



# Tahoe City Public Utility District

## Setting Cost-Based Utility Rates

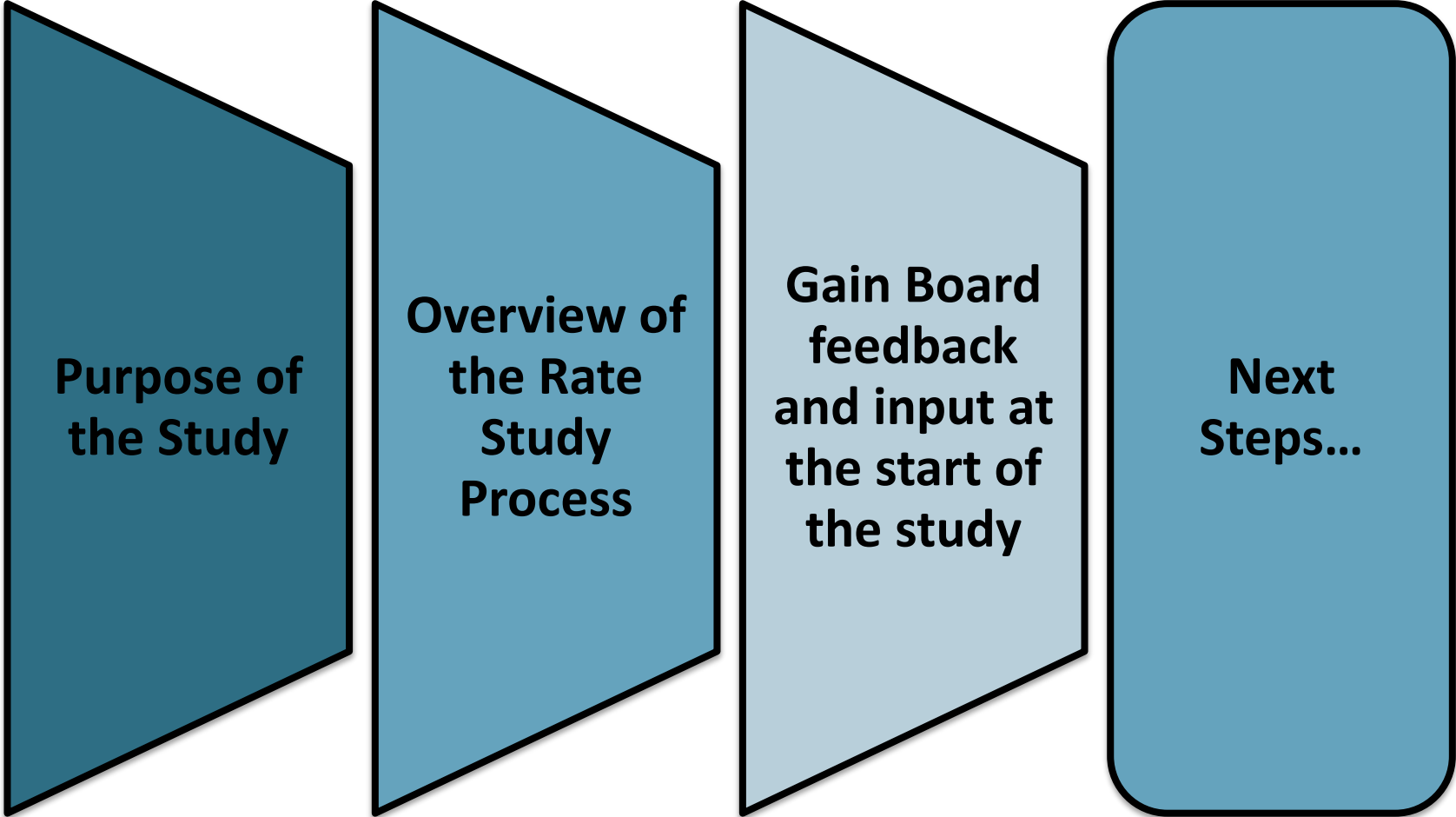
### Water & Wastewater Rate