

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

SPECIAL BOARD MEETING
THURSDAY, JULY 3, 2014 – 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. Hilden_____ Ms. Kwong_____ Dr. Wu_____
3. Public Comment_____Mrs. Carrera
The Presiding Officer may impose reasonable limitations on public comments to assure an orderly and timely meeting.
 - A. **Agenda Items** - Any person desiring to address the Board of Directors on any Agenda item may do so at the time the item is considered on the Agenda by requesting the privilege of doing so at this time and stating the Agenda item to be addressed. At the time the item is discussed, those requesting to speak will be called to do so.
 - B. **Non-Agenda Items** - At this time the public shall have an opportunity to comment on any non-agenda item relevant to the jurisdiction of the District. Reasonable time limits on each topic and on each speaker are imposed in accordance with Board policy.
4. Proposed Rates
 - A. Review of Proposed Five-Year Water Rates
 - a. Discussion
 - b. Action Taken
 - B. Review of Water Rate Setting Process and Proposed Outreach Timeline
 - a. Discussion
 - b. Action Taken

Adjournment

WVWD – Staff Report



TO: Board of Directors
FROM: General Manager
SUBMITTED BY: Director of Finance
DATE: July 3, 2014
SUBJECT: Proposed Rates

Action/Discussion Fiscal Impact Resolution Information Only

Recommendation

That the Board of Directors provide direction to staff to:

- A. Finalize the rate study and model base on the various rates presented below; and
- B. Commence the development of the Proposition 218 notice to include the rates shown below.

Background

The Walnut Valley Water District retained the consulting firm of Raftelis Financial Consultants to review and assist in updating its water rate methodology and structure. The District's last rate study was completed and approved in 2010. The current rate study was conducted in close coordination with District staff and the District's Board over the past twelve months. Based on input from staff and direction received from the Board, detailed below are major components of the rate study along with proposed rates covering a five-year period beginning with FY 2014-15 (effective January 1, 2015).

Rate Study

The rate study was segregated into two distinct components reflected in two phases: Phase I included the development of Rate Setting Principles which serve as the foundation for selecting an appropriate rate structure. Phase II involved conducting a comprehensive rate study to develop rates based on the structure identified in Phase I.

Phase I – Over the course of several months, the Board was asked to rank various rate-setting objectives from “Least Important” to “Most Important.” The purpose of this ranking was to determine the priorities of the Board and to ensure that the rate model implemented or created best addressed these priorities. Based on the Board's rankings, the two pricing objectives identified as “most important” were (1) Enhance revenue stability, and; (2) Affordability for essential use. There were five pricing objectives determined to be “very important:” (1) Consistent with drought action plan; (2) Fair to the public; (3) Mitigate customer impact; (4) Rate stability, and; (5) Customer understanding.

The pricing objectives were incorporated into a formal “Policy Objectives for Guiding Rate Design,” which was adopted by the Board in January 2014. Based on the policy objectives the pros and cons of various rate structures were discussed in detail with the Board. After much discussion it was determined that the District's current rate structure (first adopted in 2010) still met the policy objectives approved by the Board. As such, the Board directed staff to develop rates based on the current rate structure.

Phase II – Based on the fundamental rate structure design selected, Phase II included the preparation of a comprehensive rate study, including the projection of rates covering a five-year period.

Rate Methodology

Revenue Requirement – Revenues generated from rates is defined as the revenues required to recover costs associated with operating the water utility, less recurring non-rate revenue such as interest earnings. Such costs include all operating and maintenance expenses, purchased water and related fixed charges, debt service, reserve funding, and cash-financed capital projects. The proposed rates have been designed to recover the total revenue shown below for each fiscal year. The revenue requirement is allocated in proportion to the cost of providing service to each customer class. The total revenue requirement, or revenues generated from rates, is recovered from the base (or meter) charges, commodity rates, fire service charges, and pump zone surcharges. The average annual increase in the revenue requirement (2014-2019) is approximately 4.18% per year. This increase is attributable to internal costs increases related to the operation of the utility system as well as pass-through costs attributable to purchased water and related fixed-charges.

TABLE 1					
PROJECTED REVENUE REQUIREMENT					
	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>
Revenue Requirement	\$31,419,913	\$33,026,994	\$34,500,652	\$36,053,648	\$37,557,430
Increase	\$771,572	\$1,607,081	\$1,473,658	\$1,552,996	\$1,503,782
Percentage Increase	2.70%	5.11%	4.46%	4.50%	4.17%

Rates

Commodity Rates – The District has three main user classes: (1) Residential; (2) Multi-family, and; (3) Commercial/Industrial/Government/Irrigation. During the rate study process, staff evaluated the current user group classifications to ensure that all users were appropriately designated. Based on our review, it was determined that the multi-family user class included several types of users that should be reclassified. The following multi-family users have been reclassified:

- Multi-Family with Separate Irrigation – The majority of irrigation users are classified in the Commercial/Industrial/Government/Irrigation user class. To be consistent and equitable, it is proposed that multi-family irrigation accounts be changed to the commercial/industrial/government/irrigation user class. Based on our review, 91 multi-family irrigation accounts were reclassified as commercial/Industrial/government/irrigation.
- Multi-Family with Common Areas – In addition, it is proposed that multi-family accounts for common areas such as laundry room, pools, and guard shacks also be reclassified as commercial/industrial/government/irrigation users. Based on our review, 21 accounts were reclassified.
- Multi-Family with Separate Meters – Some of the multi-family accounts for condominiums, mobile home parks, etc. have separate meters for the individual units. Because they are separately metered, it is proposed that these units be classified as residential users. Based on our review, 842 accounts were reclassified.

