

Tahoe City Public Utility District Water System Acquisition Policy Workshop

February 18, 2010

Public Workshop

- Introductions
- Agenda and Format
- Public Input
- Board Deliberation
- Direction to Staff

Goals for the Workshop

- **Receive Direction from the Board on the following topics:**
 - 1) Continue or discontinue the consideration of acquisition of water systems

If direction is to continue, then further Board direction on:

- 2) policy guidance on funding for acquisition costs;
- 3) policy guidance on standards for acceptance of systems and funding of system improvement costs; and,
- 4) policy guidance on desired changes to the District's existing water system acquisition policy.

BACKGROUND

TCPUD's Water System Challenges

- TCPUD water system is geographically inefficient and costly to operate – 5 separate systems, 10 wells, and 11 tanks serving 3,900 customers
- Comprehensive rate study indicated a 200% revenue increase to fully fund replacement plus property tax needed for new facilities
- Board reduced revenue increases by half to fund 50% of replacement values, property tax to fund new capital

BACKGROUND

Small System Challenges

Owners and customers of other water systems are facing the same challenges with even fewer customers and fewer funding sources.

- Small systems (whether public, private or mutual) cannot afford to meet the regulatory and capital infrastructure demands:
 - Redundancy in water sources to ensure peak day demand
 - Fire flows require replacement of significant amounts of pipelines
 - Adequate storage for peak day and fire flows

BACKGROUND

- **Surge in requests from customers and owners:**

<u>System</u>	<u>Requested by</u>	<u>Reasons</u>
– Lake Forest	2/3 customers	regulatory
– Tahoe Park	2/3 customers	service/fire
– Timberland	owner	retirement
– Skyland-Nielsen	some customers	water quality
– Tahoma Meadows	some customers (mutual system)	regulatory

Why would TCPUD consider acquisitions of water systems?

REASONS

- 1) Historic precedence. It's how we began and what we've always done.
- 2) Fairness. It's how we've used tax dollars for many years.
- 3) More cost-effective operations. Allocation of fixed costs.
new customers = more revenue, without more overhead
- 4) More cost-effective infrastructure.
major new infrastructure can be shared by a larger customer-base
- 5) Overall general community benefit - fire suppression, property values, tax revenue, better public service

Why would TCPUD consider acquisitions of water systems?

1. Its what we've always done. Every customer we have today came from an acquisition. Formed in 1939 to deal with the community's water issues.

Acquired other systems and built projects to connect or improve the systems.

Variety of reasons:

- Growth and development potential

- Developers not wanting to operate systems

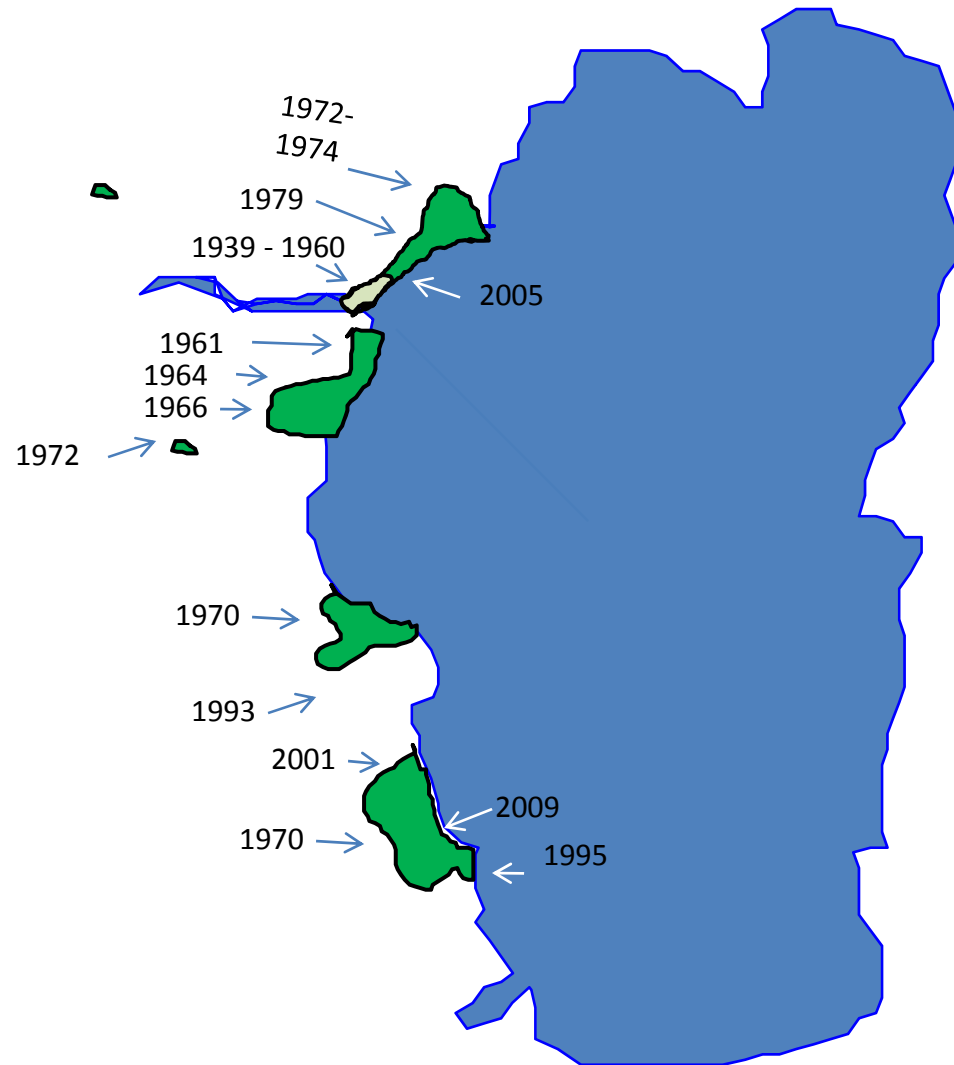
- Problems too large for customer base to address

