

# Water Enterprise Financial Analysis prepared for the Weott Community Services District



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Funded by: State of California State  
Water Resources Control Board

## Executive summary

RCAC conducted this water rate study on behalf of the Weott Community Services District (WCSD) to establish base meter and volumetric rates that allow the district to operate and maintain the water system for the next five years and begin to establish reserves for the future.

Because it was determined that prior years' financial statements for the water enterprise were unreliable, the WCSD water enterprise budget upon which to base rates was developed by RCAC, the WCSD contract general manager and contract accountant. Given the current rate structure and the budget, WCSD needs to increase its rates to recover operating costs and begin funding essential reserve accounts.

RCAC recommends Rate Adjustment Option #1, which follows the American Water Works Association (AWWA) meter equivalency schedule. Rate Adjustment Option #2 leaves the meter equivalencies as they are in WCSD's current rate structure. In both options, full funding of the \$10,000 budgeted annual contributions to capital replacement reserves will not be possible until year three.

The current usage rate for the WCSD is tiered, with some allowance included in the base rate. The allowance varies according to winter and summer. Winter usage includes 550 cubic feet in the base rate and summer usage includes 1,350 cubic feet in the base rate. The usage after allowance is charged in units of 130 cubic feet. This will be converted to a uniform usage rate for residential and commercial customers, instead of the previous tiered rate structure. Additionally, RCAC has calculated the usage rates based on the industry standard of 100 cubic feet units rather than the current unit measure of 130 cubic feet.

### *California Proposition 218 Article 13D, Section 6*

***(6.1) "...The agency shall provide written notice by mail of the proposed fee or charge to the record owner of each parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed, the basis upon which the amount of the proposed fee or charge was calculated, ..."***

In the landmark 2015 ruling in the case of Capistrano Taxpayers Association v. The City of San Juan Capistrano, the Fourth District of the Court of Appeal ruled that Proposition 218 requires public water agencies to calculate the actual costs of providing water at various levels of usage. In order to comply with section 6.1, tiered rates' mathematical calculations must be conducted to justify how the number of units in each tier and the amount charged in each tier were determined. Because WCSD's variable costs are at only 4% of the total cost of service, mathematical calculations identifying the costs of each tier become very complex, if not impossible, and the resulting tiers would not notably increase revenue, RCAC recommends changing the usage charges to a uniform rate. The two rate adjustment options in this analysis are based on a flat or uniform usage rate, in which every drop of water delivered is charged at the same rate regardless of usage.

***(6.2.b.1) "Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service."***

Due to these regulations, RCAC recommends not including usage in base rates. If a connection is using less than the allotment included in the base rate, the charge is in excess of the property-related service and the charge to that property is, therefore, subsidizing the rates of other users.

***(6.2.b.2) “Revenues derived from the fee or charge shall not be used for any other purpose than that for which the fee or charge was imposed.”***

The rates calculated in the analysis were based on the cost of service for the water enterprise only.

***(6.2.b.3) “The amount of fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.”***

In *Bighorn-Desert View Water Agency vs. Verji* (2006) it was determined that “while tiered, or inclined rates that go up progressively in relation to usage are perfectly consonant with article XIID, Section 6, subdivision (b)(3) the tiers must still correspond to the actual cost of providing service at a given level of usage.” In this case, the water agency failed to calculate the cost of actually providing water at its various tier levels. It merely allocated all its costs among the price tier levels, based not on costs, but on pre-determined usage budgets.

Tiered rates are an effective tool in a utility’s efforts to curb wasteful usage of water, an essential resource to all living things. However according to case law on Proposition 218, tiered rates are allowable only if the water utility can justify the need for a tiered rate structure. Calculating the units in each tier and the cost of each tier is much more clear-cut in larger utilities that may need to hire additional staff with an increase in water usage; will see large increases in chemical and power costs; or may have additional costs related to their water source and can quantify the toll on capital assets as usage increases. For smaller systems, who usually have salaried staff whose time cannot be directly or indirectly linked to the amount of water delivered to its connections and whose chemical and electrical costs do not increase dramatically with increased usage, it becomes complex to quantify. Therefore, RCAC recommends converting the current tiered rate structure to a uniform rate structure. California Articles XIII C and XIII D place the burden of proof on water utilities to show that the benefit conferred to each parcel is proportional to the rate of the fee. After *San Juan Capistrano*, the growing body of case law on tiered water rates emerging out of the California Court of Appeals has turned tiered rate-setting into a confusing and tenuous process. If WCSD determines to continue charging tiered rates, RCAC recommends they consult with legal counsel who is well-versed in Proposition 218 case law.

While relying heavily on the usage rate to balance the budget, it provides a little more control to the property owner by allowing them to reap the financial benefits of conserving water. However, WCSD must be aware that if all fixed costs are not recovered through the base rate, which they are not in either rate adjustment option in this analysis, a reduction in customer usage will result in less revenue and periods of low cash flow. Residential water demand is price-elastic, meaning that increases in water rates dependably lead to decreases in consumption by individual households.



The operating expense ratio is calculated to determine the extent to which the water enterprise has the ability to generate sufficient revenue to recover operating costs. The ratio should be low enough to indicate the water system can recover all operating costs with adequate surplus to fund reserve accounts. Generally, an operating expense ratio of between 60% - 80% is considered financially sustainable, depending on the amount of the costs from the statement of net position that must be recovered through operating revenue. A higher ratio would indicate that expenses are more than the company's ability to generate sufficient revenue and may be considered inefficient. Similarly, a relatively low ratio would be considered a good sign as the company's expenses are less than that of its revenue and provides sufficient resources for payment of statement of net position obligations.

Operating Expense Ratio Rate Adjustment Option #1				
Year #1	Year #2	Year #3	Year #4	Year #5
93.36%	93.22%	91.10%	90.00%	89.14%

## Rate Adjustment Option #2

Rate Adjustment Option # 2 Five-Year Rate Schedule					
Meter Size	Year 1	Year 2	Year 3	Year 4	Year 5
3/4"	55.00	57.75	60.64	63.67	66.85
2'	164.72	172.96	181.60	190.68	200.22
3"	340.82	357.86	375.75	394.54	414.27
4"	560.82	588.86	618.30	649.22	681.68
<b>Usage Rate per CCF</b>	<b>5.89</b>	<b>6.18</b>	<b>6.49</b>	<b>6.82</b>	<b>7.16</b>

Rate Adjustment Option #2	Year #1	Year #2	Year #3	Year #4	Year #5	5 Year Total
Base + Usage Rate Revenue	\$ 160,141	\$ 168,778	\$ 177,879	\$ 187,469	\$ 196,842	\$ 891,109
Uncollectible Receivables	\$ (320)	\$ (338)	\$ (356)	\$ (375)	\$ (394)	\$ (1,782)
<b>Total Operating Revenue</b>	<b>\$ 159,821</b>	<b>\$ 168,441</b>	<b>\$ 177,524</b>	<b>\$ 187,094</b>	<b>\$ 196,448</b>	<b>\$ 889,327</b>
Operating Costs	\$ 149,579	\$ 155,562	\$ 161,785	\$ 168,256	\$ 174,987	\$ 810,170
Operating Reserves	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 18,697
Emergency Reserves	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 10,000
CRP Reserves	\$ 4,502	\$ 7,139	\$ 9,999	\$ 13,098	\$ 15,722	\$ 50,460
<b>Total Costs</b>	<b>\$ 159,821</b>	<b>\$ 168,441</b>	<b>\$ 177,524</b>	<b>\$ 187,094</b>	<b>\$ 196,448</b>	<b>\$ 889,327</b>
Revenue Operating Revenue Over/(Under) Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Operating Expense Ratio Rate Adjustment Option #2				
Year #1	Year #2	Year #3	Year #4	Year #5
93.59%	92.35%	91.13%	89.93%	89.08%

There are minor differences in the operating expense ratios of Rate Adjustment Option #1 and Rate Adjustment Option #2.

