



Rohnert Park

2021 Water Rate Study Report

Exhibit A

October 31, 2021



Executive Summary

The Reed Group, Inc. along with Hildebrand Consulting, LLC. have been retained by the City of Rohnert Park (City) to conduct a water rate study (Study) for the City's water enterprise. The full report describes in detail the assumptions, procedures, and results of the Study, including conclusions and recommendations. The scope of the Study is to prepare a multi-year financial plan, review the water rate structure, update the cost of service analysis (COSA) that supports the water rates, propose a 5-year rate schedule, and update the City's Water Shortage Surcharge policy. This Study applied methodologies that are aligned with industry standard practices for rate setting as laid out in the AWWA M1 Manual, and all applicable law, including California Constitution Article XIII D, Section 6(b), commonly referred to as Proposition 218.

Financial Plan - The Study produced a robust financial plan intended to enable the City to meet its future revenue requirements and achieve financial performance objectives throughout the projection period while striving to minimize rate increases. The analysis identifies a revenue shortfall in upcoming years, which leads to a conclusion that revenue adjustments are required for the water utility. Based upon financial data, assumptions, and policies, this Study proposes a 5-year schedule of annual overall rate revenue adjustments as detailed in the table below.

Recommended Water Rate Revenue Increase

Rate Adjustment Date	Proposed Rate Revenue Increase
March 1, 2022	5.0%
Jan 1, 2023	5.0%
Jan 1, 2024	5.0%
Jan 1, 2025	5.0%
Jan 1, 2026	5.0%

Cost of Service and Rate Structure - The Cost-of-Service Analysis (COSA) evaluates the cost of providing water and allocates those costs to rate structure components to ensure the proposed rates are aligned with the costs to provide service. The COSA is performed in order to comply with Proposition 218, which requires water rates not exceed the proportional cost of the service attributable to the parcel receiving service. The rate structure proposed by this Study is designed to fairly and equitably recover costs through rates, conform to accepted industry practice and legal requirements, provide fiscal stability and recovery of system fixed cost, and meet other rate setting objectives, as described in the full report.

This Study employed a COSA methodology that is consistent with the “commodity-demand” methodology promulgated in AWWA’s *Manual M1: Principles of Water Rates, Fees, and Charges (M1)*. This is a well-established methodology as recognized by the AWWA and other accepted industry standards.

The City currently charges a fixed Capital Preservation Charge along with a fixed Service Charge. Given that these two fixed charges are both assessed based on the size of each account’s meter, this study proposes to combine the two charges into a single Service Charge. The proposed monthly Service Charge for Year 1 of the proposed 5-year rate schedule for a 1” meter is \$29.63, as shown in the table below. This value was calculated by adding a monthly Account Charge of \$3.98 plus \$25.65 for a monthly Meter Charge.

Proposed Monthly Service Charges

Meter Size	Account Charge	Meter Charge	Monthly Service Charge
Up to 1"	\$3.98	\$25.65	\$29.63
1.5"	\$3.98	\$51.30	\$55.28
2"	\$3.98	\$82.08	\$86.06
3"	\$3.98	\$153.89	\$157.87
4"	\$3.98	\$256.49	\$260.47
6"	\$3.98	\$512.98	\$516.96
8"	\$3.98	\$820.77	\$824.75

Current and proposed water usage rates include a 2-tier rate structure for single-family accounts and a uniform rate for all other customers. The price difference between Tier 1 and Tier 2 is based on the difference in the cost of delivering local groundwater as compared to the cost of providing imported water (as well as funding the conservation program, which should be funded by the City’s largest water users). The proposed Tier 1 rate is \$3.57 per TGAL and the proposed Tier 2 rate is \$4.94 per TGAL. The uniform rate for other customers (which is effectively the weighted average of the Tier 1 and Tier 2 rates) is \$4.33 per TGAL.

In order to pair the Tier 1 water sales with the proportion of water that comes from groundwater, the Tier 1 water allocation is proposed to be decreased from 4,000 gallons per month to 3,000 gallons per month.