Study

**January 18, 2019**

HDR



# Overview of the Presentation

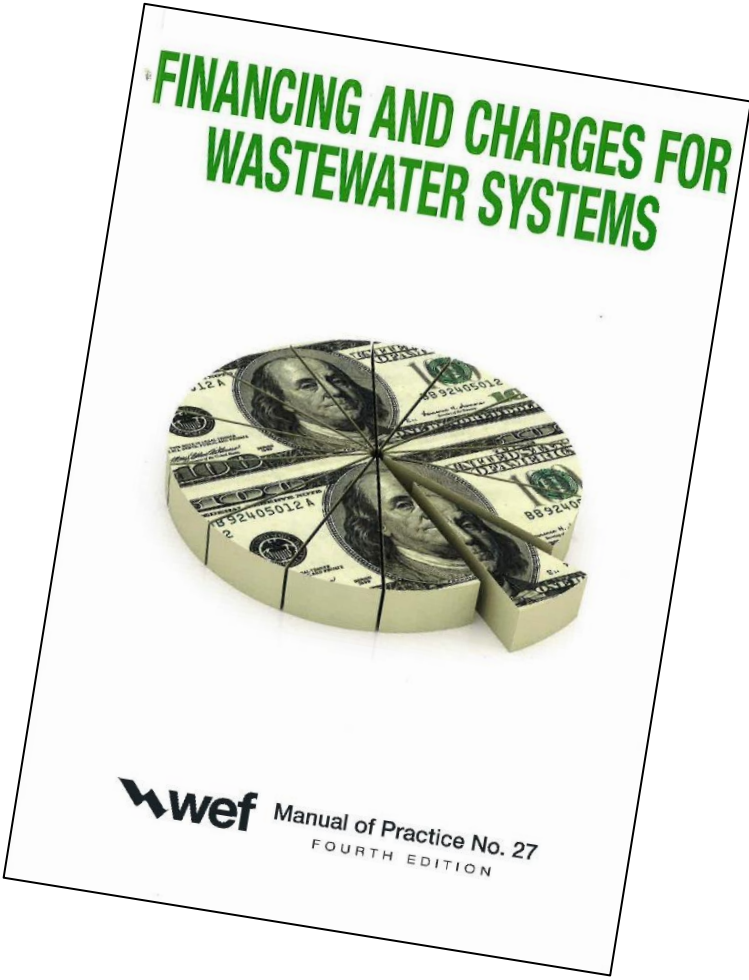
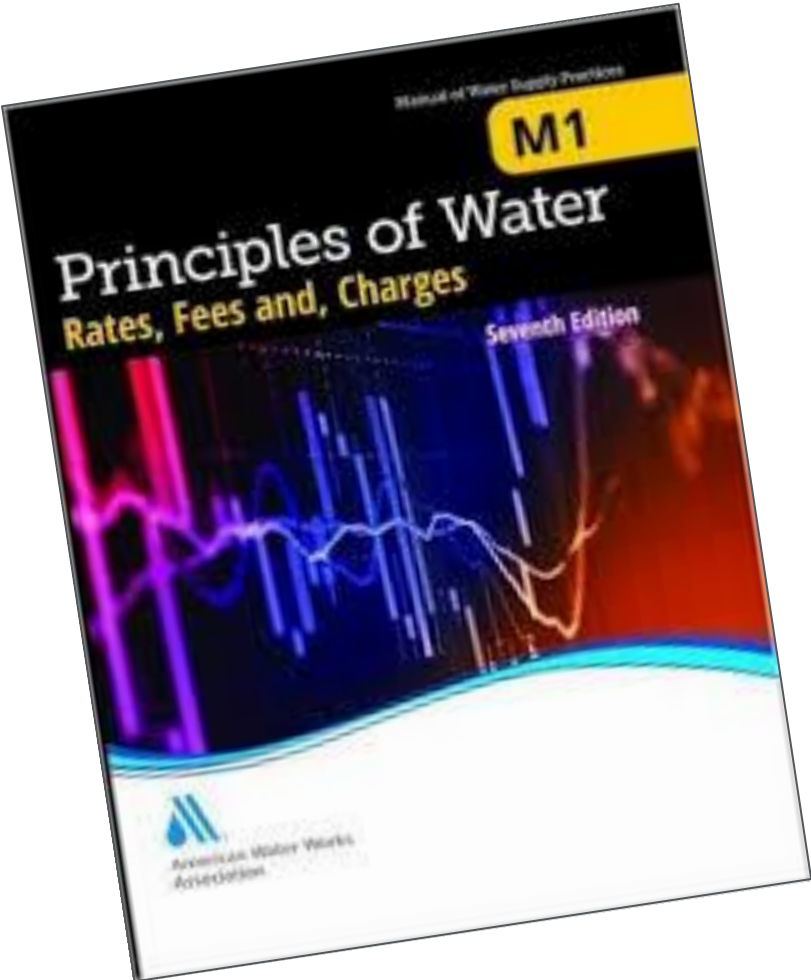


