

Tahoe City Public Utility District Financial Policy

Water System Acquisition Policy Policy Number: 2025

I. PURPOSE

This policy is established to provide guidance and set forth the approach and process that the Tahoe City Public Utility District will take during the acquisition of water systems. This policy is intended to provide the background, intent, and process that will be followed in a variety of acquisition situations.

II. POLICY OVERVIEW

In 1939, the people of Tahoe City voted to form the Tahoe City Public Utility District with the primary purpose of acquiring the existing private water system in order to better serve the community's needs. Over the decades since, the community-based TCPUD has continually expanded its service area by acquiring water systems from investors, owners, and developers. Consideration of acquisitions of water companies and water systems is an essential component of fulfilling the District's mission and responsibilities. The District intends to continue to address and respond to the changing water needs in the community and provide safe and reliable water service for the protection of public health and provide for the equitable future use of property tax revenues.

The District has acquired water companies and water systems based upon the following rationale and benefits:

- Overall community health, safety, and well-being;
- Governmental responsibility and fairness to all taxpayers;
- Historical precedence;
- District-wide cost-savings and efficiencies realized by adding additional customers and revenues to cover the fixed and operational costs of the District's system; and,
- Cost-savings and efficiencies realized by reducing unnecessary duplication of administrative and general overhead costs and in water system facilities and infrastructure.

The evolution of the District's water delivery system has resulted in separate, independent water systems that comprise the District's total system and require duplication in water sources, storage and infrastructure, some of which would be unnecessary if not for the geographical separations. As the District strives for increased efficiencies, it is hampered by this inefficient infrastructure. It is beneficial to the overall community to consolidate, share resources, and address water needs in a planned and organized manner.

Over time, the District's water customers (ratepayers) have grown as a percentage of total District taxpayers and extensive historical research indicates that the District's existing water systems were acquired and upgraded using almost exclusively property tax revenues paid by all taxpayers in the District.

III. DEFINITIONS

As used in this policy, the following terms shall have the meanings specified below:

- a. Board – The lawfully elected or appointed governing body of the TCPUD.

- b. Constituents - Residents, property owners, taxpayers, ratepayers, customers, beneficiaries of services, business owners, and voters within the District's boundaries.
- c. District – The Tahoe City Public Utility District (District or TCPUD).
- d. Policy – This “Water System Acquisition Policy.”
- e. Proposition 218 - In November 1996, California voters passed Proposition 218, the “Right to Vote on Taxes Act”. This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent.
- f. Property tax revenues – Property tax revenue shall mean property tax revenue received by the District from Placer and El Dorado counties.

IV. PROCESS

General

The District respects the assets and ownership rights of private water system owners; therefore, the District will only consider acquisition of private or mutual water company systems on a case-by-case basis as outlined below:

- The owner of a private water company advises the District that they are interested in selling their water system;
- Customers of a private or mutual water company within the District's service area boundary advise the District that they are dissatisfied with their current water purveyor, and two-thirds of the owners of private parcels located within the system make a request that their water system be acquired by the District;
- Other circumstances as specifically determined by the Board of Directors;
- The District, other public agencies with jurisdictional authority over the District or a private or mutual water company, or a court of law makes a determination that due to an imminent public health or safety threat, public interest and necessity dictate that it should acquire the system through receivership, eminent domain or other legal means.

In any event, the decision to commence acquisition of any water company shall be at the discretion of the District's Board of Directors.

The District has limited ability to assist investor-owned water company customers. Regulation of these water companies is generally the responsibility of the California Public Utilities Commission (CPUC) and the California State Water Resources Control Board, Division of Drinking Water. The District can enter into a contractual relationship, negotiate an outright purchase, take possession through a receivership, or use contested or uncontested eminent domain proceedings to acquire the water company.

The District may authorize an independent appraisal of the water company value and a reconnaissance level engineering study, including some or all of the following: a review of the water company's existing facilities; analysis of the District's ability to serve the system; evaluation of the necessary or immediate improvements to meet minimum District or regulatory standards; preliminary cost estimates as relevant; and preparation of a financing plan. The District may use other methods as necessary to determine the value of a water system with Board approval.

The District may utilize its property tax revenues, grant funds, or loans pledged from the new customer revenues, as well as new net revenues gained from additional customers, to acquire and improve water systems. New net

revenues may also include surcharges or assessments imposed upon the additional customers being acquired. The District reserves the right to time acquisitions and necessary improvements according to funding availability and prioritization of need throughout its entire system.

Consistency and Equitability

For purposes of meeting legal rate setting requirements (i.e., CA Constitution Article 13D) and to provide consistency and equitability between customers, the District will require all new customers to pay the Board adopted rates in effect at the time of the acquisition. The District may consider a rate transition plan in the event that the acquired systems are unmetered and/or its existing rates are lower than the average District customer water rate. The District may utilize its property tax revenues for the rate transition plan. The District may require an additional surcharge or assessment if immediate, significant capital expenditures are required to serve the new customers in order to meet Minimum ⁽¹⁾ District or regulatory standards, including, but not limited to, fire suppression, water meter installation, source redundancy and distribution system improvements.

The District may require a Proposition 218 protest process for implementation of District rates on new customers. The District may also initiate the formation of an improvement district, assessment district, or other legal mechanism in order to guarantee funding for debt issuance if significant immediate expenditures need to be made to a water system to meet minimum District or regulatory standards. The funding for such mechanism will be implemented through a Proposition 218 vote process, if required by law.

Safe and Adequate Water

Based upon the critical importance of safe, adequate water for the community's well-being, the Board finds that:

- The District will consider the entire community's overall water needs when planning and sizing water resources and infrastructure so that, to the extent reasonably and fiscally possible, such water system infrastructure can accommodate eventual connections by all District taxpayers, regardless of their current water system provider. The District may consider entering into joint exercise of powers and contractual agreements with public and private water providers where the District determines that to do so is in the best interest of the District and its customers.
- Consolidation of the District's water systems with other public and private water systems results in greater efficiencies, less duplication, and improved public health and safety benefits for all constituents within District boundaries. Therefore, the District may seek to acquire water systems as funding is available and in accordance with the guidelines established herein.
- Rebuilding or repairing existing water system infrastructure or constructing new water system infrastructure sized to meet current fire flow and storage requirements is beyond the capacity of the District's rate revenues alone. Therefore, property tax revenue, as available, may be used to supplement rate revenue to fund water system reconstruction and improvements sized for existing and future customers that best addresses applicable current legal mandates and regulatory requirements.
- Persons and entities owning property within the District's boundaries pay taxes which have been used in part for the acquisition, development and improvement of facilities and systems that are now part of the existing District water system. This Policy seeks to ensure that future expansion and improvements to the public water system will continue this historical practice and future customers will benefit from the use of property tax in both acquisitions and/or improvements.
- The District's adopted cost of service analysis and rate structure is estimated to produce adequate revenues to fund all operational costs and prudently maintain the annual renewal and replacement costs of District water system infrastructure. This formula may be applied to all future water customers through the District's water

rate structure.

- The District has established a Water System Acquisition and Infrastructure Improvement Property Tax Reserve to provide the ability to continue to address and respond to the changing water needs in the community and provide for equitable future use of property tax.
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¹ “Minimum” District or regulatory standards will be evaluated and determined on a case-by-case basis by District management and staff in consultation with appropriate agencies and the Board of Directors.