5-Year Schedule of Proposed Water Rates

	Current	Proposed				
		March 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026
Rate Revenue Increases:		5.0%	5.0%	5.0%	5.0%	5.0%
Single Family Usage Rate (\$/gal.)						
Tier 1 ¹	\$0.003420	\$0.003570	\$0.003749	\$0.003936	\$0.004133	\$0.004340
Tier 2	\$0.004630	\$0.004940	\$0.005187	\$0.005446	\$0.005718	\$0.006004
Multi-Family and Non-Residential Usage Rate (\$/gal.)						
Uniform Rate	\$0.003980	\$0.004330	\$0.004547	\$0.004774	\$0.005013	\$0.005264
Fixed Monthly Service Charges						
Up to 1"	\$29.13	\$29.63	\$31.11	\$32.67	\$34.30	\$36.02
1.5"	\$54.63	\$55.28	\$58.04	\$60.94	\$63.99	\$67.19
2"	\$85.21	\$86.06	\$90.36	\$94.88	\$99.62	\$104.60
3"	\$156.55	\$157.87	\$165.76	\$174.05	\$182.75	\$191.89
4"	\$258.48	\$260.47	\$273.49	\$287.16	\$301.52	\$316.60
6"	\$513.33	\$516.96	\$542.81	\$569.95	\$598.45	\$628.37
8"	\$819.14	\$824.75	\$865.99	\$909.29	\$954.75	\$1,002.49

¹ For the first 3,000 gallons per month

Water Shortage Surcharges – The Water Shortage Surcharge policy overlays a surcharge on then-current water usage rates during the time that a water shortage is

declared by the City. Water Shortage Surcharges would be temporary and affect only the Usage Rate and not the fixed Service Charge. The Water Shortage Surcharge is a tool the City would use to reduce the (potentially severe) financial impacts associated with reduced water sales and increases in operating costs during a drought or other water shortage event. The multi-pronged approach includes implementing the temporary surcharge, reducing capital spending, and relying (modestly) on reserves to help bridge the financial deficit created by reduced water sales. The temporary water shortage rate surcharge is not intended to be a penalty for excessive use; rather it represents each customer’s fair share of the cost of partially bridging the financial deficit created by reduced water sales during periods of water shortage.

Proposed Water Shortage Surcharge by Drought Stage

	Normal Supply	Stage 1 Voluntary	Stage 2 Mandatory	Stage 3 Mandatory	Stage 4 Mandatory	Stage 5 Mandatory	Stage 6 Mandatory
Water Shortage Surcharge -->	None	None	None	5%	10%	15%	20%

Conclusion - The Study used methodologies that are aligned with industry standard practices for rate setting as promulgated by AWWA and applicable laws, including California’s Proposition 218. The proposed annual adjustments to the water rates are expected to enable the City to continue to provide reliable service to customers while meeting the state’s mandates.

The water rates, including the Water Shortage Surcharges, will need to be adopted in accordance with Proposition 218, which will require a detailed notice describing the proposed charges to be mailed to each affected property owner or customer at least 45 days prior to conducting a public hearing to adopt the rates. The City should consult with its legal counsel on the appropriate procedures for those fees.

As with past practice, the City should monitor financial conditions and needs on an ongoing (annual) basis and update the financial plan model if conditions or plans change sufficiently to warrant an update. Actual future conditions, such as water demand, water sales revenue, water purchase costs, operating and maintenance expenses, capital preservation project costs/timing, project financing, etc., may differ

from the financial plan assumptions reflected herein. Material differences affecting the overall financial condition of the water system may warrant closer review and/or an earlier update. The need for and magnitude of annual water rate increases may also be affected by differences between assumed and actual conditions.

TABLE OF CONTENTS

SECTION 1.	INTRODUCTION.....	4
1.1	UTILITY BACKGROUND.....	4
1.2	SCOPE & OBJECTIVES OF STUDY.....	5
1.3	STUDY METHODOLOGY	5
SECTION 2.	FINANCIAL PLAN.....	7
2.1	FUND STRUCTURE.....	7
2.2	BEGINNING FUND BALANCES.....	9
2.3	CUSTOMER GROWTH AND WATER USAGE	9
2.4	RATE REVENUE	10
2.5	NON-RATE REVENUES.....	11
2.6	OPERATING AND DEBT EXPENSES	12
2.7	COST ESCALATION	13
2.8	CAPITAL IMPROVEMENT PROGRAM.....	14
2.9	DEBT STRATEGY.....	14
2.10	CASH RESERVE POLICIES	15
2.11	PROPOSED RATE REVENUE INCREASES	16
SECTION 3.	COST OF SERVICE & RATE STRUCTURE.....	18
3.1	CURRENT RATES	18
3.2	CUSTOMER STATISTICS	19
3.3	WATER RATE CALCULATIONS	20
3.3.1	Water Rate Revenue Requirements.....	21
3.3.2	Cost-of-Service Analysis	21
3.3.3	Allocation to Revenue Recovery Components	22
3.3.4	Calculate Unit Costs.....	25
3.3.5	Bill Impacts of Proposed Water Rates	29
3.4	ADOPTION OF PROPOSED RATES.....	29
SECTION 4.	WATER SHORTAGE SURCHARGE POLICY.....	31
SECTION 5.	CONCLUSION	36