- Residential Customers – The District will maintain a tiered-rate structure (inclining block structure) for the residential user class. Three tiers have been established with consumption blocks for Tier I: 0-12 Units, Tier II: 13-39 Units, and Tier III: 40+ units. The total number of accounts for the residential user class is 25,348, which represents about 95% of all potable water accounts. The residential users account for approximately 75% of consumption.
- Multi-Family – The remaining accounts, after the reclassifications discussed above, are “master metered” accounts that do not have separate irrigation or are not individually metered. The total number of accounts within this user class is 155, which represents approximately .5% of all potable water accounts. The multi-family user class accounts for about 9.5% of consumption.
- Non-Residential (Commercial/Industrial/Government/Irrigation) - This user class will continue to be charged a uniform rate. The District has 1,087 non-residential users, which represents about 4% of potable users. Non-residential users account for 16% of consumption.

Based upon the rate model the following table contains the projected commodity rates for a five-year period beginning in FY 2014-15.

It is important to remember the proposed rates for years subsequent to FY 2014-15 are projections only based on estimated costs. **[Any rate increases must be approved by the Board and will be based on the projected costs at that time.]**

TABLE 2						
PROPOSED COMMODITY RATES						
User Class	Current	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Residential						
Tier I	\$2.46	\$2.69	\$2.85	\$2.97	\$3.16	\$3.27
Tier II	\$3.08	\$3.08	\$3.25	\$3.39	\$3.58	\$3.69
Tier III	\$3.08	\$3.08	\$3.25	\$3.39	\$3.58	\$3.69
Multi-Family	\$2.77	\$2.89	\$3.06	\$3.19	\$3.38	\$3.49
C/I/G	\$2.81	\$2.95	\$3.12	\$3.25	\$3.44	\$3.55

Base (or Meter) Charge - Commodity Rates – The base charge is a fixed-charge independent of water use. The monthly base charge varies in cost based on meter size. The monthly base rate charges are the same for all user classes. Based upon the rate model the following table contains the projected base rates for a five-year period beginning in FY 2014-15.

TABLE 3						
PROPOSED BASE RATE (METER) CHARGES						
Meter Size	Current	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
5/8-inch or 3/4-inch	\$17.08	\$18.29	\$18.87	\$19.43	\$20.00	\$20.54
1-inch	\$21.60	\$23.04	\$23.77	\$24.47	\$25.20	\$25.88
1 ½-inch	\$46.18	\$54.43	\$56.17	\$57.82	\$59.53	\$61.14
2-inch	\$70.73	\$71.07	\$73.34	\$75.51	\$77.73	\$79.84
3-inch	\$128.92	\$145.53	\$150.17	\$154.60	\$159.17	\$163.48
4-inch	\$211.86	\$229.30	\$236.63	\$243.61	\$250.80	\$257.59
6-inch	\$414.54	\$435.87	\$449.79	\$463.07	\$476.74	\$489.65
8-inch	\$658.34	\$671.11	\$692.54	\$712.98	\$734.02	\$753.90

Pump Zone Surcharges – The pump zone surcharge was adopted (in 2010) to recover costs associated with pumping water to higher elevation zones. Under the cost causation principles, pumping water to customers in higher elevations benefits only those customers, as such only those customers should be charged for pumping and pumping maintenance costs. The pumping surcharges are applied to all customer classes. Based upon the rate model the following table contains the projected pump zone charges for a five-year period beginning in FY 2014-15.

TABLE 4						
PUMP ZONE CHARGES						
<u>Zone</u>	<u>Current</u>	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>
Zone 1 (Gravity)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Zone 2	\$0.19	\$0.19	\$0.19	\$0.20	\$0.21	\$0.22
Zone 3	\$0.35	\$0.36	\$0.37	\$0.39	\$0.40	\$0.42

Fire Protection Charges – The fire protection charges reflect the cost associated with maintaining the private fire protection connections and hydrants. Based upon the rate model, the following table contains the projected fire protection charges for a five-year period beginning in FY 2014-15.