Because a current statement of net position for the water enterprise was not available, days of cash and liquidity ratios calculations could not be conducted. RCAC recommends WCSD's accounting structure be modified to capture balance sheet information separately for each enterprise.

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July 18, 2023

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Subject: Weott Community Services District Water Rate Study A/R #6553

Dear Emma:

Enclosed please find the final report for the Weott Community Services District Water rate study.

The rate adjustment options were presented to the Weott Community Services District board on June 21, 2023. From several options, the board selected a rate structure their contract accountant developed that they feel will best fit their community. The Proposition 218 process will begin immediately.

If you have any additional questions, feel free to contact Mary Fleming at 916/549-6338 or Kimberley Bennett at 916/508-3031.

Sincerely,

*Kimberley Bennett*

Kimberley Bennett  
RCAC, Regional Field Manager  
Community & Environmental Services

Enclosure: Weott Community Services District Water Rate Study

CC: Weott Community Services District

# 1. Weott Community Services District

## Community

Weott, California is a census-designated place located in Humboldt County, California. The American Community Survey (ACS) estimated for 2019 that Weott had a population of 304 and an estimated median household income (MHI) of \$32,344. The residents receive water services through Weott Community Services District (WCSD). With a MHI of less than 60% of the state MHI, Weott is classified as a severely disadvantaged community.



The MHI of Weott is estimated to be \$32,344<sup>1</sup>.

## Water system

The WCSD's existing water system currently serves a permanent population of 308 persons through commercial, agricultural and residential connections. All connections are metered.

Weott CSD has two active spring sources transmitting water through two separate lines under the Eel River to the water plant. It stays as two separate sources through treatment to two different tanks. It is dispersed through two separate systems to 136 customer meters of mostly residential ¾” meters. WCSD provides potable water and agricultural water. There is one inactive well that was deemed unusable due to high levels of arsenic, iron and manganese.

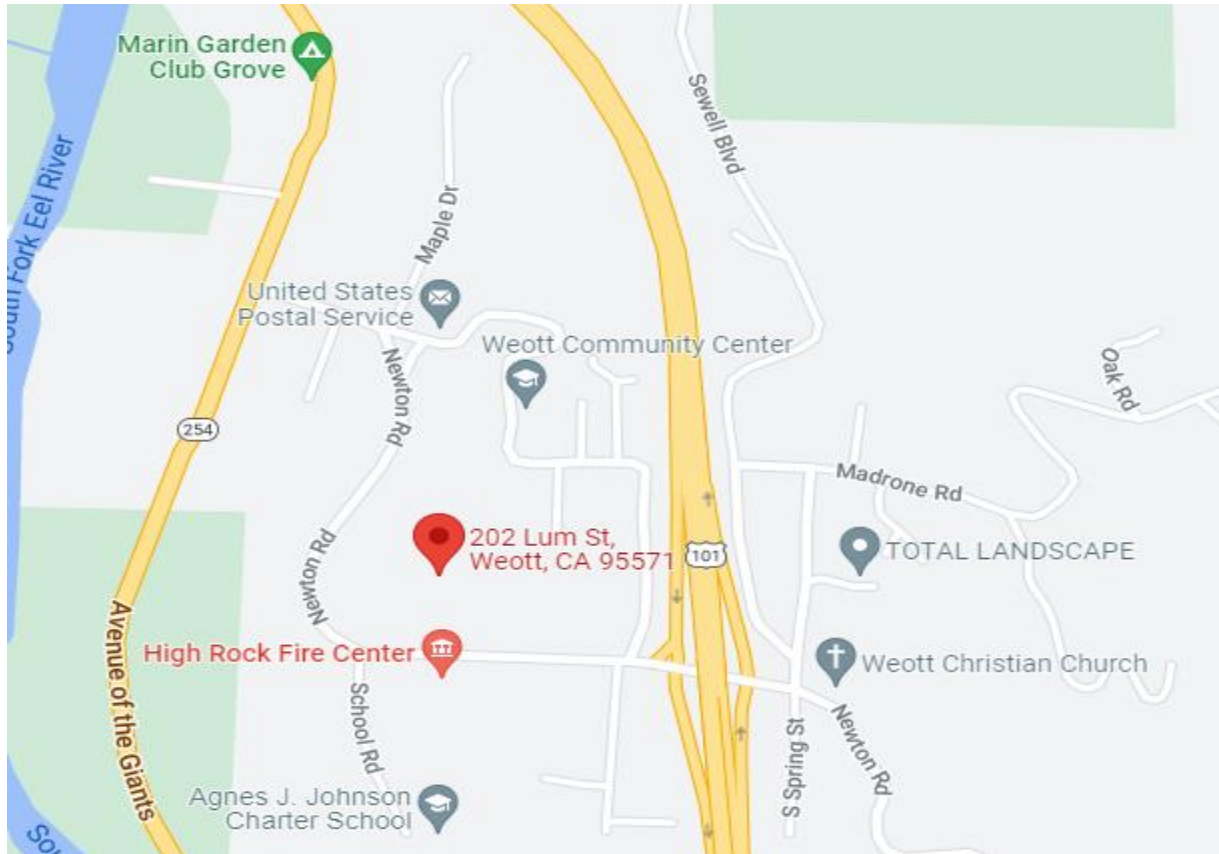
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<sup>1</sup> ACS 2019

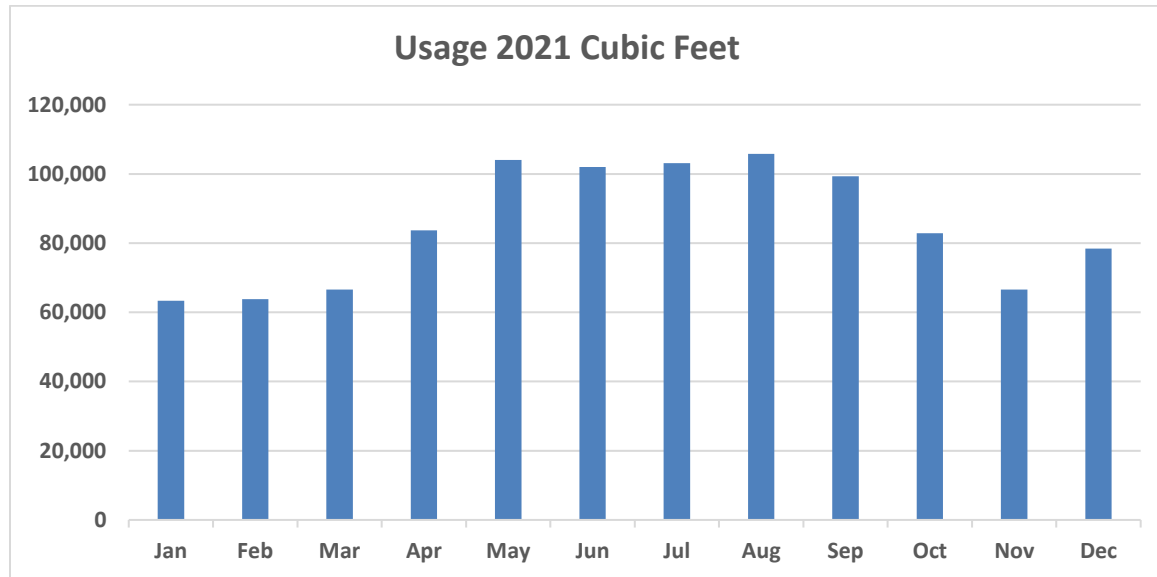
## Water district

WCSD was formed on Sept. 28, 1965, to reliably provide residents of the district with clean, safe water and for the collection, treatment or disposal of sewage, waste and storm water that complies with all state and federal requirements. There are three board members currently governing WCSD.

WCSD has never had a rate analysis. After attending an online training conducted by RCAC, the general manager requested a water rate analysis.



## Project description current production and consumption



Based on recent data graphed above (in CF), the water system sees the highest water usage during the months of April to September. Water usage begins to decline from October to March. Seasonal fluctuations are small and insignificant in terms of water usage and rate structure design. The lowest water usage is seen in February for all meter sizes.