- Economies of Scale

- Additional revenue – spreading of infrastructure and fixed costs over greater customer base

Evolution of TCPUD's Water Systems

<u>YEAR</u>	<u>SYSTEM/AREA</u>
1939	Tahoe City System
1961	Comstock Acres
1964	Cathedral Forest
1966	Tahoe Tavern Heights
1970	Rubicon, Rubicon Palisades, McKinney Shores
1972	Highlands, Alpine Peaks
1974	Dollar Point, Granlibakken, Lake Forest Glen, Villas
1979	Panorama
1985	Rubicon
1993	Quail Lake Water Company
1995	Tamarack Mutual
2001	Meeks Bay Vista Mutual
2005	Lake Terrace Water Company
2009	W. Lake Tahoe Water Company



Why would TCPUD consider acquisitions of water systems?

TCPUD public documents supporting consolidations:

- 1960 – Water System Study – indicating the District should plan for eventually serving 15,000 customers through the region
- 1968 – “Justification of TCPUD’s Program to Purchase, Integrate and Improve All Water Systems Within Its Boundaries”
- 1972 – TCPUD’s Master Water Plan – recommending “consolidation of all water systems for the good of all residents and visitors”
- 1981 – Analysis of “Non-District Water Purveyors within the TCPUD”

Why would TCPUD consider acquisitions of water systems?

Other public documents supporting consolidations:

- 1973 – EPA – “Rationale for the Regionalization of Public Water Systems
- 1994 – Domestic Water Systems Management and Organization in Placer County
- 1997 – National Academy of Science: “Safe Water From Every Tap – Improving Water Service to Small Communities”
- 2005 – California Public Utilities Commission – Water Action Plan
- 2007 – EPA - “Restructuring and Consolidation of Small Drinking Water Systems

Why would TCPUD consider acquisitions of water systems?

2. Fairness.

It is what TCPUD has done in the past when owners/operators or customers of water systems have needed assistance.

Why would TCPUD consider acquisitions of water systems?

3. Additional customer-base in a fixed overhead system produces new revenue.

TCPUD Variable costs = $\$233,780 / 3910 = \59.79 per customer

Customer Model

New revenue	\$ 730 *
Variable costs	- \$ 60
Incremental maintenance staffing	- <u>\$ 115</u>

Incremental annual benefit per customer = \$ 555 *

76% of new revenue can be applied to capital replacement and fixed costs

* Based on 2010 rates

Why would TCPUD consider acquisitions of water systems?

- Reduced duplication of facilities reduces costs to the taxpayers and customers

Within TCPUD boundaries (7,500 businesses and residences)

