## WVWD - Staff Report



TO: Board of Directors FROM: General Manager October 25, 2012

**SUBJECT:** Consideration of Water Rate Adjustment

✓ Action/Discussion ✓ Fiscal Impact ☐ Resolution ☐ Information Only

## **Recommendation**

That the Board of Directors approve water rates as shown in Scenario 3 with an effective date of January 1, 2013.

### **Background Information**

At the August 30, 2012 Board Workshop, the Board directed staff to present rate scenarios that would address the January 2013 MWD rate increase and the long-term capital project funding.

- Effective January 1, 2013, the District will be buying water from TVMWD/MWD at a cost of \$849 per acre foot—\$1.95 per ccf. However, the current Tier 1 residential rate for the first 12 units is \$1.92 per ccf.
- The District's need to finance water resource projects to develop 20% to 25% alternative potable water supplies.
- At the end of the fiscal year (June 30, 2013) the budget projects reserve funding of approximately \$1.21 million. This figure is approximately \$2.34 million <u>below</u> the District's annual reserve funding goal of \$3.525 million.

At the September 18, 2012 Board Workshop, staff presented three rate scenarios. During those discussions, the Board directed staff to present the scenarios to the Board President and solicit his input. Pursuant to those discussions, staff developed three additional scenarios, described below as Scenarios 4, 5, and 6.

#### Rate Scenarios

The underlying methodology for the District's rate structure is based on the cost-to-serve each of the District's user classes. This approach recognizes that the cost-to-serve each user class (single family, multi-user, commercial, industrial, government, and recycled) not only depends on the amount of water used but also the manner in which it is used, also known as 'peaking' or 'capacity' needs.

Based on the current budget (FY 2012-13) the District's revenue requirement is \$28,207,527. This assumes all budgeted revenues will be recognized and all budgeted expenses will be incurred. In addition, this assumes reserves of \$3,050,000 will be fully funded.

FY 2011-12 rates were calculated recognizing that actual revenues and expenses typically vary from budget amounts along with the potential to use reserve funds to offset any deficit; as a result, the revenue requirement was *decreased* by \$1,250,000.

#### Scenario No. 1—Revenue Requirement \$26,957,527

(Raises revenue to cover MWD's January 2013 increase only)

This scenario includes the increased purchased water costs based on MWD's approved January 1, 2013 rates. The revenue requirement was reduced by \$1,250,000, the same as was done in calculating the approved January 2012 rate increase.

#### Scenario No. 2—Revenue Requirement \$27,857,527

(Covers MWD's January 2013 increase + \$900,000 of additional required revenue)

This scenario includes the increased purchased water costs based on MWD's January 1, 2013 rates, plus an additional \$900,000 in required revenue to cover debt service and/or reserve funding. The revenue requirement was reduced by \$1,250,000 as was done in calculating the January 2012 rate increase.

#### Scenario No. 3—Revenue Requirement \$28,157,527

(Cover's MWD's January 2013 increase + \$1,200,000 of additional required revenue)

This scenario includes the increased purchased water costs based on MWD's January 1, 2013 rates, plus an additional \$1,200,000 in required revenue to cover debt service and/or reserve funding. The revenue requirement was reduced by \$1,250,000 as was done in calculating the January 2012 rate increase.

#### Scenario No. 4—Revenue Requirement \$29,107,528

(Covers MWD's January 2013 increase + \$900,000 of additional required revenue)

This scenario includes the increased purchased water costs based on MWD's January 1, 2013 rates, plus an additional \$900,000 in required revenue to cover debt service and/or reserve funding. The revenue requirement was <u>not</u> reduced by \$1,250,000 as was done in calculating the January 2012 rate increase.

#### Scenario No. 5—Revenue Requirement \$29,407,527

(Covers MWD's January 2013 increase + \$1,200,000 of additional required revenue)

This scenario includes the increased purchased water costs based on MWD's January 1, 2013 rates, plus an additional \$1,200,000 in required revenue to cover debt service and/or reserve funding. The revenue requirement was <u>not</u> reduced by \$1,250,000 as was done in calculating the January 2012 rate increase.

#### Scenario No. 6

This scenario is based on the projected rates shown in the Proposition 218 Notice for Fiscal Year 2012-13 and not the revenue requirement established in the District's approved Fiscal Year 2012-13 budget

#### **Analysis:**

When evaluating the various scenarios, staff considered the additional revenues needed to cover the MWD rate increase, reserve funding, and potential long-term debt. In addition to the revenue requirements, staff also considered the financial impacts of each scenario on the District's customers.

Accordingly and based on the above analysis, staff is recommending approval of the rates as shown in Scenario 3. This scenario provides sufficient revenues to cover the MWD rate increase and additional revenues for reserve funding and/or long-term debt financing, while minimizing financial impacts to District customers and maintaining affordability of rates.