### Current rates

The WCSD currently charges its customers the following rates:

Service Type	Meter Size	Summer Allotment (CF)	Winter Allotment (CF)	Monthly Service Charge	Usage Rate (\$/130 CF)
Residential/Commercial/Agricultural	3/4'	1,350	550	\$55.00	\$.11.00
Residential/Commercial/Agricultural	2"	1,350	550	\$164.72	\$.11.00
Residential/Commercial/Agricultural	3"	1,350	550	\$340.82	\$.11.00
Residential/Commercial/Agricultural	4"	1,350	550	\$560.82	\$.11.00

There are no tiers currently implemented, aside from the initial allotment amounts listed in the table above.

The WCSD water rates are all based on in-district customers, the type and size of service connection, and how much water customers use. Domestic water use is measured in cubic feet units and billed in units of 130 cubic feet (CF). One CF is equal to 7.48 gallons. Rate revenue is the primary source of revenue for the water enterprise.

### Proposed rate structure

Because Proposition 218 clearly states that no connection will be charged more for their service than it costs to provide the service and one class of customers cannot subsidize the rates of another class of customers, RCAC recommends WCSD eliminate its allotment of usage currently included in the base

rates. As the rates currently stand, a winter customer using less than 550 cubic feet per month and a summer customer using less than 1,350 cubic feet per month are subsidizing the rates of the customers who use more than the allotted amount. RCAC recommends a rate adjustment in which a single usage rate per 100 cubic feet (or 130 cubic feet, if preferred) is applied to all treated water delivered.



## 2. Guiding principles of this rate study

### Sustainability

Water rates should recover the costs to the water utility to allow it to provide water services for the foreseeable future.

### Fair

Water rates should be fair to all rate payers. No single rate payer or group of rate payers should be singled out for different rates. Therefore, the proposed rates do not make any distinction between domestic, commercial or agricultural users. The rates are the same for all.

The company should not charge more for water than the cost to provide the water. However, the costs should include operations, repairs, reserves and all other costs related to the production, treatment and distribution of potable water now and in the foreseeable future.

### Conservation

Water rates should promote conservation. Water is a limited resource and should be conserved. However, it should be noted that California Proposition 218 specifically states that rates cannot be set in a manner that would be punitive to high water users. Rates must be set according to costs of service.

### Justifiable

Water rates must be based on the actual financial needs of the company. Revenue generated from water rates cannot be used for anything but to pay for the costs of procuring, treating and distributing water within its service area, plus any administrative costs and reserves.

Therefore, the proposed rates are based on the WCSD's budget and a usage forecast.

### Purpose of this study

The purpose of this study is to provide the WCSD with recommended rates. The water system must be able to recover all operating costs and build reserves for periods of low cash-flow, emergencies, outages of the system and to cover the inevitable need to replace all components of the operation.

### Board decision

While this document recommends certain rates, the ultimate decision rests with the WCSD's board. However, the board has a fiduciary responsibility to set the rates at such a level that the company will be able to continue to operate in the future, including providing funds to replace all parts of the system as they wear out.

### Disclaimer

*The recommendations contained in this rate study are based on financial information provided to RCAC by the WCSD. Although every effort was made to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.*

*Any opinions, findings, conclusions or recommendations expressed in this material are solely the responsibility of the authors and do not necessarily represent the official views of SWRCB, who funded this rate study.*

*For accounting advice, a CPA should be consulted. For legal advice, the company should seek the advice of an attorney.*

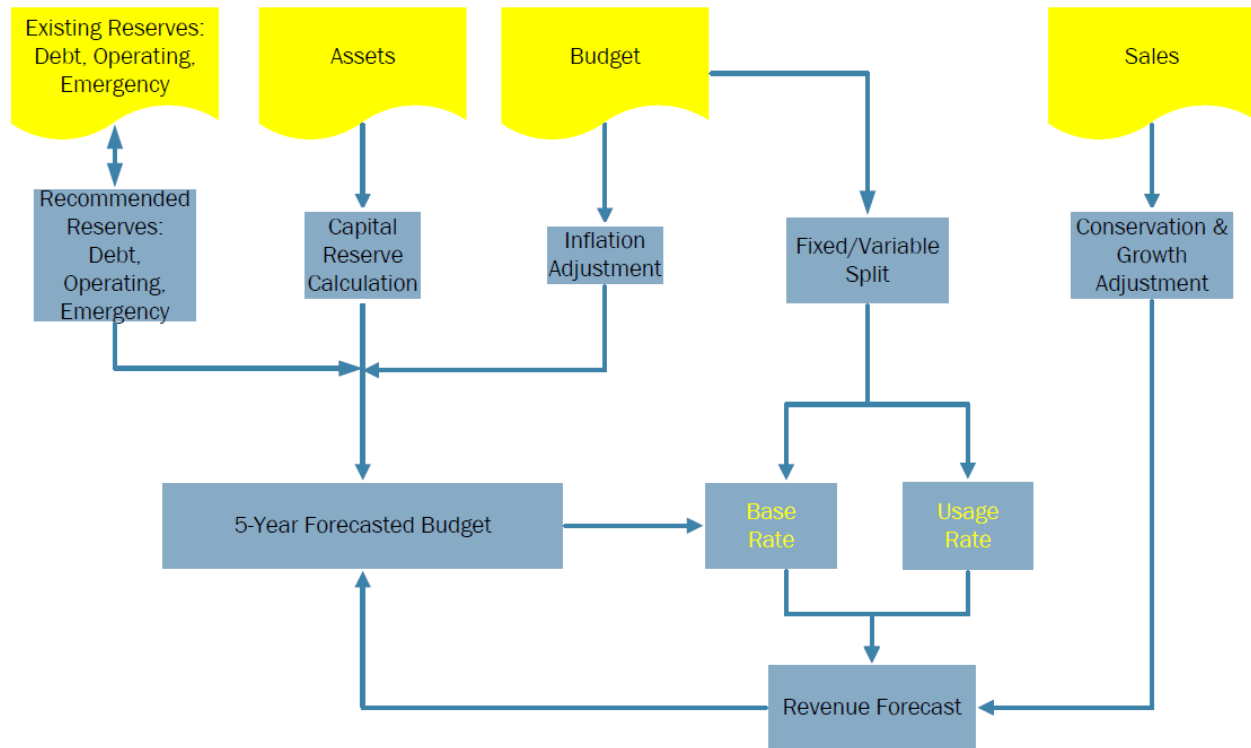


### 3. Rate study process

The figure below explains the process of setting rates.

Normally, we begin with the list of all capitalized assets, the current budget and the current sales history as provided by the administration from the WCSD. Because WCSD does not have a list of capitalized assets, the amount of \$10,000 annually was used as the amount to fund annually into replacement reserves.

#### Rate Setting with Water Meters



At the time of this rate analysis, WCSD had accumulated no reserves. The budget is adjusted for inflation, estimated to be 4% per year.

The number of customers is adjusted for unpaying customers, undeveloped lots and future water conservation and community growth expected to occur in the next five years.

The budgeted expenses are split between fixed and variable costs, which lead to a recommended base rate and usage charges. The calculated rates are then applied to the forecasted sales to arrive at a revenue estimate. This process was repeated several times to arrive at an acceptable rate that would balance the budget by the third year.

## 4. Reserve funding

WCSD tracks the water and wastewater utilities separately on the statement of activities but does not do so on the statement of net position, which makes it difficult to determine the financial health of either enterprise separately. The combined statements of net position indicate a vulnerable financial position, lacking in sufficient reserves in the event of an emergency. To achieve a robust financial position and continue to provide water services to the community in the face of increasing costs, the current rate structure needs to be examined.