## Purpose of the Study

- Provide sufficient revenues to operate and maintain the District's water and wastewater infrastructure
- Develop equitable and cost-based rates
  - Meet the intent of Proposition 218
- Reflect prudent financial planning criteria
  - Maintain target debt service coverage (DSC) ratio
  - Prudent rate funding of capital
  - Meet target reserve balances
- Develop the study using generally accepted methodologies tailored to the District's system and customer characteristics



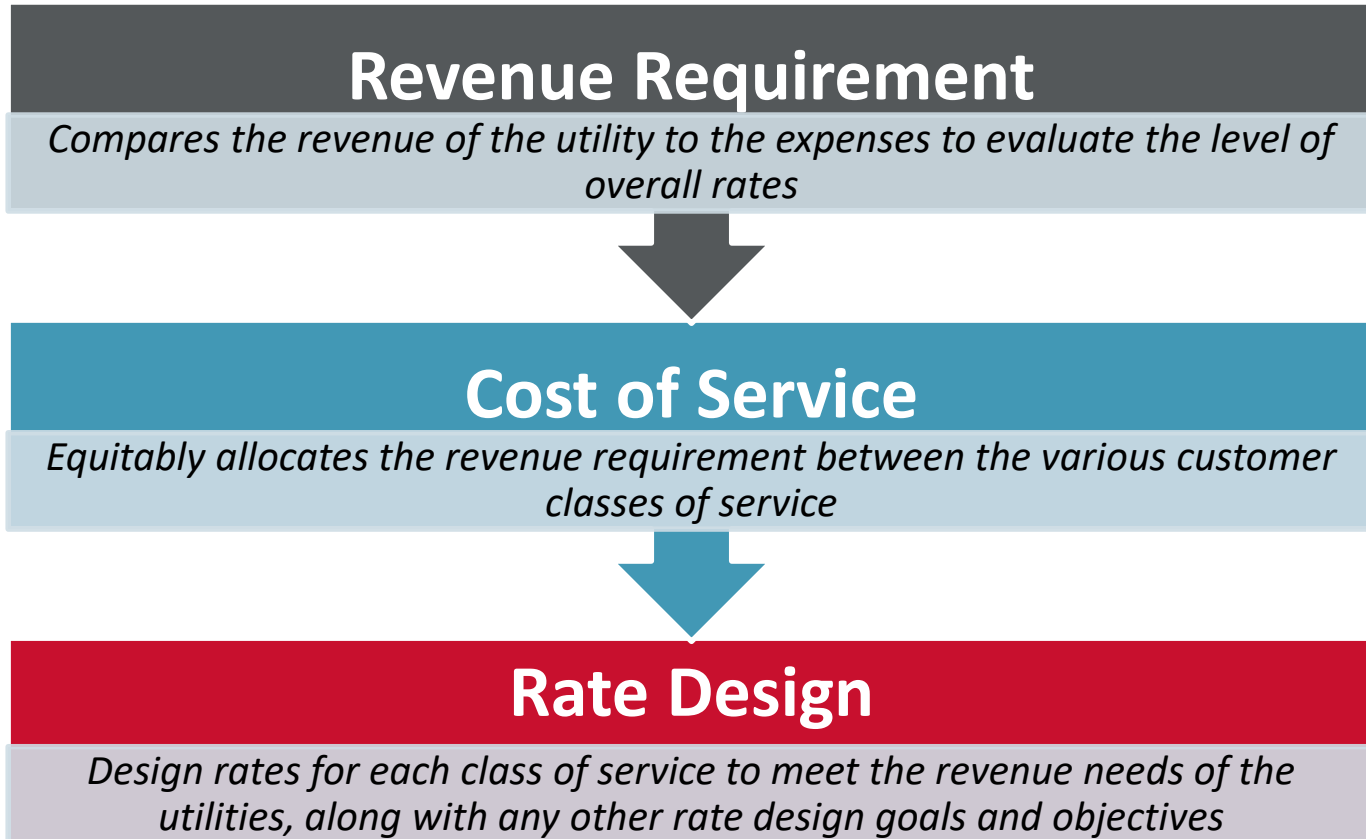
# What is “Generally Accepted”?