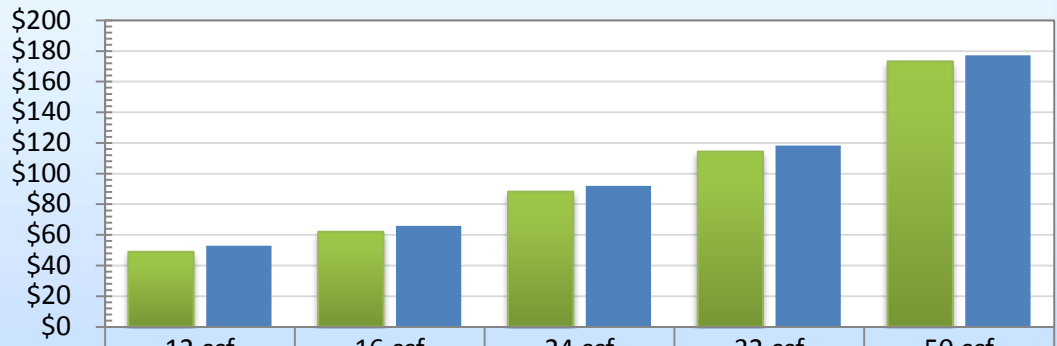
TABLE 5						
PRIVATE FIRE PROTECTION CHARGES						
<u>Fire Service</u>	<u>Current</u>	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>
1-inch	\$16.76	\$17.11	\$17.65	\$18.17	\$18.71	\$19.22
1 1/2 – inch	\$17.18	\$17.53	\$18.09	\$18.63	\$19.18	\$19.70
2-inch	\$17.59	\$17.95	\$18.53	\$19.07	\$19.64	\$20.17
4-inch	\$20.44	\$20.86	\$21.53	\$22.16	\$22.82	\$23.44
6-inch	\$23.38	\$23.86	\$24.62	\$25.35	\$26.10	\$26.81
8-inch	\$27.06	\$27.62	\$28.50	\$29.34	\$30.21	\$31.03
10-inch	\$30.73	\$31.36	\$32.37	\$33.32	\$34.30	\$35.23
Private Hydrant	\$23.38	\$23.86	\$24.62	\$25.35	\$26.10	\$26.81

Impact of Proposed Rate Increases

Residential – The charts below reflect the projected rate impact for residential customers, with water usage ranging from 12 ccf to 50 ccf. In the first year, the average residential customer using 24 ccf, with a 5/8-inch or 3/4-inch meter located in Pump Zone 2 will see an increase in their bill of just \$3.97, a 4.5% increase. Overall, 99% of the residential customers will see an increase in their water bill of \$5.00 or less.