#### **Attachments**

✓ Rate Scenario Summary

	<b>CURRENT RATES</b>	RATE SCENARIO 1	RATE SCENARIO 2	RATE SCENARIO 3	RATE SCENARIO 4	RATE SCENARIO 5	RATE SCENARIO 6	
		MWD INCREASE ONLY, NO INCREASE IN REVENUE REQUIREMTN FOR DEBT FINANCING IS INCLUDED, REVENUE REQUIRMENT DECREASED BY \$1.25M FOR LINSPENT EXPENSES	MWD INCREASE + \$900K OF ADDITIONAL REQUIRED REVENUE, REVENUE REQUIREMENT DECREASED \$1.25M FOR UNSPENT EXPENSES	MWD INCREASE + \$1.2M OF ADDITIONAL REQUIRED REVENUE, REVENUE REQUIREMENT DECREASED \$1.25M FOR UNSPENT EXPENSES	MWD INCREASE + \$900K OF ADDITIONAL REQUIRED REVENUE, <u>NO</u> DECREASE OF REVENUE REQUIREMENT FOR UNSPENT EXPENSES	MWD INCREASE + \$1.2M OF ADDITIONAL REQUIRED REVENUE, NO DECREASE OF REVENUE REQUIREMENT FOR UNSPENT EXPENSES	MWD INCREASE + \$1.2M OF ADDITIONAL REQUIRED REVENUE, RATES SET AT MAXIMUM AMOUNTS APPROVED UNDER EXISTING PROP 218 NOTICE	
Revenue Requirement		\$ 26,957,527.00	\$ 27,857,527.00	\$ 28,157,527.00	\$ 29,107,528.00	\$ 29,407,527.00	na	
Commodity Rate Residential	Current rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	
Tier I	\$ 1.92	\$ 2.04	\$ 2.12	\$ 2.16	\$ 2.29	\$ 2.32		
Tier II	\$ 2.40		\$ 2.65	•	\$ 2.86	\$ 2.90		
Tier III	\$ 2.40		\$ 2.65	\$ 2.70	\$ 2.86	\$ 2.90		
Total /Uniform Rate	\$ 2.17							
Multi - Family	\$ 2.32		\$ 2.53		\$ 2.57	\$ 2.61	•	
Commercial/Industrial	\$ 2.39		\$ 2.58	\$ 2.61	\$ 2.63	\$ 2.66	•	
Meter Charge	narge Current rate		Proposed Rate Proposed Rate		Proposed Rate	Proposed Rate	Proposed Rate	
5/8 or 3/4	\$ 16.03		\$ 16.33	\$ 16.33	\$ 16.33	\$ 16.33	\$ 17.30	
1"	\$ 20.21	\$ 20.21	\$ 20.75	\$ 20.75	\$ 20.75	\$ 20.75	\$ 21.77	
1 1/2"	\$ 42.74	·	\$ 44.64	·	\$ 44.64			
2"	\$ 65.25		\$ 68.51	•		\$ 68.51		
3"	\$ 118.67	•	7	•		•		
4"	\$ 194.78		\$ 205.80	\$ 205.80			•	
6"	\$ 380.43		\$ 402.72					
8"	\$ 603.79	·	\$ 639.61					
Pump Zone Charge Current rate		Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	
Zone 1	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	No Charge	
Zone 2	\$ 0.18	•	·	•	\$ 0.18	•	•	
Zone 3	\$ 0.33		\$ 0.34		\$ 0.34	\$ 0.34		
Private Fire Protection	Current rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	
1"	\$ 16.04		\$ 16.48	\$ 16.48	•		•	
1 1/2"	\$ 16.43		\$ 16.89	\$ 16.89	\$ 16.89	\$ 16.89	\$ 18.23	
2"	\$ 16.81	•	\$ 17.30	\$ 17.30		· ·	•	
4"	\$ 19.43		\$ 20.09	\$ 20.09		\$ 20.09		
6"	\$ 22.13	•	\$ 22.99	\$ 22.99		\$ 22.99		
8"	\$ 25.51 \$ 28.89		\$ 26.60	\$ 26.60				
10"	·	·	\$ 30.21			·		
Private Fire Hydrant	Current rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	Proposed Rate	
	\$ 22.13	\$ 22.99	\$ 22.99	\$ 22.99	\$ 22.99	\$ 22.99	\$ 24.56	