LIST OF TABLES

TABLE 1: RECOMMENDED WATER RATE REVENUE INCREASE.....	16
TABLE 2: CURRENT FIXED MONTHLY RATES.....	19
TABLE 3: SUMMARY OF WATER SERVICE CONNECTIONS AND WATER USAGE	20
TABLE 4: FY 2021/22 ALLOCATION TO REVENUE RECOVERY COMPONENTS	25
TABLE 5: FY 2021/22 UNITS COSTS	26
TABLE 6: CALCULATION OF PROPOSED MONTHLY SERVICE CHARGES	27
TABLE 7: BILL IMPACTS FOR A SAMPLING OF CUSTOMERS	29

TABLE 8: PROPOSED WATER SHORTAGE SURCHARGES & FINANCIAL STRATEGY 32
TABLE 9: ILLUSTRATION OF WATER SHORTAGE SURCHARGE APPLICATION 33
TABLE 10: ESTIMATED RATE REVENUE UNDER WATER SHORTAGE CONDITIONS 34
TABLE 11: SAMPLE SINGLE FAMILY RES. BILLS WITH SHORTAGE RATE SURCHARGES 35

LIST OF FIGURES

FIGURE 1: SCHEMATIC OF WATER FUNDS AND CASH FLOWS 9
FIGURE 2: REVENUE CATEGORIES (FY 2021/22)..... 11
FIGURE 3: OPERATING AND DEBT EXPENSE CATEGORIES (BUDGETED FOR FY 2020/21)..... 13
FIGURE 4: HISTORIC AND PROJECTED CAPITAL SPENDING 14
FIGURE 5: FINANCIAL PROJECTION WITH RECOMMENDED RATE REVENUE INCREASES 17

LIST OF SCHEDULES

- Schedule 1** – Budgeted and Projected Operating Expenses
- Schedule 2** – 5-Year Capital Spending Plan
- Schedule 3** - Cash Flow Pro Formas (Funds 511, 531 and 519)
- Schedule 4** - 5-Year Schedule of Proposed Rates

List of Acronyms

AF	acre-feet (measure of water volume)
AWWA	American Water Works Association
CAFR	Comprehensive Annual Financial Report
CIP	capital improvement program
COSA	cost of service analysis
CY	calendar year
DCR	debt service coverage ratio
FY	fiscal year (which ends on June 30 for the City)
O&M	operations and maintenance
OPEB	Other Post-Employment Benefits
pay-go	“pay as you go” (i.e., cash financing for capital projects)
<i>SJC</i>	San Juan Capistrano (in reference to a court case)
TGAL	thousand gallons
WSCP	water shortage contingency plan

Section 1. INTRODUCTION

The Reed Group, Inc. along with Hildebrand Consulting, LLC. have been retained by the City of Rohnert Park (City) to conduct a water rate study (Study) for the City's water enterprise. This report describes in detail the assumptions, procedures, and results of the Study, including conclusions and recommendations.

1.1 UTILITY BACKGROUND

The City of Rohnert Park provides water service to its residents. On average, approximately 60% percent of the City's water supply is produced by the Sonoma County Water Agency (Sonoma Water) which supplies treated Russian River water to multiple jurisdictions throughout Sonoma and Marin counties. The remainder of the City's potable water supply originates from 30 deep ground water wells located throughout the City. These combined sources supply an average of 1.7 billion gallons of drinking water annually and a daily production average of 4.7 million gallons per day (mgd). Additionally, Rohnert Park has seven water storage tanks with a total capacity of approximately five million gallons of treated water. City's Water Production Division operates and maintains water storage, pumping, and treatment facilities throughout the water system.

The City's last water rate study was conducted by The Reed Group in 2017 and led to the approval of a 5-year schedule of adjusting the Capital Preservation Charge through January 2023. At the time there was already authorization to make annual pass-through adjustments to the water usage rates to account for increases in the Sonoma Water wholesale water rates. The last pass-through adjustment was made in January 2020, at which time the authorization expired. The most recent adjustment to the Capital Preservation Charge was implemented in January of 2020 (while authorized, the scheduled increases for the Capital Preservation Charge for January 2021 were not implemented).

1.2 SCOPE & OBJECTIVES OF STUDY

The scope of this Study is to prepare a multi-year financial plan, review the water rate structure, update the cost of service analysis (COSA) that supports the water rates, propose a 5-year rate schedule, and update the City's Water Shortage Surcharge policy.

