

This brief is provided to inform the board, staff, and public of the details of an agenda item that requires action from the board. The President of the Board will provide board members, staff, and the public the opportunity to ask questions about this topic when this agenda item is announced.

Date: 18 March 2022

Originator: General Manager

Purpose of Brief: Informational Briefing – Rate Study Review and Approval

Supporting Documents Included:

Att. 1 – Comparison of Alternatives for Unconnected and Connected Lots

Att. C – Impact of Alternatives on Non-Residential (Commercial) Parcels

- 1. Description:** Hansford Consulting provided several alternatives in response to the Board's concerns at the 25 February Special Meeting. These alternative include reducing the unconnected lot service charge from one (1) EDU to .5 or .75 EDUs. As the unconnected lots represent approximately 75% of our customer base, any reduction to their rates results in a significant corresponding increase to connected rates for both residential and commercial lots.

There is no easy answer. The total dollars required are detailed in the study, based on Catherine's in-depth analysis. The study originally spread costs across all customers in a way that is considered as equitable as possible based on industry best practices and current California rate law. The alternatives Catherine has run remain legal and within the range of allowable best practice, nevertheless, any reduction to one customer group will result in increased costs to the other groups.

- 2. Reason for Recommended Board Action - (Consider compliance, cost savings, fixing a problem):** As previously presented, the District is on a relatively tight schedule to follow the Proposition 218 Process to institute the new rate structure on July 1st. To move forward, Catherine is asking the Board to take the following actions:

- Direct the draft report be made final
- Set a public hearing date
- Direct staff and consultants to send public hearing notices to customers informing them of the public hearing and their rights
- Appoint the General Manager and one (or two) Board members to approve the content and design of the Proposition 218 notice.

- 3. Anticipated Impacts to the District (negative and/or positive) - (Consider financial impact, change in procedures, customer and staff communication, and effect if recommendations are not adopted):**

The District has not conducted a rate study in 15 years and has not increased water and sewer rates in over 10 years. The District is now at the point where increasing the rates is a critical requirement. The District contracted with Hansford Consulting to review every aspect of District financial health including operations, capital improvements, depreciation,

and debt financing. Hansford's objectives were to ensure rates meet the myriad legal requirements for water and sewer rates, to develop rates that are equitable to all rate players (everyone pays their fair share), and to ensure rates are transparent so all rate payers understand exactly what they are paying for.

Passing the new rate structure will require fundamental changes to the way the District charges for services. The changes will require a period of transition to implement the new rate structures.

Failure to implement new rates will result in some level of cuts in the way we conduct future business and minimize capital improvements to those required to keep the current systems in operation.

4. **Anticipated Impacts to the Customer – Standby, Residential, Commercial:**

Higher rates are never desired but are necessary, not only to maintain the standard of services we are able to deliver today, but to develop the capacity to serve the growing community. Based on our Master Plan (updated every five years), and increased operating cost related to increasing cost of living and aging infrastructure, we are approaching a point where we will have difficulty serving more customers with existing capacity. Inability to invest in increases in water and sewer capacity will undoubtedly have an impact on property values.

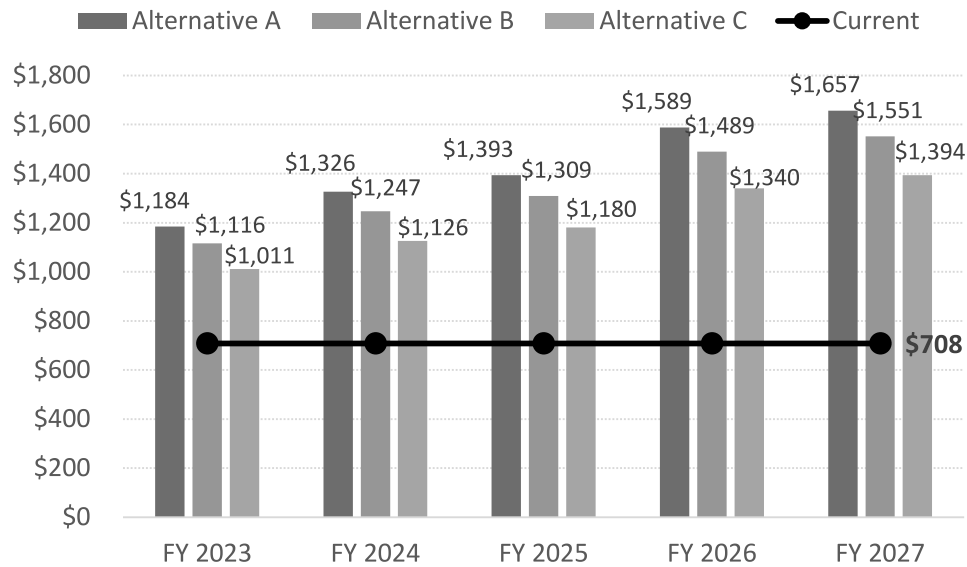
5. **Recommendation (s):** Staff recommends that the Board thoroughly review the study to determine if District customers can support the rate increases recommended in the study. If able to pass this new rate structure, not only will the District's financial health be assured, but the District will also be able to invest in the water and sewer capacity needed to assure services for buildout and to maintain property values in the District.