Rate Impact Analysis

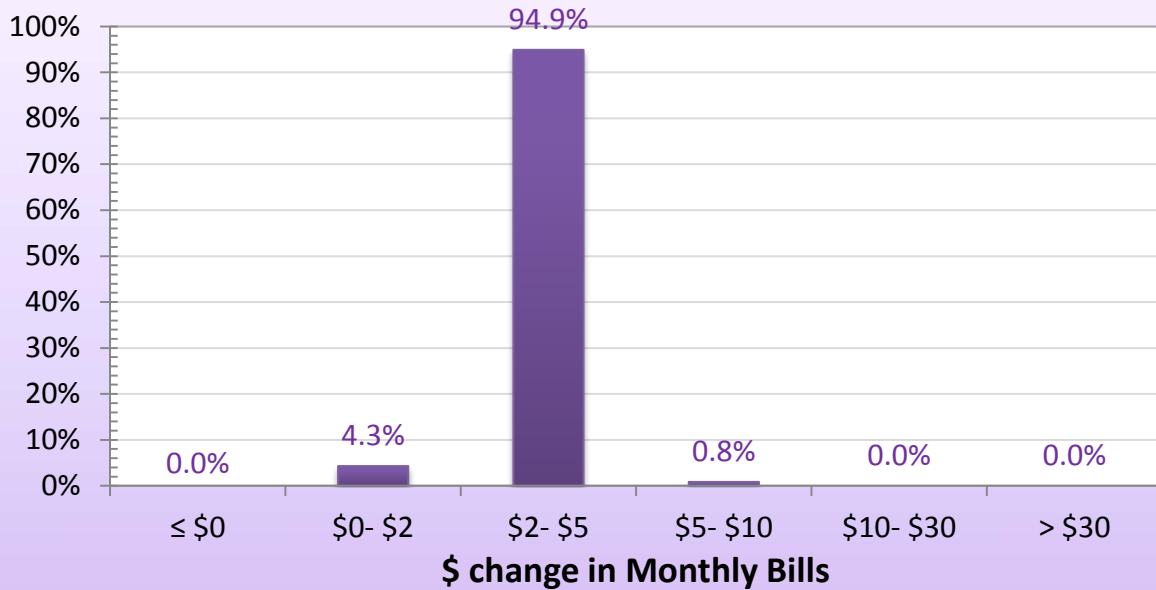
<= 3/4" Meter

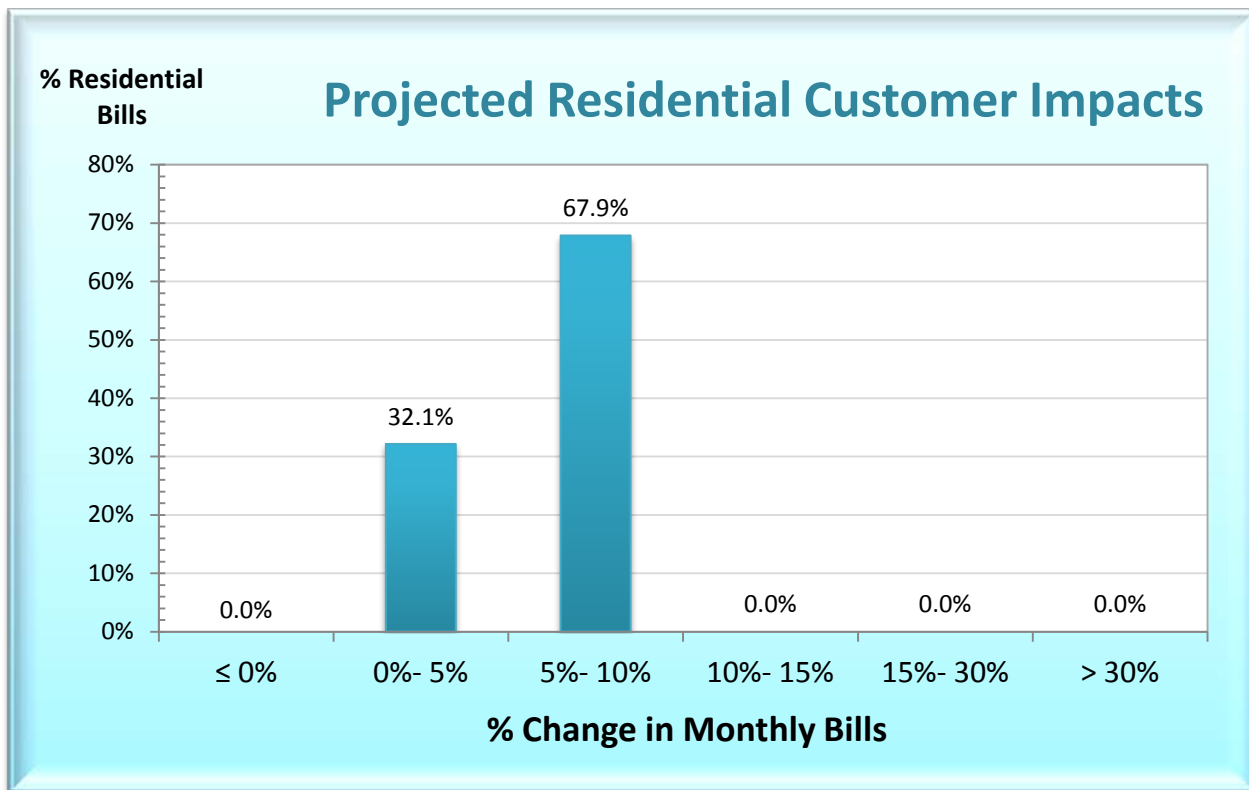


■ Current Bills	\$48.88	\$61.96	\$88.12	\$114.28	\$173.14
■ Proposed Bills	\$52.85	\$65.93	\$92.09	\$118.25	\$177.11
Impacts	\$3.97	\$3.97	\$3.97	\$3.97	\$3.97
% Impact	8.1%	6.4%	4.5%	3.5%	2.3%