AWWA standards recommend a review of four types of reserves:

1. **Debt reserve:** The water enterprise had no debt at the time of this analysis.
2. **Operating reserve:** Operating reserves are established to provide the utility with the ability to withstand short-term cash-flow fluctuations. The industry standard calls for one eighth (12.5%) of the annual operating budget be set aside in operating reserves. Based on the WCSD board-approved budget, the target operating reserve is \$18,698. To promote rate stability and reduce the impact on rates in the first year, operating reserves will be funded over a five-year period in the amount of \$3,740 annually.
3. **Emergency reserve:** Emergency reserves are intended to help utilities deal with short-term emergencies, such as mainline breaks or pump failures. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset. The emergency reserve should be set at the replacement cost of the most expensive component that, if it failed, would result in the inability to provide water to the community. In the case of the WCSD it was determined that \$10,000 in emergency reserves, while nominal, would provide the water enterprise with some financial resources in the event of a pump failure. The emergency reserve will be funded at \$2,000 annually over a five-year period.
4. **Capital replacement reserve: (CRP):** This reserve is strictly to be used to fund the company portion of any replacement of capital assets that are worn out. WCSD does not have a complete asset list. In an effort to set rates that would be affordable to the community, the CRP reserve amount of \$10,000 was used as the target annual contribution to the replacement reserve fund.

The benefit of splitting the reserves into four types are:

1. These reserves have different time horizons. The debt reserve can be invested for a long period of time—as long as the debt is on the books. Operating reserves and emergency reserves should be readily available, while CRP funds can be invested with different maturity dates to coincide with the planned need for capital replacements.
2. These four different reserves should require different policies related to:
  - a. investment terms and vehicles
  - b. what the funds can be used for
  - c. who can access the funds
  - d. what procedure has to be followed to access the funds

As the system accumulates reserves, RCAC recommends that WCSD develop an investment policy. It is further recommended that each reserve balance be indicated on the statement of net position.

The tables below show the existing reserves (assumed at zero) and the reserve targets for each of the four reserve categories.

<b>Reserve Type</b>	<b>Existing Reserves</b>	<b>Five Year Target</b>	<b>Annual Reserve Contribution</b>
Debt Reserve	\$ 0	\$ 0	\$ 0
Operating Reserve	\$ 0	\$ 18,697	\$ 3,739
Emergency Reserve	\$ 0	\$ 10,000	\$ 2,000
Capital Replacement Reserve	\$ 0	\$ 50,000	\$ 10,000
<b>Total</b>	<b>\$ 0</b>	<b>\$ 78,697</b>	<b>\$ 15,799</b>

## 5. Capital replacement program

### Source of the data

The data in the capital replacement program (CRP) normally comes from the data supplied by the company. The normal estimated life would be based on AWWA or industry standards. The estimated remaining life would be based on the best judgment of the operator and RCAC.

Because WCSD was unable to provide the list of the components, their installation date, and their original costs, an annual CRP reserve of \$10,000 was set as the target. The \$10,000 amount was determined based on rate affordability and the community's ability to pay.

### Sources of funding

Funding for the replacement of components can only come from cash saved by the company, a grant or a loan.

With the current funding information, the WCSD has a high chance of qualifying for grants but will also need out-of-pocket cash reserves. It is assumed that the replacement of smaller capital assets valued less than \$10,000 will be 100% funded with cash and the replacement of larger capital assets will be funded with a combination of cash and grants, as shown in the below table.

**Default Funding of CRP**

		Cash	Grant	Loan
\$0	\$10,000	100%	0%	0%
\$10,001	\$100,000	20%	20%	60%
\$100,001	\$500,000	20%	60%	20%
\$500,001	\$9,999,999	0%	60%	40%

### Capital replacement program (CRP) description

The CRP would provide WCSD with a detail of the reserves needed to replace the existing, funded and future unfunded capital assets. The total line of the CRP table would be the amount WCSD must put aside each year to be able to replace the assets listed when they reach the end of their life expectancy. This amount varies every year when old equipment is replaced and when new equipment is installed. RCAC recommends WCSD develop a CRP based on a full itemized list of equipment in their water system.

There are no current capital projects, but should additional projects be planned, the assets will start deteriorating from the time they are installed. Hence the WCSD will need to plan for their future replacement.

### Alternative

If the water system decides not to fund the annual capital reserve requirement, the system will have to fund these amounts from other sources, or from steeper rate increases in future years. The system cannot count on the future generosity of the state or other government sources to provide a substantial grant.

It will require WCSD's effort to obtain these grants and/or loans. The amount of grants and/or loans obtained for future projects has a very substantial impact on water rates. Therefore, this study recommends a new rate study every five years.

## 6. Budget

WCSD	Budget	Projection	Projection	Projection	Projection
	2024	2025	2026	2027	2028
<b>Operating Expenses</b>					
Salaries & Benefits	\$ 90,096.00	\$ 93,700	\$ 97,447.8	\$ 101,345.7	\$ 105,399.6
System Materials & Supplies	\$ 500.00	\$ 520.00	\$ 540.80	\$ 562.43	\$ 584.93
Electricity	\$ 1,104.00	\$ 1,148.16	\$ 1,194.09	\$ 1,241.85	\$ 1,291.52
Testing	\$ 3,800.00	\$ 3,952.00	\$ 4,110.08	\$ 4,274.48	\$ 4,445.46
Dues & Memberships	\$ 1,200.00	\$ 1,248.00	\$ 1,297.92	\$ 1,349.84	\$ 1,403.83
Operations Expense	\$ 6,600.00	\$ 6,864.00	\$ 7,138.56	\$ 7,424.10	\$ 7,721.07
System Repairs & Maintenance	\$ 15,565.00	\$ 16,187.60	\$ 16,835.10	\$ 17,508.51	\$ 18,208.85
Fuel	\$ 145.27	\$ 151.08	\$ 157.12	\$ 163.41	\$ 169.95
Professional Services	\$ 15,200.00	\$ 15,808.00	\$ 16,440.32	\$ 17,097.93	\$ 17,781.85
Insurance	\$ 9,800.00	\$ 10,192.00	\$ 10,599.68	\$ 11,023.67	\$ 11,464.61
Postage	\$ 1,080.00	\$ 1,123.20	\$ 1,168.13	\$ 1,214.85	\$ 1,263.45
Office Expense	\$ 700.00	\$ 728.00	\$ 757.12	\$ 787.40	\$ 818.90
Subscriptions	\$ 642.00	\$ 667.68	\$ 694.39	\$ 722.16	\$ 751.05
Internet		\$ -	\$ -	\$ -	\$ -
Software	\$ 360.00	\$ 374.40	\$ 389.38	\$ 404.95	\$ 421.15
QuickBooks	\$ 640.00	\$ 665.60	\$ 692.22	\$ 719.91	\$ 748.71
Bank Charges	\$ 983.00	\$ 1,022.32	\$ 1,063.21	\$ 1,105.74	\$ 1,149.97
Disposal	\$ 250.00	\$ 260.00	\$ 270.40	\$ 281.22	\$ 292.46
Community Center	\$ 914.00	\$ 950.56	\$ 988.58	\$ 1,028.13	\$ 1,069.25
<b>Total Operating Expenses</b>	<b>\$ 149,579.27</b>	<b>\$ 155,562</b>	<b>\$ 161,785</b>	<b>\$ 168,256</b>	<b>\$ 174,987</b>
<b>Debt Service</b>					
<b>Reserve Funding:</b>					
Debt Reserves					
Operating Reserves	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739
Emergency Reserves	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
CRP Reserves	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
<b>Total Reserves</b>	<b>\$ 15,739</b>	<b>\$ 15,739</b>	<b>\$ 15,739</b>	<b>\$ 15,739</b>	<b>\$ 15,739</b>
<b>Total Costs</b>	<b>\$ 165,319</b>	<b>\$ 171,302</b>	<b>\$ 177,524</b>	<b>\$ 183,996</b>	<b>\$ 190,726</b>

### Source

All expenses shown in the budget were provided by WCSD as its 2023 approved budget. Subsequent four-year projections were based on an assumed 4% annual inflation rate. It should be noted that, due to

previously unreliable bookkeeping, the budget is based on the analysis of RCAC, the new general manager and contract accountant rather than historic costs.