26 licensed systems –

9 public, others are private or mutual

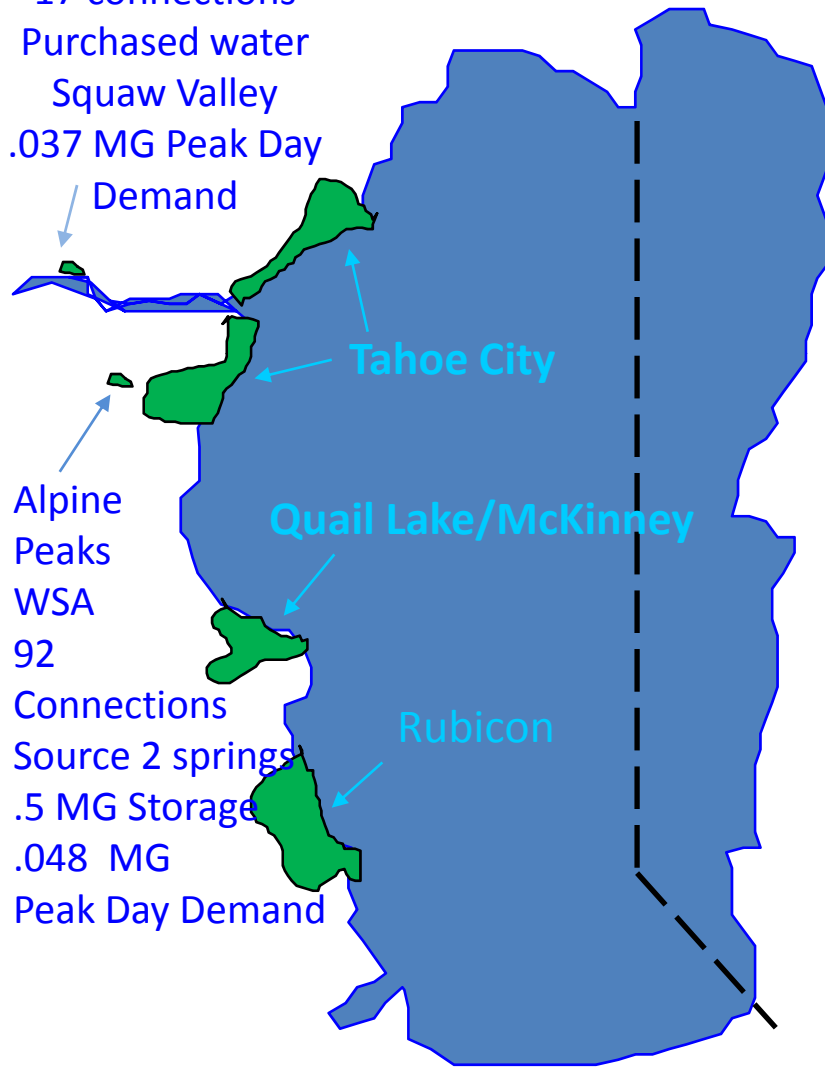
31 water storage tanks – 11 operated by TCPUD

30 groundwater wells – 10 operated by TCPUD

TCPUD Water Service Areas

Tahoe Truckee
Forest Tract
WSA
17 connections
Purchased water
Squaw Valley
.037 MG Peak Day
Demand

Alpine
Peaks
WSA
92
Connections
Source 2 springs
.5 MG Storage
.048 MG
Peak Day Demand



Tahoe City Water Service Area

2,600 connections
5 groundwater wells
3,000 GPM – 4.3 MGD
6 tanks - 3.7 MG Storage
3.4 MG Peak Day

McKinney-Quail Water Service Area

450 connections
1 groundwater source 500 GPM
1 surface water source (summer) 300 GPM
1.15 MGD
1 tank - .38 MG
.75 MG Peak Day Demand

Rubicon Water Service Area

570 connections
3 groundwater wells
1,040 GPM – 1.49 MGD
3 tanks - .56 MG Storage
.85 MG Peak Day Demand

Why would TCPUD consider acquisitions of water systems?

4. More cost effective - major capital expenditures spread over larger groups of customers.

Example of Capital Savings

PROJECT: Address Source Redundancy/Capacity Requirements of CDPH

TCPUD McKinney/Quail Water System Alone (450 Customer)

Construct 490 gpm (1-MDD) Water Treatment Plant (WTP) = \$2.0M

\$4,400/customer

Consolidated Mid-West Shore Facility (2,500 customer) – Tahoe Pine/Swiss, Madden Creek, TCPUD McKinney/Quail, Tahoma Meadows, & Tahoe Cedars

Conservative estimate:

Construct 2,800 gpm (4 peak hours) WTP = \$6.0M

\$2,400/customer

More realistically:

due to redundancy of supply within consolidated system

Construct 2,000 gpm WTP = \$4.3M

\$1,720/customer

Additionally – this project becomes much more eligible for grant funding in a region-wide setting.

Why would TCPUD consider acquisitions of water systems?

5. Problems within a marginal or failing water system affect the broader community.

Public health and safety - Washoe Fire

Property values and property tax revenues

Purpose of government – projects / programs for common good, health, safety and security

Why would TCPUD consider acquisitions of water systems?