% Residential Bills

Projected Residential Customer Impacts

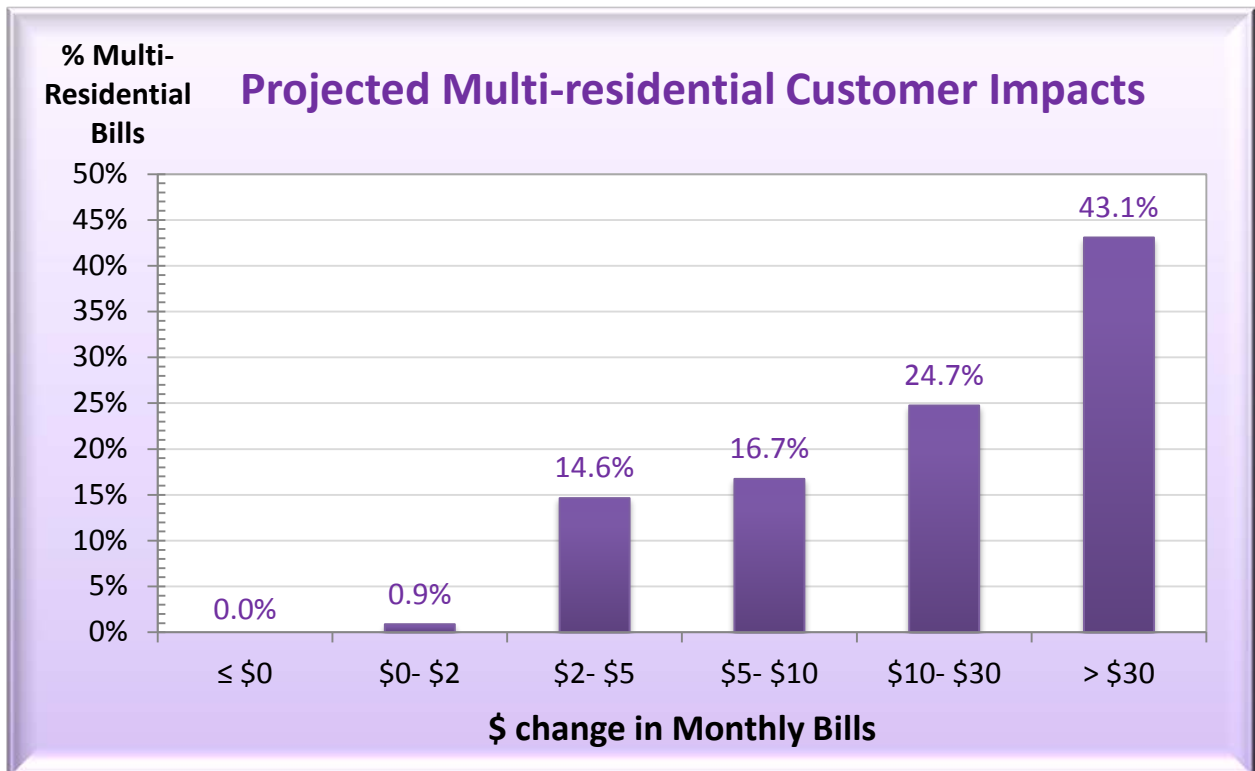
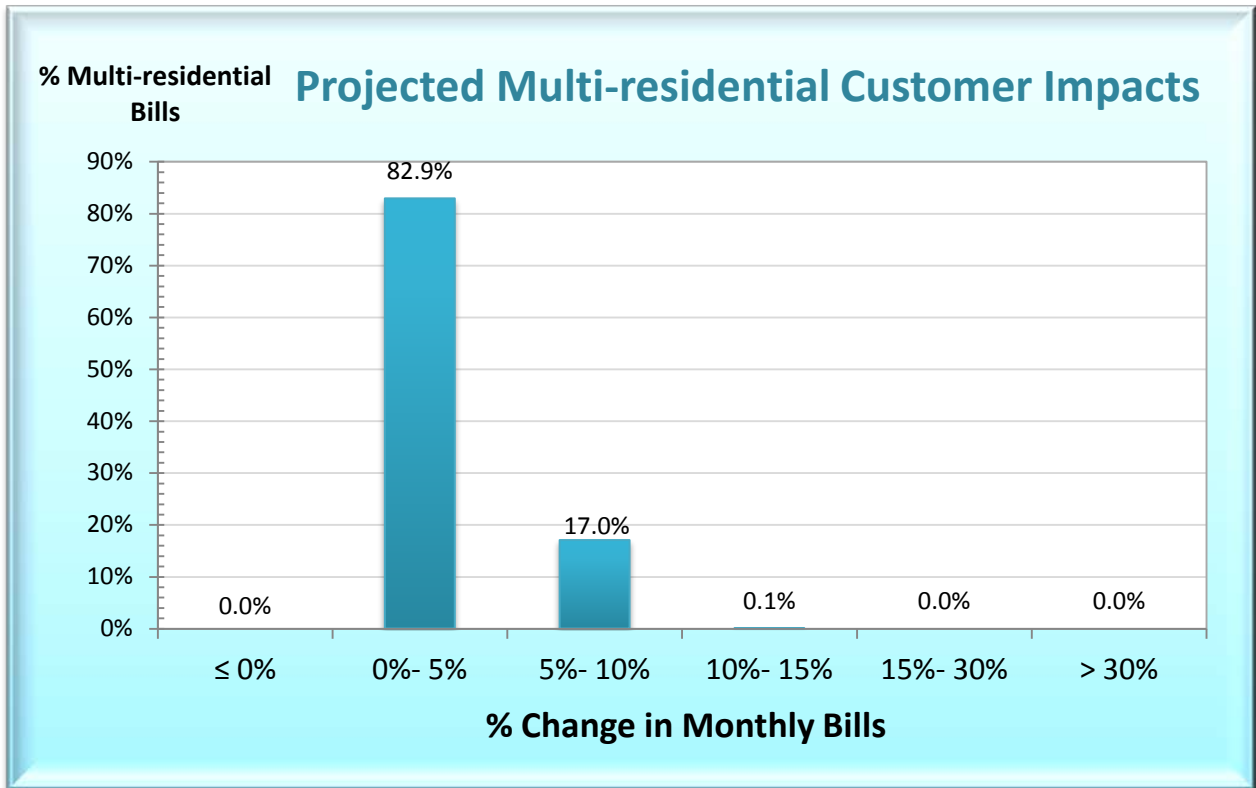