The cash revenue shown is a calculated number based on:

- The water rates selected
- The number of paying customers
- An annual increase factor of 5%
- A conservation factor and growth factor
- Water sales

**Sales adjustments**

Higher water rates cause a reduction in the quantity of water sold as customers adjust their consumption to the new rates.

Sales adjustment over Base year	Year 1	Year 2	Year 3	Year 4	Year 5
Conservation Factor	-3%	-2%	-1%	-0%	0%
Growth Factor	0%	0%	0%	0%	0%
Total Sales Adjustment	-3%	-2%	-1%	-0%	0%

With a change in base rate and usage rate, it can be expected that customers will conserve water after seeing their new bills. It is estimated that after having the increased rates for three years, the customers will have returned to the water use habits they had prior to the rate change.

The Weott area is not expecting significant growth of new connections in the next five years. Annual growth factors are projected at 0% annually over the five-year period covered in this rate analysis.

An extremely low percentage of uncollectable accounts is assumed in this rate analysis.

% of Uncollectable Billings	Year 1	Year 2	Year 3	Year 4	Year 5
	.0.20%	.0.20%	.0.20%	.0.20%	.0.20%

**Alternatives**

If the utility does not fund its budget by setting appropriate water rates, it does not mean that the company cannot pay its bills. It simply means that the company is not providing for future replacement of the capital assets and will not be able to guarantee the continuing operation of the water system.

The utility and the board have a fiduciary responsibility to set rates to a level where the company can continue to operate and provide clean water for the foreseeable future.

## 7. Fixed versus variable expenses

### Source

The data comes from the budget as shown in Section 6 of this report.

### Description

Some expenses vary by the volume of water sold. For example, electricity costs will go up when more water is processed.

Other expenses are fixed. For example, insurance costs remain the same whether water is sold or not. Percentages are used to estimate the ratio of fixed to variable expenses because many expenses are somewhere in between.

In WCSD's case, 96% of all expenses are fixed and only 4% are variable. It is not unusual for smaller water systems to have a high percentage of fixed costs.

<b>Weott CSD 5-Year Average Fixed/Variable Costs</b>	<b>5-Year Average Costs</b>	<b>% Fixed</b>	<b>\$ Fixed</b>	<b>\$ Variable</b>
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>				
Salaries & Benefits	\$ 97,598	100%	\$ 97,598	\$ -
System Materials & Supplies	\$ 542	75%	\$ 406	\$ 135
Electricity	\$ 1,196	0%	\$ -	\$ 1,196
Testing	\$ 4,116	100%	\$ 4,116	\$ -
Dues & Memberships	\$ 1,300	100%	\$ 1,300	\$ -
Operations Expense	\$ 7,150	75%	\$ 5,362	\$ 1,787
System Repairs & Maintenance	\$ 16,861	75%	\$ 12,646	\$ 4,215
Fuel	\$ 157	100%	\$ 157	\$ -
Professional Services	\$ 16,466	100%	\$ 16,466	\$ -
Insurance	\$ 10,616	100%	\$ 10,616	\$ -
Postage	\$ 1,170	100%	\$ 1,170	\$ -
Office Expense	\$ 758	100%	\$ 758	\$ -
Subscriptions	\$ 695	100%	\$ 695	\$ -
Software	\$ 390	100%	\$ 390	\$ -
QuickBooks	\$ 693	100%	\$ 693	\$ -
Bank Charges	\$ 1,065	100%	\$ 1,065	\$ -
<b>Disposal</b>	\$ 271	100%	\$ 271	\$ -
Community Center	\$ 990	100%	\$ 990	\$ -
<b>Total Operation and Maintenance Expenses:</b>	<b>\$162,034</b>		<b>\$154,700</b>	<b>\$ 7,334</b>
<b>Reserve Funding</b>				
Operating Reserve Funding	\$ 3,739	100%	\$ 3,739	\$ -
Emergency Reserve Funding	\$ 2,000	100%	\$ 2,000	\$ -
Replacement of Existing Capital Assets	\$ 10,000	100%	\$ 10,000	\$ -
<b>Total Reserve Funding</b>	<b>\$ 15,739</b>		<b>\$ 15,739</b>	<b>\$ -</b>
<b>Total 5-Year Average Cost of Service</b>	<b>\$177,773</b>		<b>\$ 170,439</b>	<b>\$ 7,334</b>
<b>Fixed-Variable as % of all Expenses</b>			<b>96%</b>	<b>4%</b>



## Alternatives

While fixed expenses should be covered by the base rate (the same every month), variable costs should be covered by the usage rate (based on the quantity sold). Should fixed costs not be recovered by the base rate, but by variable income (usage charges), there may be seasonal shortfalls in cash-flow of the company, and the company will have to dip in its operating reserves.

The split between fixed and variable expenses is not germane to the overall balancing of the budget. It is only relevant to cover seasonal cash flows of the utility.

## 8. Rate calculation

### Theoretical base rate calculation

In theory, fixed expenses should be recovered by fixed income (base charges) and variable expenses should be recovered by variable income (usage charges). This is accomplished by using the total fixed cost and allocating it between total customers, based on the customer's potential demand as approximated by meter size.

The theoretical base rate, calculated by determining the maximum demand for each meter according to the AWWA Safe Maximum Operating Capacity, multiplying by the number of meters by that size in the system, and determining the percentage of total fixed costs that are allocated by meter size. This calculation results in the following:

Meter Size in "	Decimal Size	Number of Meters	AWWA Safe Maximum Operating Cap. (GPM)	Max Demand (GPM)	% Of Max Demand by Meter Size	Total Fixed Costs Allocated by Meter Size	Theoretical Base Rate by Meter Size per Month
A	B	C	D	E= D * C	F= % of total	G= % * total	H=G/C/12
3/4"	0.750	132	30	3,960	77.65%	\$132,341	\$ 83.55
2"	2.000	2	160	320	6.27%	\$10,694	\$ 445.59
3"	3.000	1	320	320	6.279%	\$10,694	\$ 891.18
4"	4.000	1	500	500	9.80%	\$16,710	\$1,392.48
<b>TOTAL</b>		<b>136</b>			<b>100.00%</b>	<b>\$170,439</b>	

Notes:

1. Safe maximum meter capacity for 5/8" through 2" meters (column D) based on AWWA C700 displacement meters.
2. Safe maximum meter capacity for 3" through 8" meters based on AWWA C702 compound meters.
3. Safe maximum meter capacity for 10" meter based on AWWA C704 propeller type meter.

### Base rate calculation – Rate Adjustment Option #1

Because full recovery of all the fixed costs in the base rate created a rate structure the board felt would be too onerous for the community, Rate Adjustment Option #1 sets base rates at 70% of fixed costs. The goal was to set a uniform usage rate in such a way that it generates enough revenue to balance the budget.

Meter Size	Theoretical Monthly Base Rate by Meter Size	Base Rate as % of Theoretical Rate	Existing Base Rate	Proposed Base Charge for Year 1	Year 2	Year 3	Year 4	Year 5
0.750	83.55	70%	\$55.00	\$ 58.48	\$ 61.41	\$ 64.48	\$ 67.70	\$ 71.09
2.000	\$445.59	70%	\$164.72	\$ 311.92	\$327.51	\$ 343.89	\$ 361.08	\$ 379.13
3.000	\$891.19	70%	\$340.82	\$ 623.83	\$ 655.02	\$ 687.77	\$ 722.16	\$ 758.27
4.000	\$1,392.48	70%	\$560.82	\$ 974.74	\$1,023.47	\$1,074.65	\$1,128.38	\$1,184.80

In Rate Adjustment Option #1, 70% of the fixed expenses are recovered by the base rate and the remaining is funded by the usage charge. This would be followed by an annual increase of 5% to both the base rates and the usage charges starting the second year.

Customers with large water meters could potentially draw a substantial volume of water. Therefore, they should pay a proportional share of the fixed costs of the system.