## Proposition 218 Requirements

- Provides the requirement for setting and implementing property related rates and fees
  - California constitution Article XIII D
- Requires a cost basis for establishing the level of the rates
  - Both fixed and consumption/volume
- Requires a customer notification process and protest hearing
- If no majority protest:
  - Board may implement the proposed rates
  - The proposed rates are the maximum rates that can be charged for the time period specified
    - Rate levels will be reviewed during budgeting process
    - Board action necessary to reduce rates lower than noticed levels

# Developing Cost-Based Water & Wastewater Rates



## Revenue Requirement



# Overview of the Revenue Requirement

Compares utility revenues to expenses

- Determines the level of revenue (rate) adjustment necessary

Uses prudent financial planning criteria

- Adequate funding of renewal and replacements
- Maintaining sufficient ending reserve balances

Reviews a specific time period

- Typically a five to ten year period

Utilities is analyzed on a “stand-alone basis”

- No transfer of funds from other District funds
- Rates need to support operations and capital

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities



# Summary of the Revenue Requirement

Developed based on overall utility financial objectives

Should be developed and based on “prudent” financial planning criteria

Revenue requirement analysis determines adequate funding for the utilities to operate on a financially stable basis

District currently develops a long-term fund analysis to meet these needs

# Revenue Requirement – Policy Discussion

## Meeting Financial Policies

- Debt service coverage ratio
- Target ending reserve balances
- Methodology and approach
- Use of long-term debt

## Prudent Funding of Annual Renewal and Replacement

- Annual depreciation expense
- Future replacement needs

## Long-Term Financial Sustainability

## Levels of Service

- Projection of future O&M
- Additional programs/practices
- Capital infrastructure needs

## Proper Use of Growth Related Fees

- Growth projects
- Growth debt service payments

## Cost of Service



# Overview of the Cost of Service

## What is cost of service?

- Analysis to equitably allocate the revenue requirement to the customer classes of service