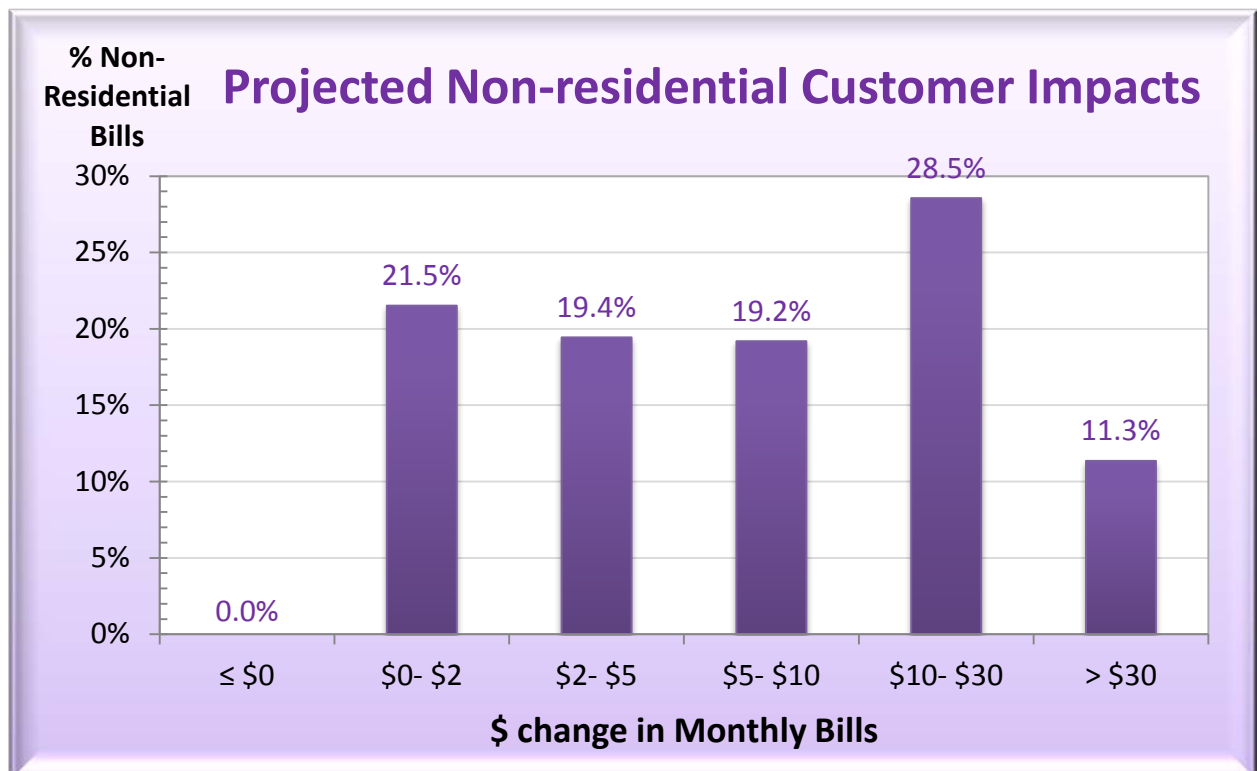
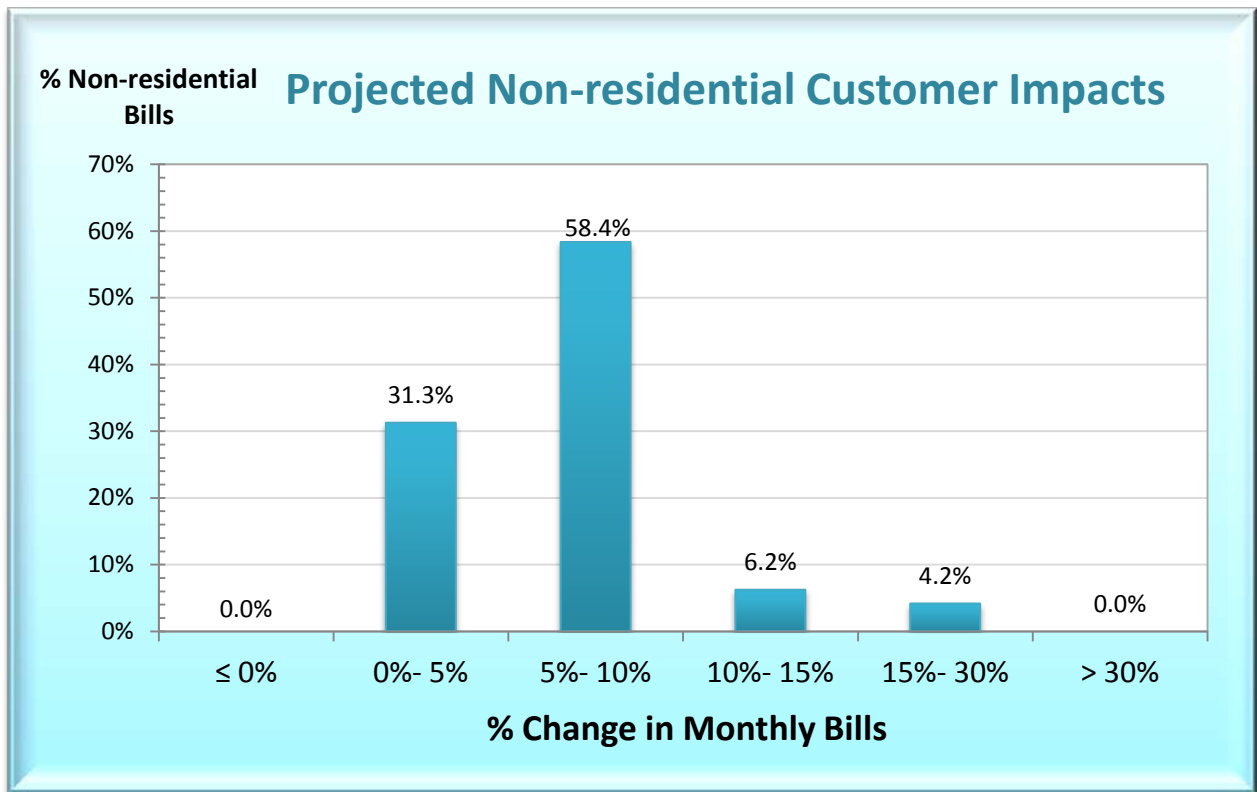
Based on the projected rates, covering the next five years, the table below reflects the increase for the average residential customer located in pump zone 2 with a 5/8 or 3/4-inch meter using 24 ccf of water.