**Rate calculation – Rate Adjustment Option #2**

In Rate Adjustment Option #2, WCSD’s current base rate and meter equivalencies schedule remain the same as they currently are in the first year. After the first year, base and usage rates will increase by 5% annually.

Meter Size	Theoretical Monthly Base Rate by Meter Size	Existing Base Rate	Proposed Base Charge for Year 1	Year 2	Year 3	Year 4	Year 5
0.750	83.55	\$55.00	\$55.00	\$ 57.75	\$ 60.64	\$ 63.67	\$ 66.85
2.000	\$445.59	\$164.72	\$164.72	\$172.96	\$ 181.60	\$ 190.68	\$ 200.22
3.000	\$891.19	\$340.82	\$340.82	\$ 357.86	\$ 375.75	\$ 394.54	\$ 414.27
4.000	\$1,392.48	\$560.82	\$560.82	\$588.86	\$618.30	\$649.22	\$681.68

In Rate Adjustment Option #2, the current base rate remains the same in the first year and the costs allocated according to meter size remain. This allocation of meter sizes places a higher burden for revenue recovery on the ¾” meter connections. Subsequent years will have an annual increase of 5%.

## Usage rate calculation

The current usage rate for WCSD is tiered, with some allowance included in the base rate. The allowance varies according to winter and summer. Winter usage includes 550 cubic feet in the base rate and summer usage includes 1,350 cubic feet in the base rate. The usage after allowance, currently charged in units of 130 cubic feet, will be converted to a uniform usage rate for residential and commercial customers, instead of the previous tiered rate structure.

### *California Proposition 218 Article 13D, Section 6*

***(6.1) “...The agency shall provide written notice by mail of the proposed fee or charge to the record owner of each parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed, the basis upon which the amount of the proposed fee or charge was calculated, ...”***

In the landmark 2015 ruling in the case of Capistrano Taxpayers Association v. The City of San Juan Capistrano, the Fourth District of the Court of Appeal ruled that Proposition 218 requires public water agencies to calculate the actual costs of providing water at various levels of usage. In order to comply with section 6.1, tiered rates’ mathematical calculations must be conducted to justify how the number of units in each tier and the amount charged in each tier were determined. Because WCSD’s variable costs are at only 4% of the total costs of service, mathematical calculations identifying the costs of each tier become very complex, if not impossible, and the resulting tiers would not notably increase revenue, RCAC recommends changing the usage charges to a uniform rate. The two rate adjustment options in this analysis are based on a flat or uniform usage rate, in which every drop of water delivered is charged at the same rate regardless of usage.

***(6.2.b.1) “Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service”***

Due to these regulations, RCAC recommends not including usage in base rates. If a connection is using less than the allotment included in the base rate, the charge is in excess of the property-related service and the charge to that property is, therefore, subsidizing the rates of other users.

***(6.2.b.2) “Revenues derived from the fee or charge shall not be used for any other purpose than that for which the fee or charge was imposed.”***

The rates calculated in the analysis were based on the cost of service for the water enterprise only.

***(6.2.b.3) “The amount of fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.”***

In Bighorn-Desert View Water Agency vs. Verji (2006) it was determined that “while tiered, or inclined rates that go up progressively in relation to usage are perfectly consonant with article XIID, Section 6, subdivision (b)(3) the tiers must still correspond to the actual cost of providing service at a given level of usage.” In this case, the water agency failed to calculate the cost of actually providing water at its various tier levels. It merely allocated all its costs among the price tier levels, based not on costs, but on pre-determined usage budgets.

Tiered rates are an effective tool in a utility’s efforts to curb wasteful usage of water, an essential resource to all living things. However according to case law on Proposition 218, tiered rates are allowable only if the water utility can justify the need for a tiered rate structure. Calculating the units in each tier and the cost of each tier is much more clear-cut in larger utilities that may need to hire additional staff with an increase in water usage; will see large increases in chemical and power costs; or may have additional costs related to their water source and can quantify the toll on capital assets as usage increases. For smaller systems, who usually have salaried staff whose time cannot be directly or indirectly linked to the amount of water delivered to its connections and whose chemical and electrical costs do not increase dramatically with increased usage, it becomes complex to quantify. Therefore, RCAC recommends converting the current tiered rate structure to a uniform rate structure. California Articles XIII C and XIII D places the burden of proof on water utilities to show that the benefit conferred to each parcel is proportional to the rate of the fee. After San Juan Capistrano, the growing body of case law on tiered water rates emerging out of the California Court of Appeals has turned tiered rate-setting into a confusing and tenuous process. If WCSD determines to continue charging tiered rates, RCAC recommends they consult with legal counsel who is well-versed in Proposition 218 case law.

While relying heavily on the usage rate to balance the budget, it provides a little more control to the property owner by allowing them to reap the financial benefits of conserving water. However, WCSD must be aware that if all fixed costs are not recovered through the base rate, which they are not in either rate adjustment option in this analysis, a reduction in customer usage will result in less revenue and periods of low cash flow. Residential water demand is price-elastic, meaning that increases in water rates dependably lead to decreases in consumption by individual households.

This benefit has been taken into consideration through the conservation factors applied to the estimated future quantities of water sold.

	Year 1	Year 2	Year 3	Year 4	Year 5
Conservation Factor	-3%	-2%	-1%	-0%	0%

In **Rate Adjustment Option #1**, the new usage charge per 100 cubic feet is \$4.17 per CF for all customers, regardless of usage in the first year. Subsequent years will require an increase of the greater of either the annual Consumer Price Index or 5%. To simplify billing and to make it easier for customers to calculate what their bills will be, the usage units have been changed from 130 cubic feet per unit to the industry standard of 100 cubic feet per unit.

<b>Rate Adjustment Option #1 Usage Rate</b>					
<b>All Meter Sizes</b>	<b>Proposed Usage Charge for Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Usage Rate per one (100) CF	\$4.17	\$4.38	\$4.60	\$4.83	\$5.07

**In Rate Adjustment Option #2**, the new usage charge per 100 cubic feet is \$4.88 CF for all customers, regardless of usage in the first year. Subsequent years will require an increase of the greater of either the annual Consumer Price Index or 5%. To simplify billing and to make it easier for customers to calculate what their bills will be, the usage units have been changed from 130 cubic feet per unit to the industry standard of 100 cubic feet per unit.

<b>Rate Adjustment Option #2 Usage Rate</b>					
<b>All Meter Sizes</b>	<b>Proposed Usage Charge for Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Usage Rate per one (100) CF	\$4.88	\$5.12	\$5.38	\$5.65	\$5.93

### Seasonal cash flow

By setting the base rate to less than the theoretical rate and relying on usage charges to balance the budget, seasonal cash flow issues may appear, particularly in the event of drought restrictions.

To reduce the need for drastic rate increases in future years, a gradual annual increase of the greater of either the annual Consumer Price Index or 5% for all rates is recommended. This will also ensure the rates are keeping up with increasing costs within the system.

### Estimated profit and loss with new rates – Rate Adjustment Option #1

The total annual revenue at the rates illustrated for Rate Adjustment Option #1, the expected reduction in revenue due to estimated non-paying customers and the budgeted cost of service is indicated in the table below. The estimated annual contribution to reserves is included in the table. Full funding of capital replacement reserves will not be possible until year three.