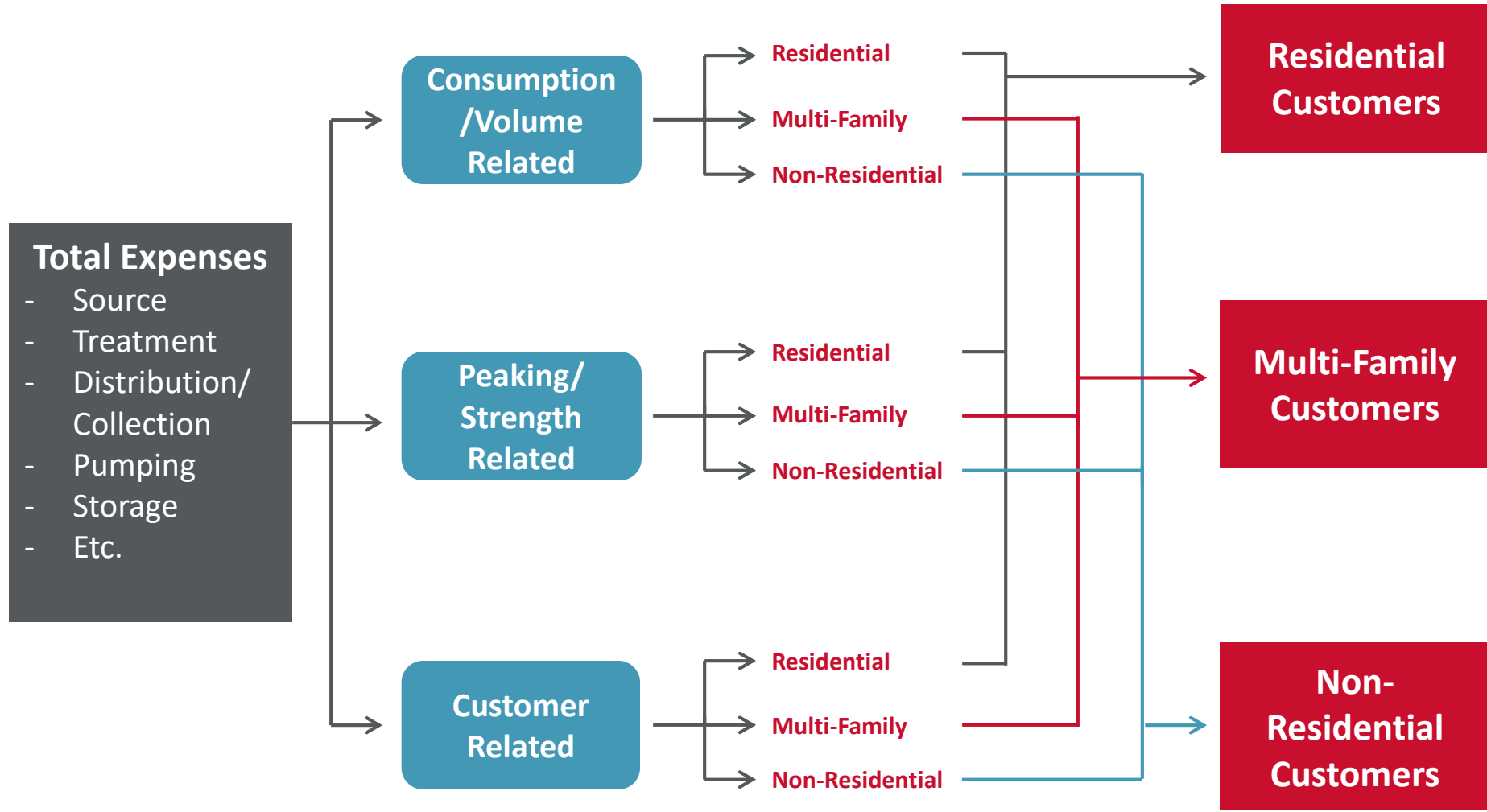
## Why cost of service

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues reflect costs
- Meets the proportionality requirements of Proposition 218

## Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

# Generic Water/Wastewater Cost of Service Methodology



## Summary of the Cost of Service

Reflects usage and facility requirements of each customer class

Results in fair and equitable rates for each customer class of service

Provides the District with information for rate structure policy decisions

Should be reviewed periodically to reflect changes in customer and system characteristics

# Cost of Service – Policy Discussion

## Review of customer characteristics

- Consumption/volume
- Peaking factor/strength

## Development of customer classes of service

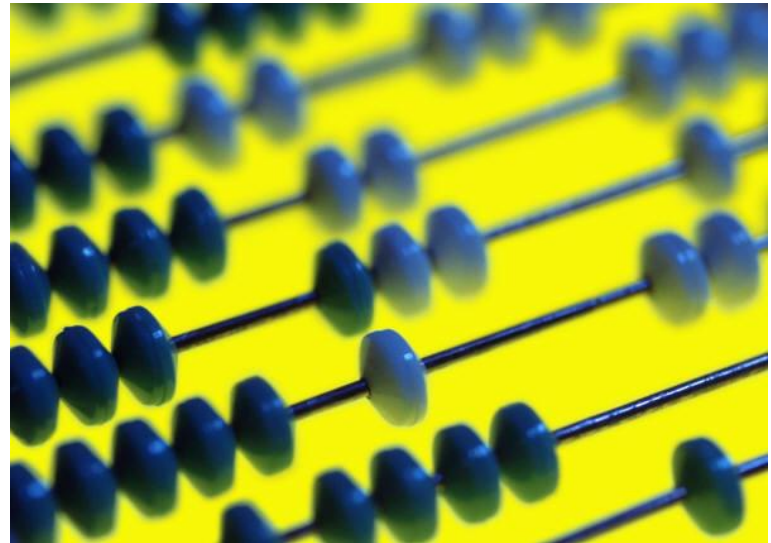
- Separate rate schedules
- Based on customer characteristics

## Equitable and Cost-Based Allocation of Costs

Identifies subsidies between customer classes of service (if present)

Implementation or transition to cost of service results (if necessary)

## Rate Design





# Typical Rate Setting Goals and Objectives

Revenue Sufficiency and Stability

Easy to Understand (customer)

Easy to Administer (District)