UNCONNECTED LOTS AND RESIDENTIAL LOTS PROJECTED IMPACTS UNDER ALTERNATIVE UNCONNECTED LOT EDU WEIGHTING

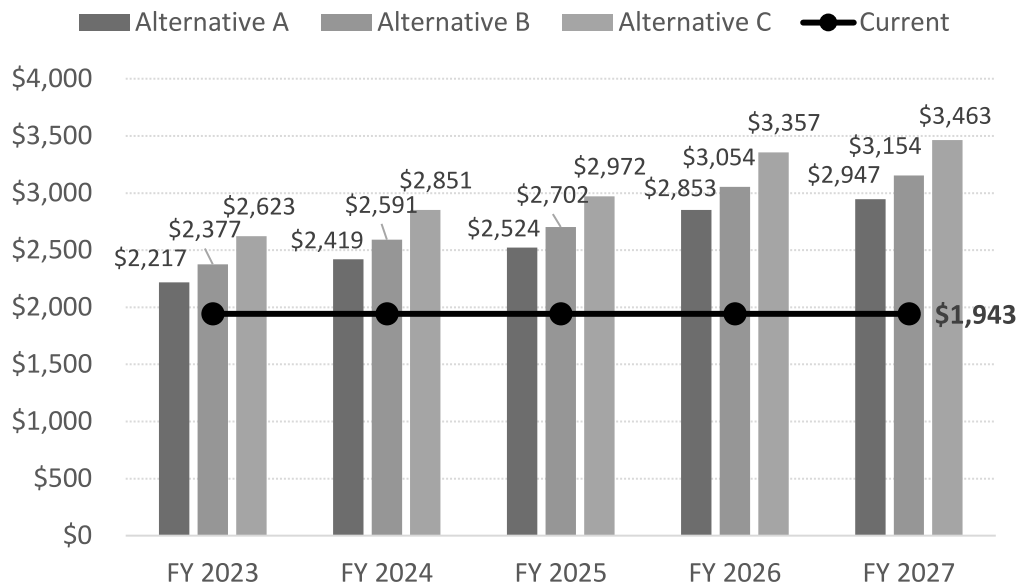
ALTERNATIVE A – EDU WEIGHTING 100%; ALTERNATIVE B – EDU WEIGHTING 75%

ALTERNATIVE C – EDU WEIGHTING 50%

UNCONNECTED LOTS



RESIDENTIAL LOTS USING 72,000 GALLONS



CHANGES TO CONNECTED AND UNDEVELOPED LOTS BASED ON OPTION 1
(Reducing the undeveloped lot allocation to .5 EDU)