SUMMARY :

- Historic precedence
- Fairness
- Increased operational cost-effectiveness
- More cost-effective infrastructure
- Overall community benefit

If the Board decides to continue the consideration of acquisitions, then consider policy direction on:

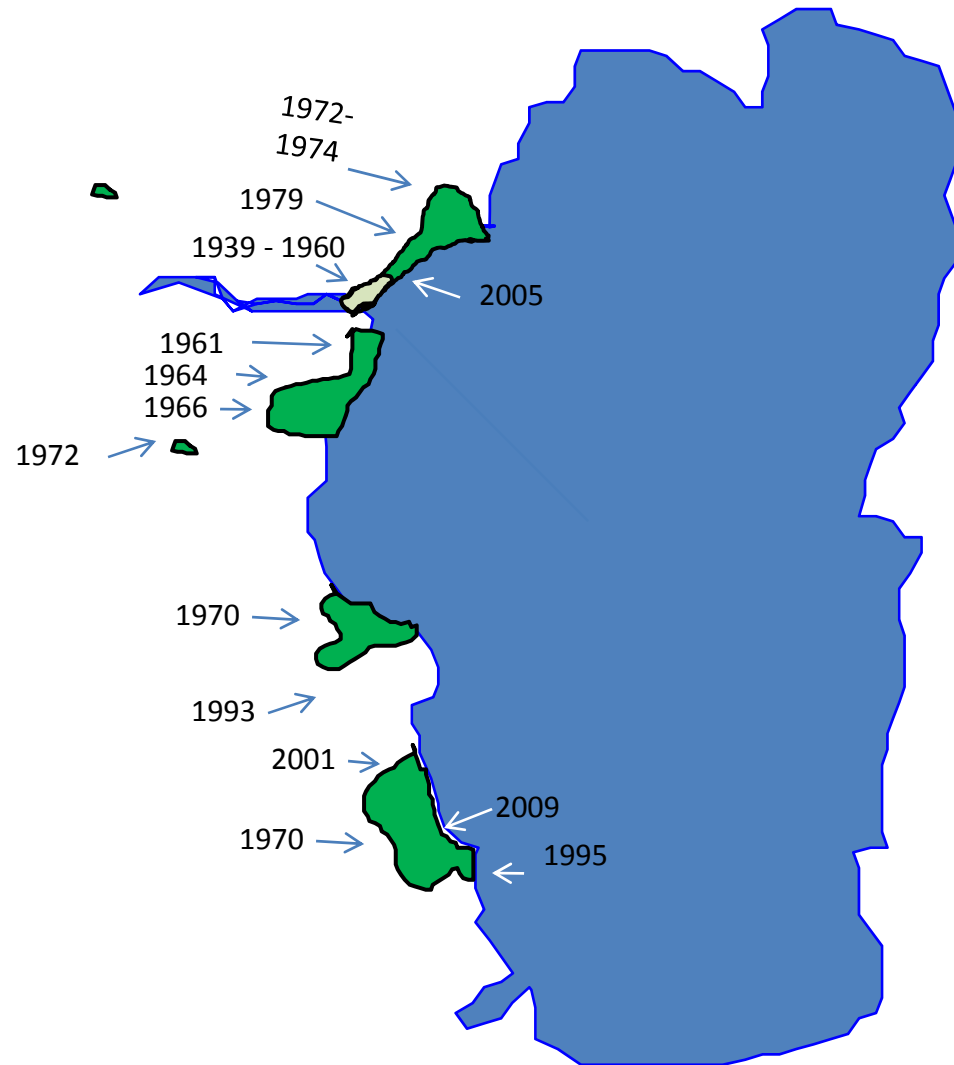
- 1) how to fund acquisitions
- 2) what requirements/standards for acquisitions
- 3) any other direction on revisions or changes in the current policy

What mechanisms should TCPUD use in funding acquisitions?

- In all previous acquisitions TCPUD paid the costs of acquisition. The TCPUD paid the fair market value or negotiated less.
- To date, TCPUD has never assessed the customers for the acquisition costs.
- TCPUD can reconsider this position and assess all or a portion of acquisition costs to the customers.

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What standards for the systems should TCPUD require for acquisitions?

OPTIONS:

- 1) Require assessment to bring system up to current standards in all areas (source, storage and distribution)
- 2) Require additional assessment to bring distribution system up to current standards.
- 3) Require additional assessment to address partial/immediate distribution system improvements.
- 4) Accept the system “as is” and improve over time, as TCPUD can afford it.

What standards for the systems should TCPUD require in acquisitions?