TABLE 6					
PROJECTED RATE IMPACT – AVERAGE RESIDENTIAL CUSTOMER (2015-2019)					
<u>Rates</u>	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>
Current Charges	\$88.12	\$92.09	\$96.63	\$100.55	\$105.92
Proposed Charges	\$92.09	\$96.63	\$100.55	\$105.92	\$109.34
Increase	\$3.97	\$4.54	\$3.92	\$5.37	\$3.42
Percentage Increase	4.5%	4.9%	4.1%	5.3%	3.2%

Multi-Family – The chart below details the rate impact for multi-family customers. In the first year, 82.9% of multi-family users will see an increase in their bill of 5% or less with 99.9% experiencing an increase of 10% or less.



Non-Residential (Commercial/Industrial/Government/Irrigation) – The chart below details the rate impact for non-residential customers. In the first year, 31.3% of non-residential users will see an increase in their bill of 5% or less with 89.7% experiencing an increase of 10% or less.



Fixed Versus Variable Revenues

There has been much discussion regarding the proper proportion of “fixed” versus “variable” revenues. Although the percentages vary slightly year to year, the total projected revenues collected from fixed sources for the five-year period beginning with FY 2014-15 is 24.7%.¹

<u>Revenue</u>	<u>Fixed</u>	<u>Variable</u>	<u>Total</u>
Base (Meter) Charges	\$36,207,184		\$36,207,184
Commodity Charges		\$131,375,449	\$131,375,449
Pump Zone Charges		\$5,469,060	\$5,469,060
Fire Service Charges	\$890,964		\$890,964
Property Taxes	\$4,018,552		\$4,018,552
Standby Charges	\$4,125,000		\$4,125,000
Other Fees (Late fees, etc.)	-	\$1,238,353	\$1,238,353
Total	<u>\$45,241,700</u>	<u>\$138,082,862</u>	<u>\$183,324,562</u>
Percentage	24.7%	75.3%	100%

Recycled Rates

Similar to rates for the potable system, the recycled rates have been calculated based on the revenue requirement. The revenues generated from the recycled rates are intended to recover costs solely associated with operating the recycled system. Such costs include operating and maintenance expenses, purchased water and related fixed charges, and appropriate reserve funding. The proposed recycled rates are shown in the table below.

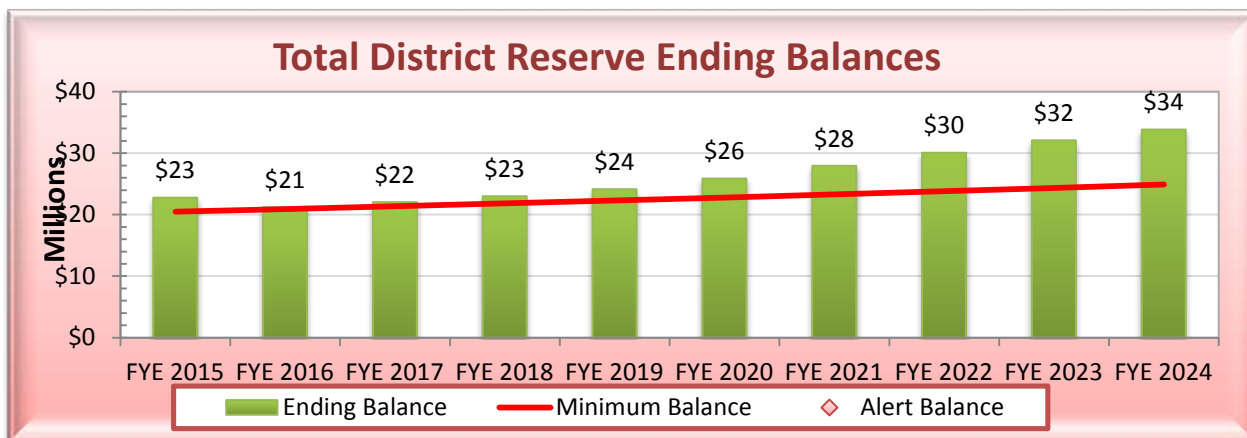
<u>Rate</u>	<u>Current</u>	<u>FY 14-15</u>	<u>FY 15-16</u>	<u>FY 16-17</u>	<u>FY 17-18</u>	<u>FY 18-19</u>
Commodity	\$1.49	\$1.56	\$1.63	\$1.71	\$1.79	\$1.88
<u>Base Rate</u>						
¾-inch	\$17.08	\$18.29	\$18.87	\$19.43	\$20.00	\$20.54
1-inch	\$21.60	\$23.04	\$23.77	\$24.47	\$25.20	\$25.88
1 ½-inch	\$46.18	\$54.43	\$56.17	\$57.82	\$59.53	\$61.14
2-inch	\$70.73	\$71.07	\$73.34	\$75.51	\$77.73	\$79.84
3-inch	\$128.92	\$145.53	\$150.17	\$154.60	\$159.17	\$163.48
4-inch	\$211.86	\$229.30	\$236.63	\$243.61	\$250.80	\$257.59
6-inch	\$414.54	\$435.87	\$449.79	\$463.07	\$476.74	\$489.65
8-inch	\$658.34	\$671.11	\$692.54	\$712.98	\$734.02	\$753.90

District Reserves

The Board of Directors, as outlined in the approved reserve policy, has established certain reserves to allow the District to fund expenses and capital expenditures in a manner that is consistent with its annual operating budget and capital improvement budget and to ensure the District has sufficient funds to meet current and future needs. In calculating the District’s rates, the target reserve levels as outlined in the policy have been included.