		Undeveloped Lots				Connected Lots			
		Annual			Qtly Inc.	Annual			Qtly Inc.
Original	Current	\$ 708	Chg	%		\$ 1,943			
	2023	\$ 1,184	\$ 476	67%	\$ 119	\$ 2,217	\$ 274	14%	\$ 69
	2024	\$ 1,328	\$ 144	12%	\$ 36	\$ 2,421	\$ 204	9%	\$ 51
	2025	\$ 1,394	\$ 66	5%	\$ 17	\$ 2,524	\$ 103	4%	\$ 26
	2026	\$ 1,590	\$ 196	14%	\$ 49	\$ 2,854	\$ 330	13%	\$ 83
	2027	\$ 1,656	\$ 66	4%	\$ 17	\$ 2,946	\$ 92	3%	\$ 23
		Annual			Qtly Inc.	Annual			Qtly Inc.
Option .75 EDU	Current	\$ 708				\$ 1,943			
	2023	\$ 1,116	\$ 408	58%	\$ 102	\$ 2,377	\$ 434	22%	\$ 109
	2024	\$ 1,247	\$ 131	12%	\$ 33	\$ 2,591	\$ 214	9%	\$ 54
	2025	\$ 1,309	\$ 62	5%	\$ 16	\$ 2,702	\$ 111	4%	\$ 28
	2026	\$ 1,489	\$ 180	14%	\$ 45	\$ 3,054	\$ 352	13%	\$ 88
	2027	\$ 1,551	\$ 62	4%	\$ 16	\$ 3,154	\$ 100	3%	\$ 25
		Annual			Qtly Inc.	Annual			Qtly Inc.
Option .5 EDU	Current	\$ 708				\$ 1,943			
	2023	\$ 1,011	\$ 303	43%	\$ 76	\$ 2,623	\$ 680	35%	\$ 170
	2024	\$ 1,126	\$ 115	11%	\$ 29	\$ 2,851	\$ 228	9%	\$ 57
	2025	\$ 1,180	\$ 54	5%	\$ 14	\$ 2,972	\$ 121	4%	\$ 30
	2026	\$ 1,340	\$ 160	14%	\$ 40	\$ 3,357	\$ 385	13%	\$ 96
	2027	\$ 1,394	\$ 54	4%	\$ 14	\$ 3,463	\$ 106	3%	\$ 27

NON-RESIDENTIAL PROJECTED IMPACTS UNDER ALTERNATIVE RATES

OPTION 1 – REFLECTS THE EDU WEIGHTING

OPTION 2 – SHIFTS YEARS 1 AND 2 COSTS INTO YEARS 4 AND 5

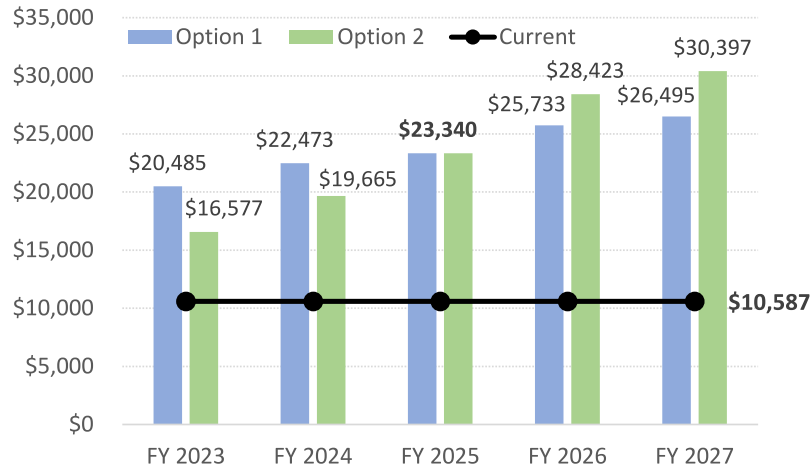
ALTERNATIVE A – UNCONNECTED EDU WEIGHTING 100%

ALTERNATIVE B – UNCONNECTED EDU WEIGHTING 75%

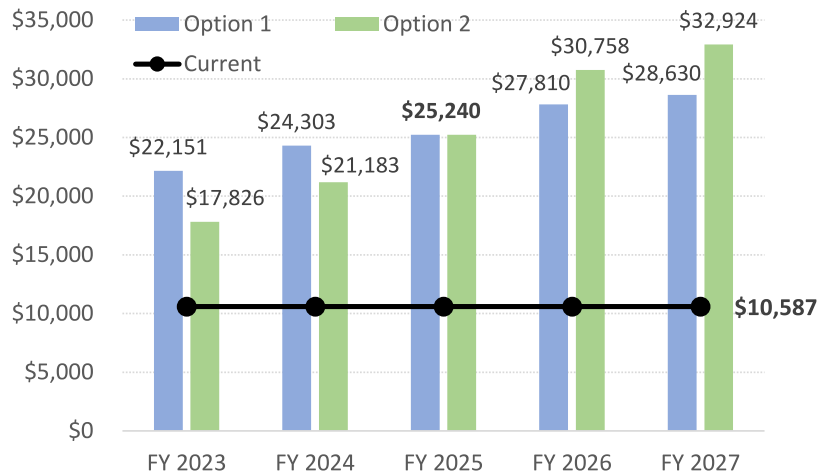
ALTERNATIVE C – UNCONNECTED EDU WEIGHTING 50%