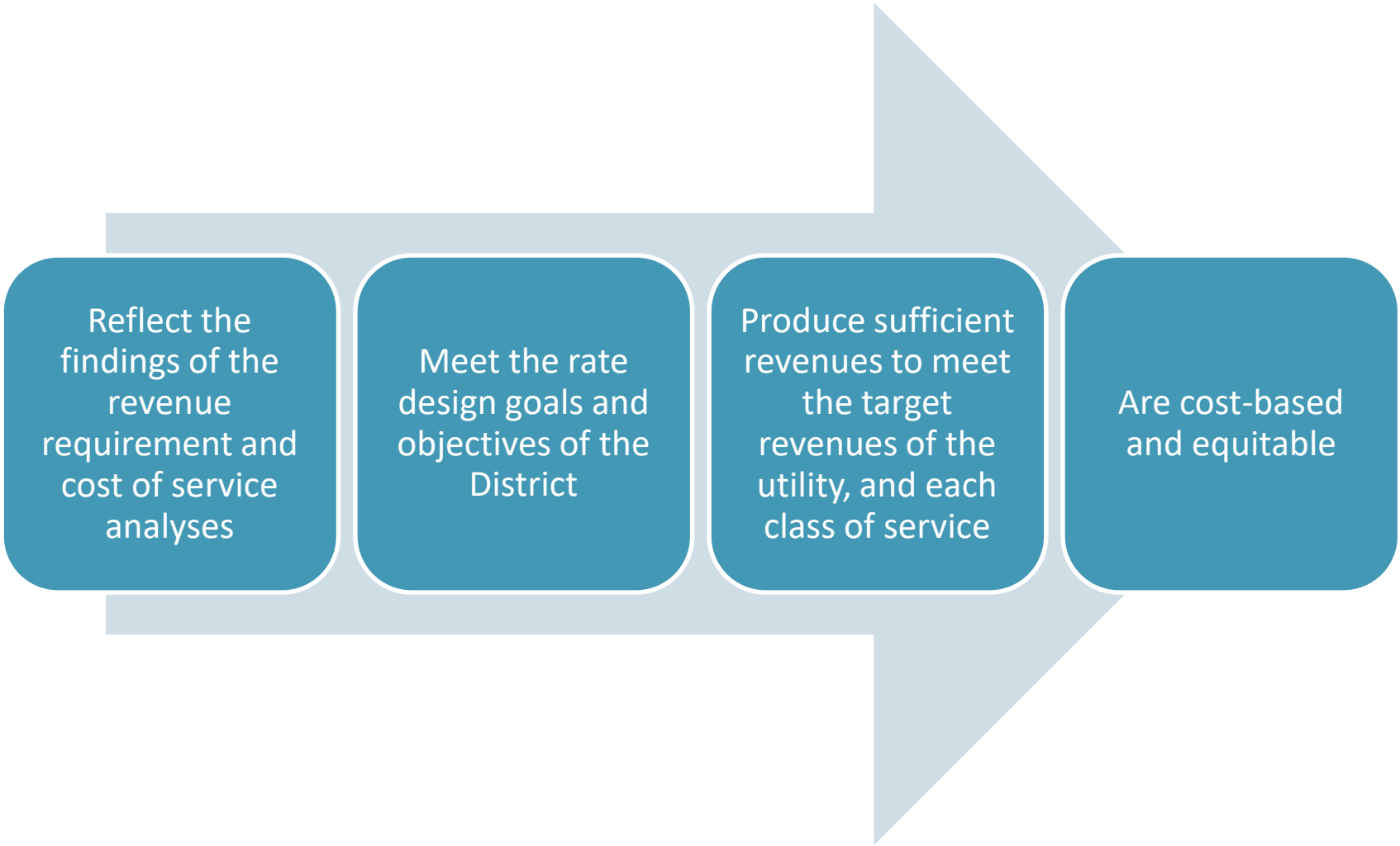
Affordability

Efficient Use of the Resource

Equitable and non-discriminating (cost-based)

Legally Defendable

# Overview of the Rate Design



# Rate Structure Terms Defined

## Structure vs. Level

Rate structure is how the customer is charged

Rate level is how much revenue is collected

## Fixed Charges

Not based on usage

Often varies by meter size

May include multiple "fixed" charges

## Variable Charges

Based on water consumption or wastewater volume / flow

Commonly charged per CCF or kGal

# Rate Structure – Policy Discussion

## Identification of primary goals and objectives

- Revenue stability/sufficiency
- Legal
- Cost-based
- Etc.

## Rate Structure Components

- Fixed vs. variable charges

**Promoting the District's goals and objectives**

## Rate structure alternatives

- Reflect goals and objectives

## Rate schedules

- By customer class
- Reflect cost of service differences

## Next Steps

- Develop draft water and wastewater technical analyses
- Review draft results with District staff
  - Discuss preliminary results with Board
- Finalize technical analyses
- Present findings and recommendations
- Public outreach meetings
- Begin the Proposition 218 Process
  - Mail out customer notification of proposed rates
  - Establish Prop. 218 public hearing date
  - Adopt proposed rates (*if no majority protest*)



# Discussion