The primary objectives of this Study are to:

- i. Develop a multi-year financial plan that integrates operational and capital project funding needs with a funding strategy.
- ii. Identify future annual adjustments to water rates to help ensure adequate revenues to meet the City's ongoing financial obligations.
- iii. Update the cost of providing water service consistent with California's legal requirements and using industry-accepted methodologies.
- iv. Recommend specific updates to the City's existing rate structures in order to ensure that the City is equitably recovering the cost of service and comports with industry standards¹ and California's legal requirements.

1.3 STUDY METHODOLOGY

This Study applied methodologies that are aligned with industry standard practices for rate setting as laid out in the AWWA M1 Manual, and all applicable law, including California Constitution Article XIII D, Section 6(b), commonly referred to as Proposition 218.

The Study began with a review of the City's current financial dynamics and latest available data for the City's operations. A multi-year financial management plan was then developed to determine the level of annual rate revenue required to cover projected annual operating expenses, debt service (including coverage targets), and

¹ As promulgated the American Water Work Association (AWWA) M1 Manual: Principles of Water Rates, Fees and Charges: Manual of Water Supply Practices M1, (7th edition), which documents many of the standards used by professionals in the utility rate-setting industry.

capital cost requirements while maintaining adequate reserves. This portion of the Study was conducted using an MS Excel©-based financial planning model which was customized to reflect financial dynamics and latest available data for the City's operations in order to develop a long-term financial management plan, inclusive of projected annual revenue requirements and corresponding annual rate adjustments.

Revenue requirements calculated for fiscal year ending June 30, 2022 (FY 2021/22²) were then used to perform a detailed cost-of-service (COS) analysis. The COSA and rate structure design were conducted based upon principles outlined by the AWWA, legal requirements (Proposition 218) and other generally accepted industry practices to develop rates that reflect the cost of providing service.

² Fiscal years are sometimes indicated by their ending years. For example, FY 2021/22, starts on July 1, 2021, and ends on June 30, 2022, can also be expressed as FY 2022.

Section 2. FINANCIAL PLAN

This section presents the Water Enterprise's 10-year Financial Plan, including a description of the source data, assumptions, and the City's financial policies. The City provided historical and budgeted financial information, including historical and budgeted operating costs, a multi-year capital improvement program (CIP), and outstanding debt service obligations. City staff also assisted in providing other assumptions and policies, such as reserve targets and escalation rates for operating costs (all of which are described in the following subsections).

The 10-year Financial Plan was developed through numerous interactive work sessions with City staff. As a result of this process, the Study has produced a robust financial plan intended to enable the City to meet its future revenue requirements and achieve financial performance objectives throughout the projection period while striving to minimize rate increases.

The analysis identifies a revenue shortfall in upcoming years, which leads to a conclusion that revenue adjustments are required for the water utility. The schedules attached to this report include detailed data supporting the Financial Plan discussed herein.

The Financial Plan reflects assumptions and estimates believed reasonable at the present time. However, conditions change. It is recommended that the City review its financial condition and scheduled rate adjustments as part of the annual budget process, as well as perform a more comprehensive financial plan and water rate update every 3 to 5 years, as conditions dictate.

2.1 FUND STRUCTURE

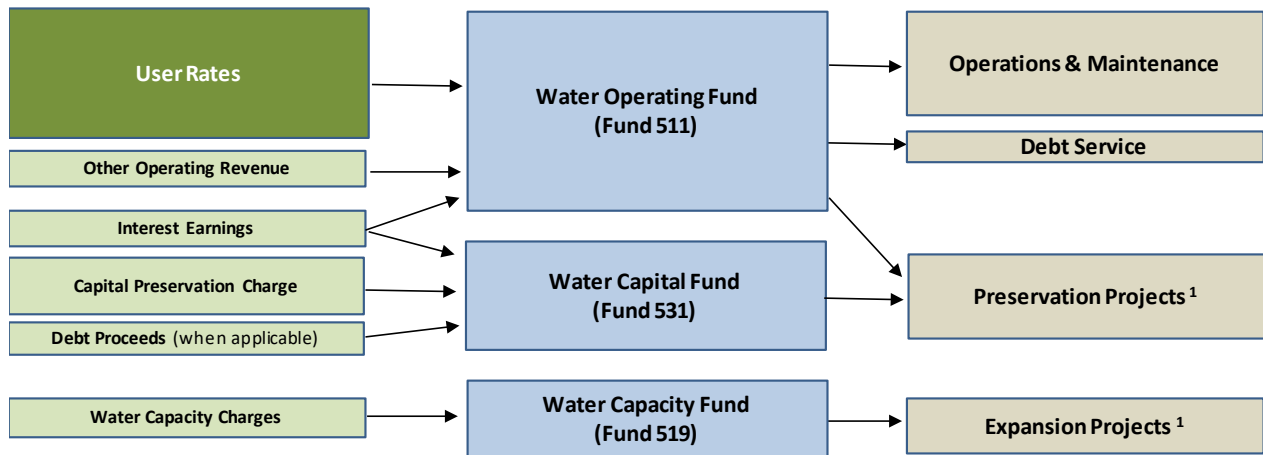
The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and