	(	CURRENT RATES	RATE SCENARIO 1 RATE SCENARI		RATE SCENARIO 2		RATE SCENARIO 3	RATE SCENARIO 4			RATE SCENARIO 5		RATE SCENARIO 6	
Impact of Rates The following table illustrates the rate impact for a residential customer with an average consumption of 24 units, with a meter size of 5/8" or 3/4".														
Pump Zone 1 Pump Zone 2 Pump Zone 3	\$ \$ \$	Current 67.87 72.19 75.79	\$ \$	Proposed 71.11 75.43 79.27	\$	<u>Proposed</u> 73.27 77.59 81.43	\$	<u>Proposed</u> 74.65 78.97 82.81	\$ \$	78.13 82.45 86.29	\$	Proposed 78.97 83.29 87.13	\$	Proposed 81.62 86.66 90.98
Percentage Increase - Pump Zone 1 Percentage Increase - Pump Zone 2 Percentage Increase - Pump Zone 3			4.77% 4.49% 4.59%		7.96% 7.48% 7.44%	)	9.99% 9.39% 9.26%		15.12% 14.21% 13.85%		16.35% 15.38% 14.96%		20.26% 20.04% 20.04%	
Prop 218 Notice versus Proposed Rates The following table illustrates the rate impact for a residential customer with an average consumption of 24 units, with a meter size of 5/8" or 3/4".														
Pump Zone 1 Pump Zone 2 Pump Zone 3	\$ \$ \$	Prop 218 81.62 83.53 87.61	\$ \$	Proposed 71.11 75.43 79.27	\$	Proposed 73.27 77.59 81.43	\$	<u>Proposed</u> 74.65 78.97 82.81	\$ \$	78.13 82.45 86.29	\$	Proposed 78.97 83.29 87.13	\$	Proposed 81.62 86.66 90.98
Impact on Budget		Budget FY 12-13		Projected		Projected		Projected	Pro	ojected		Projected		Projected
Commodity Charge Base Charges Commodity Charge - Recycled Base Charges - Recycled Pump Zone Fire Service Other	\$	18,865,524.00 6,011,882.00 1,177,226.00 175,701.00 962,200.00 152,000.00 2,852,822.00		19,327,805.00 6,011,882.00 1,177,226.00 175,701.00 965,930.00 156,315.00 2,852,822.00	\$	19,636,374.00 6,070,028.00 1,177,226.00 179,870.00 965,930.00 156,315.00 2,852,822.00	\$			20,163,811.00 6,070,028.00 1,177,226.00 179,870.00 965,930.00 156,315.00 2,852,822.00	\$	20,287,112.00 6,070,028.00 1,177,226.00 179,870.00 965,930.00 156,315.00 2,852,822.00	\$	20,665,066.00 6,298,349.00 1,177,226.00 181,985.00 1,030,070.00 164,585.00 2,852,822.00
Total Revenues Expenses Income from Operations Unspent Expenditures		30,197,355.00 (28,987,552.00) 1,209,803.00 1,000,000.00		30,667,681.00 (28,987,552.00) 1,680,129.00 1,000,000.00	_	31,038,565.00 (28,987,552.00) 2,051,013.00 1,000,000.00		31,182,785.00 (28,987,552.00) 2,195,233.00 1,000,000.00		31,566,002.00 28,987,552.00) 2,578,450.00 1,000,000.00		31,689,303.00 (28,987,552.00) 2,701,751.00 1,000,000.00		32,370,103.00 (28,987,552.00) 3,382,551.00 1,000,000.00
Debt Service Reserve Funding	\$	2,209,803.00	\$	2,680,129.00	\$	(900,000.00) 2,151,013.00	_	(1,200,000.00) 1,995,233.00	\$	(900,000.00) 2,678,450.00		(1,200,000.00) 2,501,751.00	\$	(1,200,000.00) 3,182,551.00
Reserve Goal	\$	3,525,000.00	\$	3,525,000.00	\$	3,525,000.00	\$	3,525,000.00	\$	3,525,000.00	\$	3,525,000.00	\$	3,525,000.00

# WVWD - Staff Report



TO: Board of Directors FROM: General Manager October 25, 2012

**SUBJECT:** Process to Develop New Rate Structure

 ✓ Action/Discussion
 ✓ Fiscal Impact
 ☐ Resolution
 ☐ Information Only

## **Recommendation**

That the Board discuss and provide direction to staff.

#### **Background Information**

At the September 18<sup>th</sup> Water Rate Workshop, staff indicated that an RFP was going to be developed to hire a consultant to develop the District's new rate model. Over the past several weeks, while developing the scope of work for the RFP, staff had discussions with several consultants.

Based on those discussions, staff is recommending that the rate structure/model development process be split into two phases to allow for a methodical process. As proposed, and shown on the attached schematic, Phase 1 would consist of the development and adoption of rate policy principle's and evaluation of how various rate structures would achieve the goals of the District's rate policy. This phase would conclude with the selection of a rate structure/methodology.

Based on the results of Phase 1, Phase 2 would consist of the development of the actual rate model to be used to calculate rates for the subsequent five-year period. As part of the rate model refinement process, staff would also recommend that public workshops be held.

Following Phase 2, it is anticipated that we would then begin the Proposition 218 process.

Phase 1 is estimated to cost \$20,000 to \$25,000 and is within the General Manager's authority for contract award.

Attachment:

Rate Structure/Model Development Schematic

## **WALNUT VALLEY WATER DISTRICT**

**Water Rate Timeline** 