INN AT NAKOMA

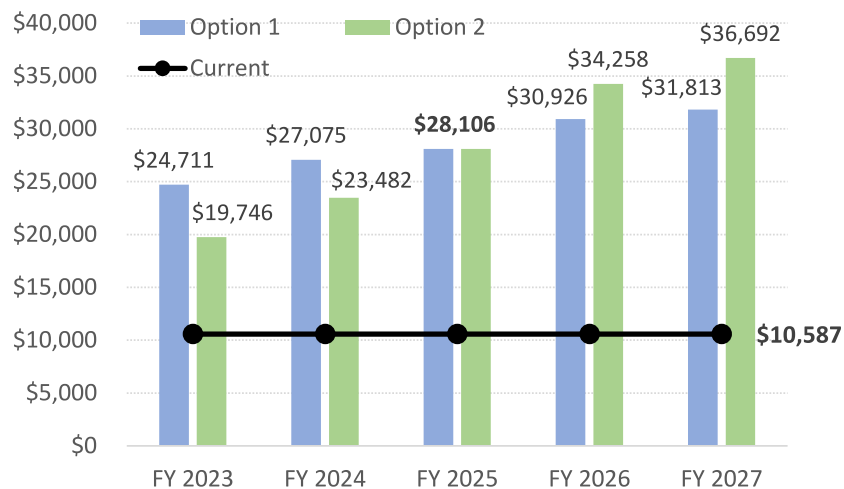
Alternative A (Unconnected Lot 100% of an EDU)



Alternative B (Unconnected Lot 75% of an EDU)

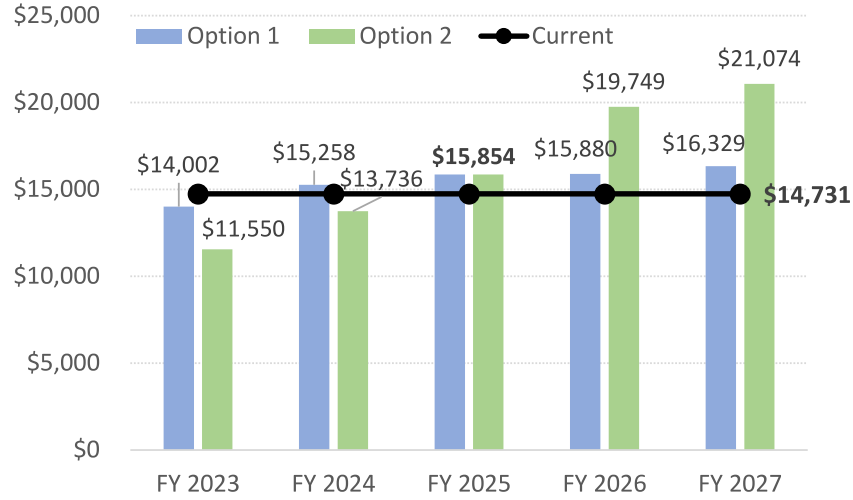


Alternative C (Unconnected Lot 50% of an EDU)