¹ Board action to implement a 24% fixed revenue level into the District’s comprehensive rate study was taken at the May 22, 2014 Board workshop.

As shown in the chart below, based on the projected rates and resulting net revenues, the established reserve levels will be met.

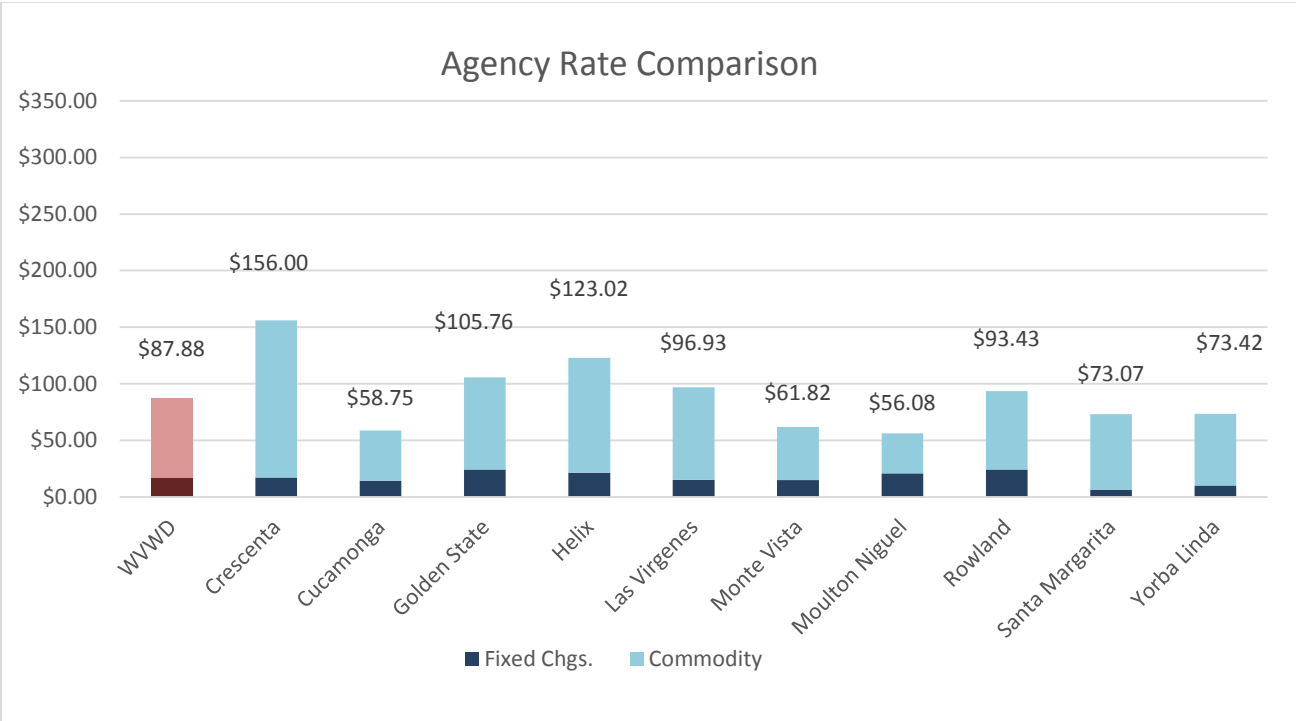


Rate Comparison

The table below shows a comparison of the residential rates among either surrounding and/or comparable agencies. Agencies such as Helix Water District, though not geographically close to the District, are provided for comparison because they purchase the majority of their water from MWD. The figures show the total bill assuming 24 ccf of consumption and a 5/8-inch or 3/4-inch meter.

Agency	Population	Connections	Water Supply	
			Local	Import/MWD
Crescenta Valley WD	32,000	8,000	67%	33%
Cucamonga Valley WD	190,000	45,000	60%	40%
Golden State Water	na	na	na	na
Helix WD	267,922	55,701	16%	84%
Las Virgenes Municipal WD	70,000	19,565	0%	100%
Monte Vista WD ²	54,368	12,160	73%	27%
Moulton Niguel WD ²	165,000	54,174	0%	100%
Rowland WD	58,000	13,500	0%	100%
Santa Margarita WD	155,000	58,624	0%	100%
Yorba Linda WD	70,000	24,535	50%	50%
Walnut Valley WD	110,000	26,590	0%	100%

² Water budget rates based on lot size of 7,569 sq. feet, living area of 1,280 sq. feet, and irrigation area of 5,031 sq. feet



Drought Rates

Due to current hydraulic conditions and in anticipation of potential continued dry conditions, staff is continuing to develop drought rates based on the District’s water supply shortage stages that will be incorporated in to the Proposition 218 notice.