- Over the years the District has used two methods:
 - 1) 1939-1993 acquire and upgrade as needed* no separate assessment
 - 2) 1993 – 2008 limited or full distribution improvements required of systems

TCPUD's new rate structure and 218 requirements present new issues for consideration

- *Rubicon – purchased in 1970, major repairs in 1984
60% paid by full District, 40% paid by residents*

What standards for the systems should TCPUD require in acquisitions?

<u>YEAR</u>	<u>SYSTEM/AREA</u>	<u>LOCAL REQUIRED UPGRADES</u>	<u>NUMBER OF CUSTOMERS</u>
1939	Tahoe City System	No	
1961	Comstock Acres	No	
1964	Cathedral Forest	No	
1966	Tahoe Tavern Heights	No	
1970	Rubicon	Later	
1972	Highlands	No	
1974	Dollar Point	No	
1979	Panorama	No	
1993	Quail Lake Water Company	Repay portion of debt	450
1995	Tamarack Mutual	Yes	20
2001	Meeks Bay Vista Mutual	No	120
2005	Lake Terrace Water Company	Yes	8
2009	West Lake Tahoe Water Company	Yes	4
	Lake Forest Water Company	Yes*	118

* Assessment district formed, acquisition not complete.

What standards for the systems should TCPUD require in acquisitions?

- Since 1967, TCPUD's rates did not generate adequate revenues for capital improvements. TCPUD customers significantly benefitted from use of property tax in water system operations and improvements.

TCPUD Cumulative Totals 1967 – 2008

<u>Water Income Above O&M</u>	<u>Water Capital Spending</u>	<u>Property Tax Used in Water</u>	<u>Percentage Property Tax</u>
\$2,152,334	\$29,535,665	\$27,383,331	93%

What standards for the systems should TCPUD require in acquisitions?

- TCPUD's 2009-2013 adopted rate structure covers all operating costs and begins to provide a rate revenue structure to fund replacement of our infrastructure.
- By 2013 TCPUD customers will be paying rates that fund 50% of the recommended amount of annual replacement of the system.

What standards for the systems should TCPUD require in acquisitions?

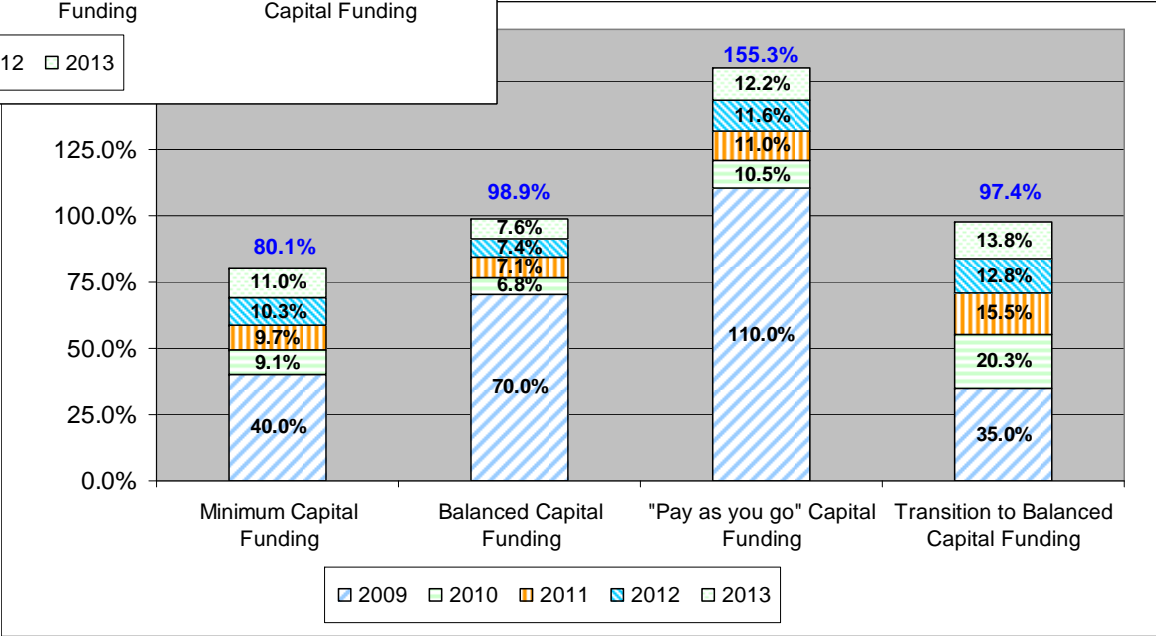
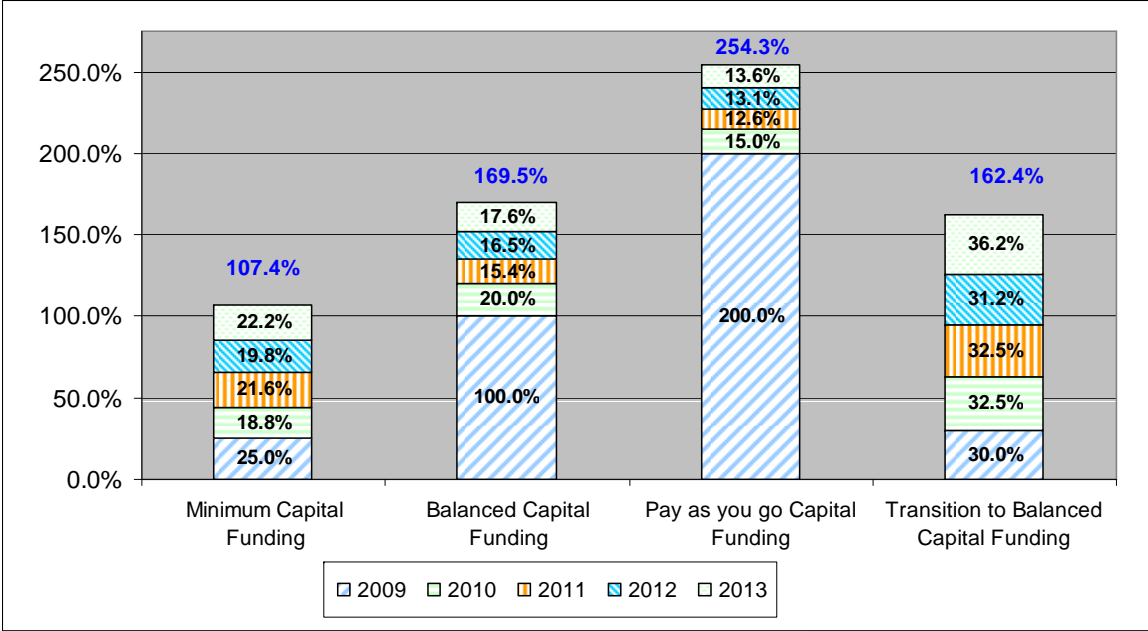
Shawn Koorn, HDR Engineering