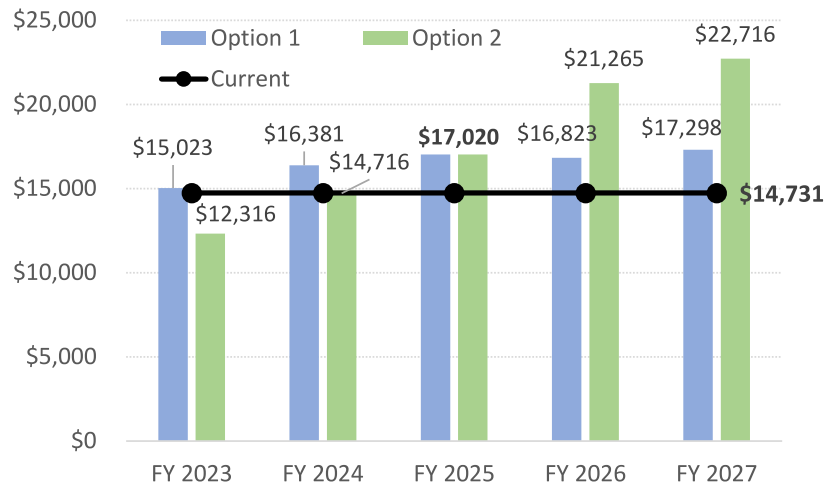


ALTITUDE

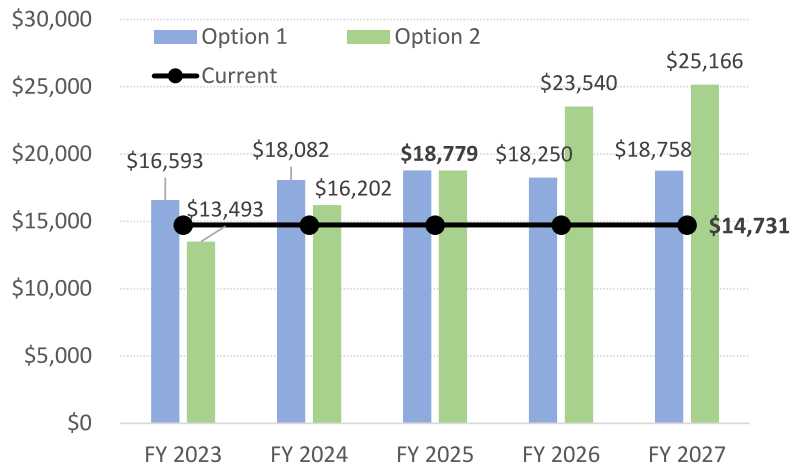
Alternative A (Unconnected Lot 100% of an EDU)

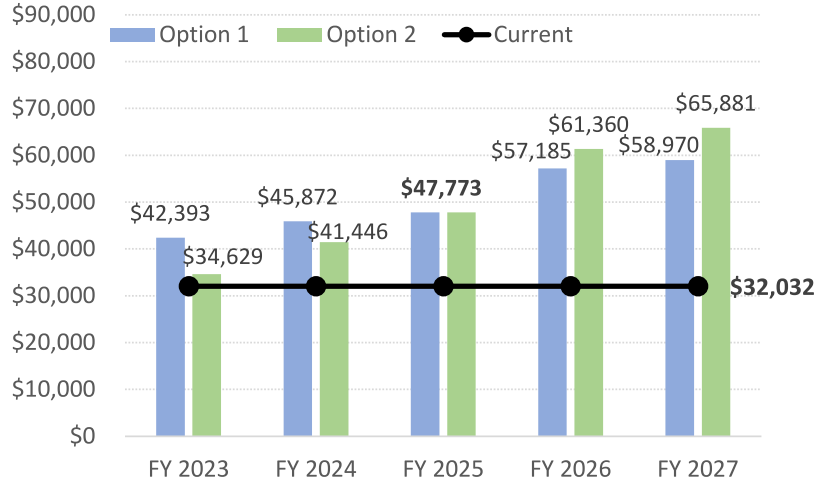
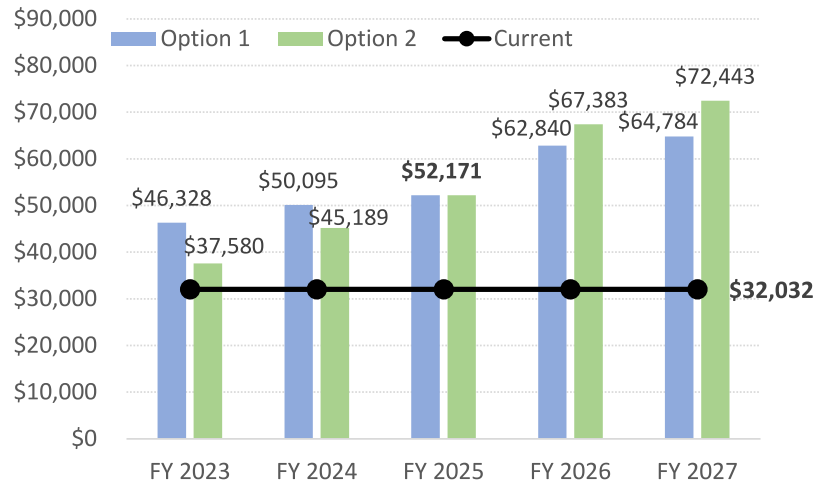


Alternative B (Unconnected Lot 75% of an EDU)



Alternative C (Unconnected Lot 50% of an EDU)



CLUBHOUSE/GOLF**Alternative A (Unconnected Lot 100% of an EDU)****Alternative B (Unconnected Lot 75% of an EDU)****Alternative C (Unconnected Lot 50% of an EDU)**