<b>Rate Adjustment Option #1</b>	<b>Year #1</b>	<b>Year #2</b>	<b>Year #3</b>	<b>Year #4</b>	<b>Year #5</b>	<b>5 Year Total</b>
Base + Usage Rate Revenue	\$ 160,546	\$ 169,020	\$ 177,939	\$ 187,328	\$ 196,695	\$ 891,528
Uncollectible Receivables	\$ (321)	\$ (338)	\$ (356)	\$ (375)	\$ (393)	\$ (1,783)
<b>Total Operating Revenue</b>	<b>\$ 160,225</b>	<b>\$ 168,682</b>	<b>\$ 177,583</b>	<b>\$ 186,954</b>	<b>\$ 196,301</b>	<b>\$ 889,745</b>
Operating Costs	\$ 149,579	\$ 155,562	\$ 161,785	\$ 168,256	\$ 174,987	\$ 810,170
Operating Reserves	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 18,697
Emergency Reserves	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 10,000
CRP Reserves	\$ 4,906	\$ 7,380	\$ 10,059	\$ 12,958	\$ 15,575	\$ 50,878
<b>Total Costs</b>	<b>\$ 160,225</b>	<b>\$ 168,682</b>	<b>\$ 177,583</b>	<b>\$ 186,954</b>	<b>\$ 196,301</b>	<b>\$ 889,745</b>
<b>Operating Revenue Over/(Under) Costs</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Rate Adjustment Option #1 Five-Year Rate Schedule</b>					
<b>Meter Size</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
3/4"	\$ 58.48	\$ 61.41	\$ 64.48	\$ 67.70	\$ 71.09
2'	\$ 311.92	\$ 327.51	\$ 343.89	\$ 361.08	\$ 379.13
3"	\$ 623.83	\$ 655.02	\$ 687.77	\$ 722.16	\$ 758.27
4"	\$ 974.74	\$ 1,023.47	\$ 1,074.65	\$ 1,128.38	\$ 1,184.80
<b>Usage Rate per CCF</b>	<b>4.17</b>	<b>4.38</b>	<b>4.60</b>	<b>4.83</b>	<b>5.07</b>

**Rate Adjustment Option #1 affordability index**

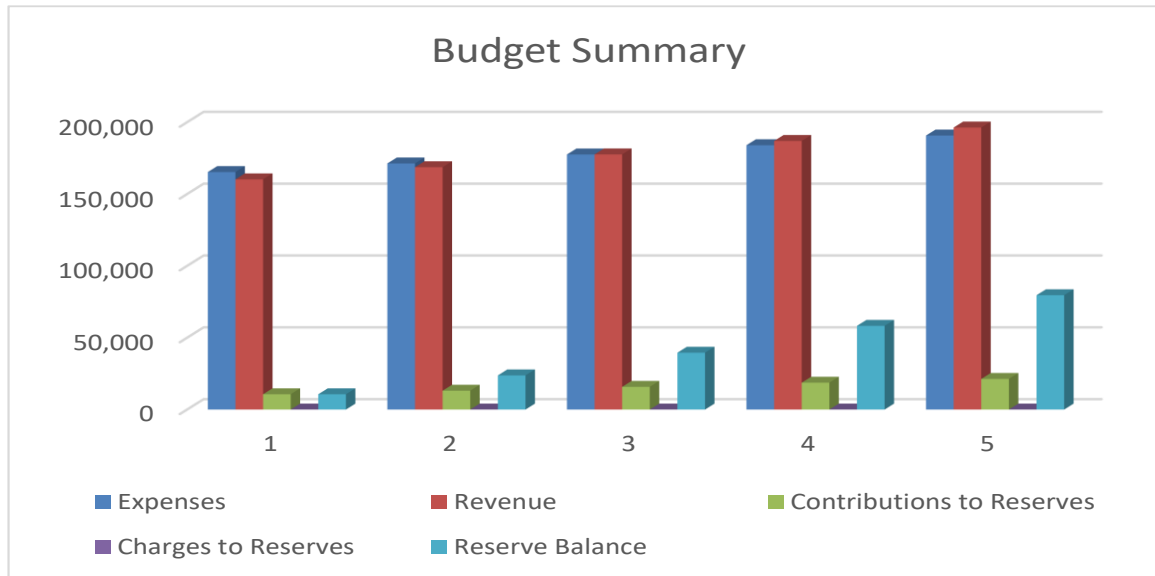
		Year 1	Year 2	Year 3	Year 4	Year 5
Affordability Index MHI of	\$32,344	3.11%	3.28%	3.45%	3.64%	3.82%

The MHI of WCSD’s service area (from American Community Survey estimates for 2019) is \$32,344. The “affordability index” was calculated by dividing the average annual water bill of all residences by the MHI.

<b>California 2023 Assessment Affordability Indicator</b>		
	<b>Thresholds</b>	<b>Risk Level - Affordability Burden</b>
Percent of Median Household Income (% MHI)	0% - 1.49%	None
	1.5% - 2.49%	Medium
	2.5% or Greater	High

Any percentage below 1.49% is considered highly “affordable” and low risk for the water system. Any percentage between 1.5% and 2.49% is considered in the medium affordability range, placing the water enterprise in the medium risk category, and any percentage above 2.5% is considered potentially unaffordable and places the water system in a high-risk category.

The proposed rates fall in the high-risk range despite every attempt to reduce the costs of service.



#### Impacts of Rate Adjustment Option #1

- Expenses (darker blue bar) show a slight increase each year due to inflation.
- Revenue (red bar) climbs each year starting the first year as the WCSD continues to contribute a fixed revenue to the existing CRP for asset replacement.
- Contributions to reserves (green bar) show a minimal contribution to capital reserves.
- Charges to reserves (purple bar) are the replacement costs of certain assets, according to the CRP.
- The reserve balance (light blue bar) is the amount available to replace the system in future years. The reserve balance shows an increase in reserve balance due to continuous contributions to reserves.
- The purple bars indicate the need to dip into your reserves. Because a complete asset management/CRP was not available, it is impossible to determine how much of the funds in the capital replacement reserves will be used for system improvements and replacements over the five-year period.

A new rate study should be conducted in five years or if a grant or loan is obtained.



### Estimated monthly bill – Rate Adjustment Option #1

#### Average Monthly Bill by Meter Size

Meter Size	Meter Size	Year 1	Year 2	Year 3	Year 4	Year 5
0.750	3/4"	\$81.91	\$86.26	\$90.84	\$95.66	\$100.44
2.000	2"	\$342.01	\$359.44	\$377.75	\$397.00	\$416.85
3.000	3"	\$810.91	\$853.48	\$898.28	\$945.42	\$992.70
4.000	4"	\$1,091.24	\$1,147.06	\$1,205.74	\$1,267.41	\$1,330.78

The current WCSD rate structure inadvertently results in ¾" meter rate payers supplementing the rates of larger metered rate payers, which is not allowable under Proposition 218. Rate Adjustment Option #1 will distribute costs equitably among the meter sizes

### Estimated profit and loss with new rates – Rate Adjustment Option #2

The total annual revenue at the rates illustrated for Rate Adjustment Option #2, the expected reduction in revenue due to estimated non-paying customers and the budgeted cost of service is indicated in the table below. The estimated annual contribution to reserves is included in the table. Full funding of capital replacement reserves will not be possible until year three.

Rate Adjustment Option #2	Year #1	Year #2	Year #3	Year #4	Year #5	5 Year Total
Base + Usage Rate Revenue	\$ 160,141	\$ 168,778	\$ 177,879	\$ 187,469	\$ 196,842	\$ 891,109
Uncollectible Receivables	\$ (320)	\$ (338)	\$ (356)	\$ (375)	\$ (394)	\$ (1,782)
<b>Total Operating Revenue</b>	<b>\$ 159,821</b>	<b>\$ 168,441</b>	<b>\$ 177,524</b>	<b>\$ 187,094</b>	<b>\$ 196,448</b>	<b>\$ 889,327</b>
Operating Costs	\$ 149,579	\$ 155,562	\$ 161,785	\$ 168,256	\$ 174,987	\$ 810,170
Operating Reserves	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 3,739	\$ 18,697
Emergency Reserves	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 10,000
CRP Reserves	\$ 4,502	\$ 7,139	\$ 9,999	\$ 13,098	\$ 15,722	\$ 50,460
<b>Total Costs</b>	<b>\$ 159,821</b>	<b>\$ 168,441</b>	<b>\$ 177,524</b>	<b>\$ 187,094</b>	<b>\$ 196,448</b>	<b>\$ 889,327</b>
Revenue Operating Revenue						
Over/(Under) Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<b>Rate Adjustment Option #2 Five-Year Rate Schedule</b>					
<b>Meter Size</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
3/4"	55.00	57.75	60.64	63.67	66.85
2'	164.72	172.96	181.60	190.68	200.22
3"	340.82	357.86	375.75	394.54	414.27
4"	560.82	588.86	618.30	649.22	681.68
<b>Usage Rate per CCF</b>	<b>5.89</b>	<b>6.18</b>	<b>6.49</b>	<b>6.82</b>	<b>7.16</b>