Overview of the Rate Study

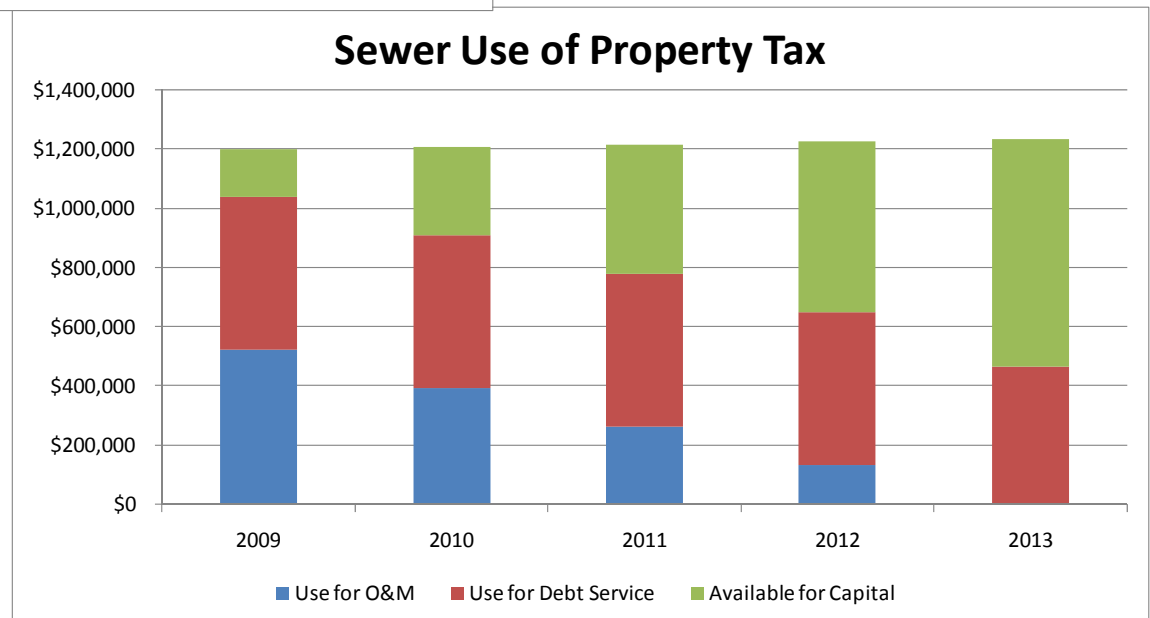
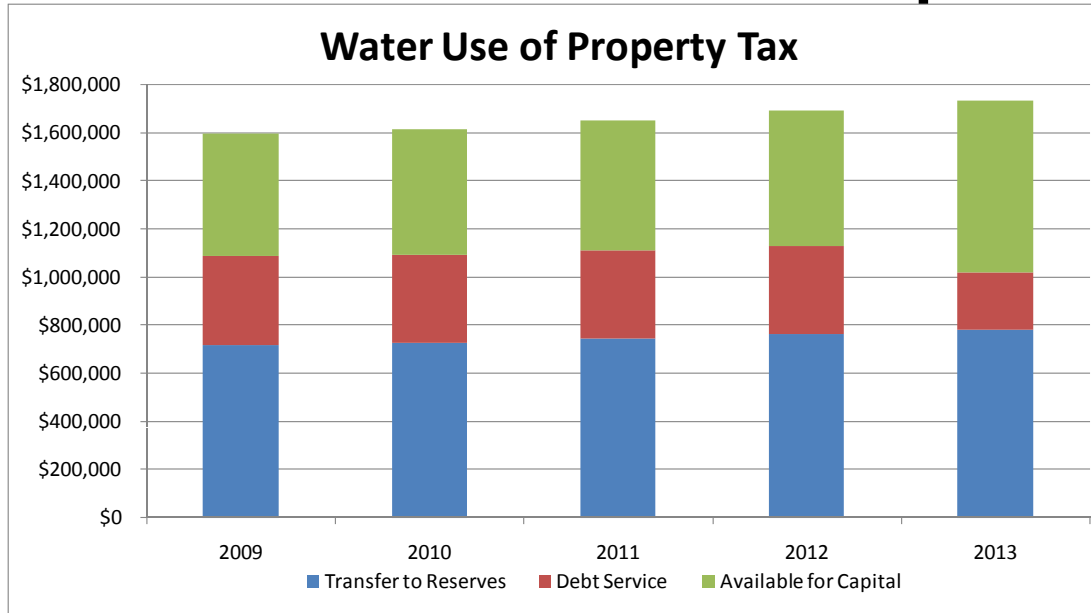
Goal: generate adequate revenue to sufficiently fund operating and capital expenses

- Use of Property Tax
 - Water
 - Capital only
 - Sewer
 - Transition from O&M (50% funded in 09)
 - Capital
- Adequate Funding of Renewal and Replacements
 - Current annual replacement values
 - Water - \$2.8 million/year
 - Sewer - \$3.7 million/year
 - Recommended and adopted replacement funding
 - Water - \$1.4 million/year
 - Sewer - \$1.8 million/year

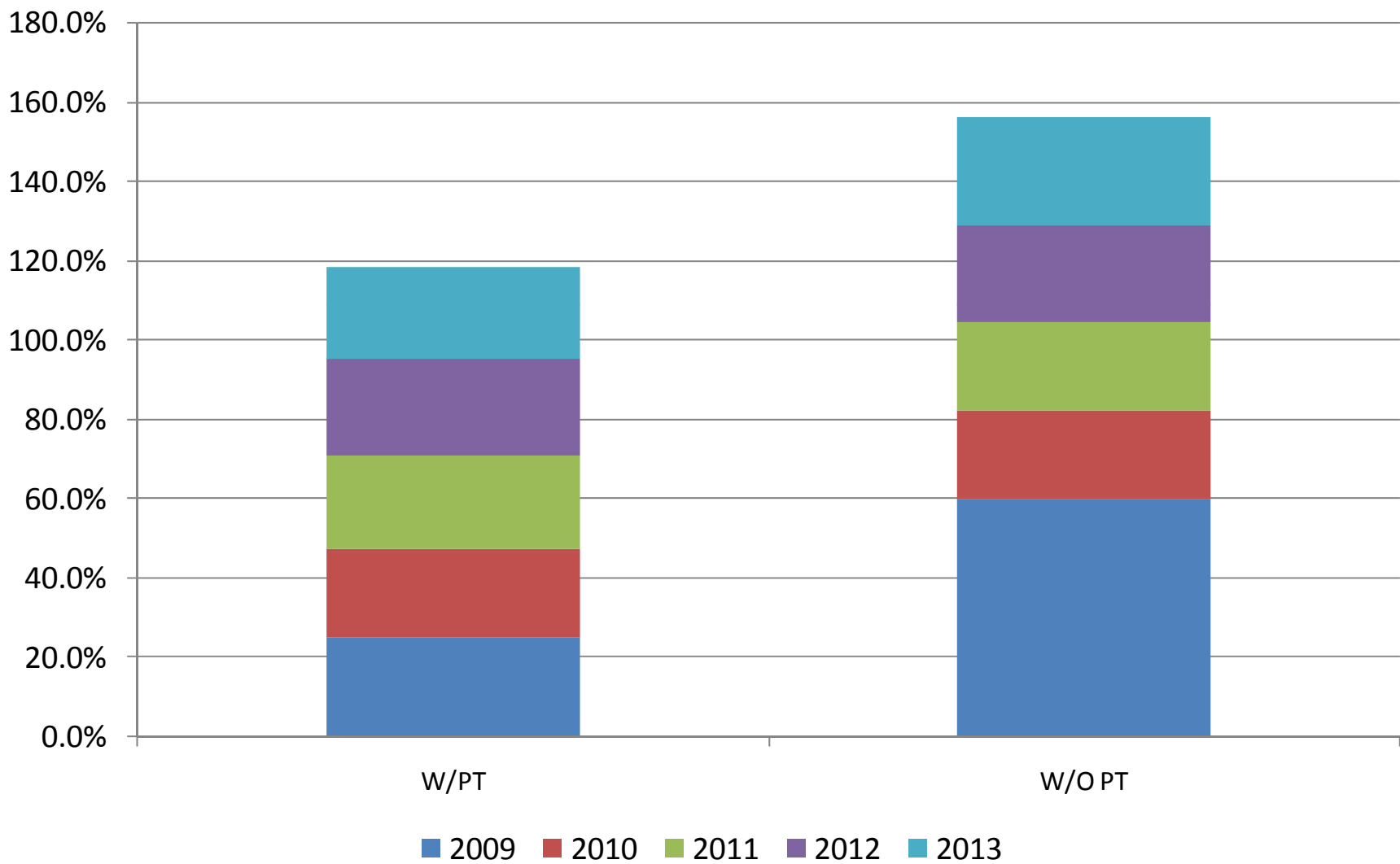
Sewer and Water Replacement Funding



Overview of Property Tax Uses



Cumulative Water Rate Impact Comparison



Moving Forward

- Adopted rates for a 5 year period
- Transition to funding annual replacements
 - Attain 50% of financial/rate target
- Timing and priority of replacement projects
 - Where and when

Rate Setting for Acquired Systems

- Implementation of the Rate Structure
 - Member of the “family”
 - Separate out O&M and capital
 - Postage stamp O&M
 - Variable capital
 - Separate O&M and capital
 - Surcharge for acquired systems of \$? For ? Years
- Prop 218 concerns
- Advantages and Disadvantages to each

Rate Setting for Acquired Systems

- Issue is capital improvements
 - Gems vs. Dogs
 - Timing of those replacements
- Current rates will provide funding for replacement costs
- Use of property tax
 - Set aside the proportional amount of the property tax based on customer number for those customers who have not received the benefit of property tax before

Rate Summary

- Simplest method is to maintain current rates for all
 - Still provide some replacement funding
 - Incremental cost is minimal
 - Increased the District's borrowing capacity
 - Level of assumed investment for each customer
 - Property tax revenues are available under certain circumstances

How does the industry approach these issues?

- Valuation of water systems
- Current Industry Practices

Harold Morgan, PE

What standards for the systems should TCPUD require in acquisitions?

- For consistency in billing and Proposition 218 future rate-setting ballots, it is highly recommended that new customers in the system pay TCPUD's adopted rates.
- TCPUD's newly adopted rates would result in new customers funding 50% of their annualized capital replacement (consistent with TCPUD's existing customers).

Funding

<u>ITEM</u>	CURRENT CUSTOMERS <u>TO DATE</u>	NEW <u>CUSTOMERS</u>
Acquisition	Tax	Tax
Meter Installation	Tax	Tax
Source /storage	Tax + 7% from rates	Tax + 50% from rates
Distribution system	Tax + 7% from rates	Tax + 50% from rates

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Potential Findings:

- Is it beneficial to both customers and taxpayers to consolidate water systems?
- Should new customers receive the same benefits from property taxes as previous customers have received?
- Should all ratepayers pay the same rates?
- Should TCPUD continue to prefer working with willing sellers, but respond if 2/3 of affected taxpayers petition TCPUD?

Vision for the Future

- Should TCPUD be planning for the long-term possible merger/consolidation or mutual projects as we develop our infrastructure?
 - Size of Four Season line – 12 or 16 inches?
 - Size of Bunker tank replacement?
 - Applications for State and Federal funding?