**Rate Adjustment Option #2 affordability index**

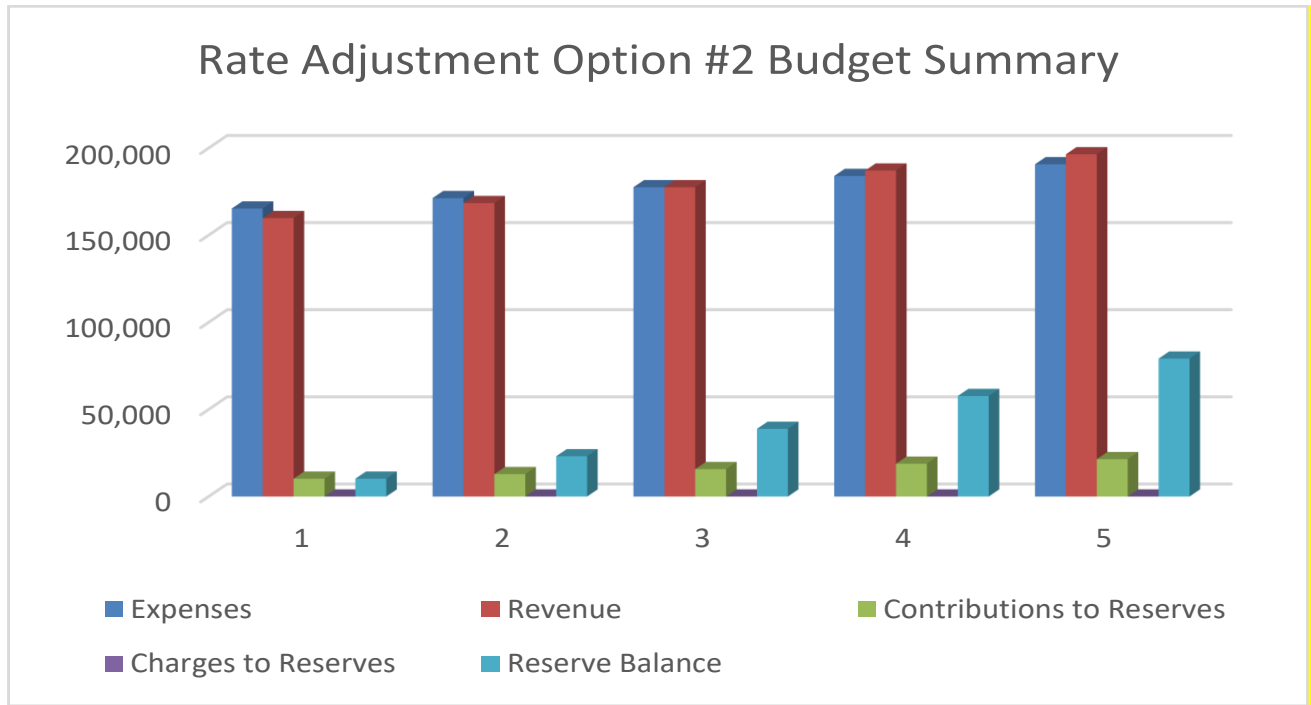
		<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Affordability Index MHI of	\$32,344	3.30%	3.48%	3.67%	3.97%	4.06

The median household income of the WCSD’s service area (from American Community Survey estimates for 2019) is \$32,344. The “affordability index” was calculated by dividing the average annual water bill of all residences by the MHI.

<b>California 2023 Assessment Affordability Indicator</b>		
<b>Percent of Median Household Income (% MHI)</b>	<b>Thresholds</b>	<b>Risk Level – Affordability Burden</b>
	0% - 1.49%	None
	1.5% - 2.49%	Medium

Any percentage below 1.49% is considered highly “affordable” and low risk for the water system, any percentage between 1.5% and 2.49% is considered in the medium affordability range, placing the water enterprise in the medium risk category, and any percentage above 2.5% is considered potentially unaffordable and places the water system in a high-risk category.

The proposed rates fall in the high-risk range despite every attempt to reduce the costs of service.



The proposed rates fall in the high-risk range despite every attempt to reduce the costs of service.

#### Impacts of Rate Adjustment Option #2

- Expenses (darker blue bar) show a slight increase each year due to inflation.
- Revenue (red bar) climbs each year starting the first year as WCSD continues to contribute a fixed revenue to the existing CRP for asset replacement.
- Contributions to reserves (green bar) show a minimal contribution to capital reserves.
- Charges to reserves (purple bar) are the replacement costs of certain assets, according to the CRP.
- The reserve balance (light blue bar) is the amount available to replace the system in future years. The reserve balance shows an increase in reserve balance due to continuous contributions to reserves.
- The purple bars indicate the need to dip into your reserves. Because a complete asset management/capital replacement program was not available, it is impossible to determine how much of the funds in the capital replacement reserves will be used for system improvements and replacements over the five-year period.
- A new rate study should be conducted in five years or if a grant or loan is obtained.

## Estimated monthly bill – Rate Adjustment Option #2

### Average monthly bill by meter size

Meter Size	Meter Size	Year 1	Year 2	Year 3	Year 4	Year 5
0.750	3/4"	\$88.09	\$92.85	\$97.87	\$103.16	\$108.32
2.000	2"	\$207.23	\$218.05	\$229.44	\$241.42	\$253.49
3.000	3"	\$605.06	\$638.17	\$673.09	\$709.89	\$745.39
4.000	4"	\$725.38	\$763.43	\$803.47	\$845.60	\$887.88

Rate Adjustment Option #2 follows WCS D’s current meter size base rate allocation and keeps the current base rate in the first year. Subsequent years will increase by the higher of either the Consumer Price Index or 5%. Rate Adjustment Option #2 puts a higher burden of recovering costs through rates on the ¾” meters.

## 9. Conclusions and recommendations

### Key points to remember with any rate adjustment:

- Successful utilities are those that strive to be transparent. In day-to-day operations, WCSD should strive to promote its services (highlights and the low points), and continuously educate residents on why it is necessary to raise and adjust rates.
- The ability of the recommended rate structure to generate adequate revenue will depend on maintaining a vigorous collection and shut-off policy to keep delinquent accounts at a minimum.
- In order to achieve and maintain long-term viability, WCSD should review its rates annually, or no less than a minimum of every two years. Keeping track of customer seasonal and annual water demands will help determine operational needs, budget forecasts and rate adjustments.
- WCSD should implement the first year rate adjustment as soon as possible, and subsequent annual adjustments on July 1 to provide sufficient revenues for funding future operations and to adequately fund reserves.
- WCSD should establish policies for reserve accounts as recommended on pages 16 and 17.
- WCSD should designate reserves on its financial statements.
- WCSD should maintain and report balance sheet activities according to individual enterprise.
- CRP reserves should be moved to and maintained in the highest interest bearing accounts available to offset inflation unless the cost of doing so would be more than the interest earned on the account.

## 10. Proposition 218

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision.

Water and water rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel.
- An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time, and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.
- California Senate Bill No. 323 statement, “Any judicial action or proceeding to attack, review, set aside, void, validate, or annul an ordinance, resolution, or motion adopting a fee or charge for water or sewer service, or modifying or amending an existing fee or charge for water or sewer service, shall be commenced within 120 days of the effective date or of the date of the final passage, adoption, or approval of the ordinance, resolution, or motion, whichever is later.”

California’s Proposition 218 provides that a customer of WCSD or owner of record of a parcel or parcels subject to the proposed rate increases may submit a protest against any or all of the proposed rate increases by filing a written protest with WCSD on or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.