reserves of the water utility. The financial plan model is based on the fund structure currently used by the City and incorporates proposed reserve policies for specified purposes. The Water Enterprise's fund structure includes an Operating Fund (Fund 511), a Capital Preservation Fund (531), Capital Fund (Fund 541), and a Water Capacity Fund (Fund 519). A separate Water Developer Fund (Fund 110) is in the process of being retired and is therefore not addressed in this Study. **Figure 1** provides a schematic diagram of the funds and major cash flows associated with the financial plan model.

An understanding of the fund structure is helpful in understanding the financial plan worksheets that model estimated annual cash flows through the water utility from one year to the next. The fund structure is comprised of:

- **Water Operating Fund (511)** – The Operating Fund is the primary fund within the Water Enterprise. Most of the water system's revenues, including water rate revenues, flow into the Operating Fund and all operating and maintenance costs, including water purchases and debt service payments, are paid out of this fund. In addition, the Operating Fund also supports part of the water enterprise's capital improvement program. Funds are transferred from the Operating Fund to the **Capital Fund (Fund 541)**, which acts as a pass-through fund for the purpose of processing the execution of all capital projects.
- **Capital Preservation Fund (531)** – The Capital Preservation Fund receives all revenues generated by the Capital Preservation Charge and is used to pay for most preservation capital projects. Capital projects funded from this fund are intended to preserve (rehabilitate and upgrade) the water system (as opposed to expanding the water system to serve new growth). The financial plan model maintains a positive balance in Fund 531 while also covering the costs of preservation projects. Since the Capital Preservation Charge currently does not generate sufficient revenue to cover all capital preservation spending, a positive balance in Fund 531 is achieved by having a portion of capital preservation projects funded by Fund 511. As discussed in the text box in Section 3.3.4.1, this Study explores approaches for simplifying the water rates while improving the self-sufficiency of Fund 531.
- **Water Capacity Fund (Fund 519)** – The City maintains the Water Capacity Fund to account for Water Capacity Charge revenue. Money in this fund is available

for capacity expansion projects needed to meet the capacity needs of new development. Because this fund is independent of the issues affecting water rates, it does not play an active role in the financial plan and development of water rate recommendations. This Fund 519 supersedes Fund 110 which was previously used for the same purpose.



¹ All capital project spending is processed through Fund 541

Figure 1: Schematic of Water Funds and Cash Flows

2.2 BEGINNING FUND BALANCES

The beginning cash balance for FY 2021/22 in the Operating Fund (511) was approximately \$6,932,000 while the Capital Preservation Fund (531) beginning cash balance was approximately \$1,138,000³. These cash balances were used to establish the “starting point” for the reserve levels for this 10-year financial plan. The amount of cash that the City keeps in reserves is a product of its reserve policies (see Section 2.9).

Over the period of FY 2018-19 through FY 2020-21 the City has collected an approximate average of \$725 thousand per year in Water Capacity Charge revenue from new customers connecting to the system. Due to the City’s wide range of

³ Both of the beginning cash balance values account for previous year capital project encumbrances.

capacity charges (depending on the location of the development) it is not possible to infer recent growth trends solely on the basis of capacity charge revenue. Based on conversations with the City's Development Department this Study assumes that growth in Rohnert Park has been, and will continue to average, about 1% over the next 10 years.

2.4 RATE REVENUE

Rate revenue is the revenue generated from customers for water service. The City collects rate revenue bimonthly from water customers in the form of a fixed "Service Charge" and "Capital Preservation Charge" (both assessed based on meter size) and a "Usage Rate" applied to actual water use (measured in thousands of gallons or "TGAL"). It is worth noting that the City's water rates are among the lowest in the region.

The Financial Plan starts with calculated expected rate revenue levels for FY 2021/22 based on the current number of accounts and recent water usage. The rate revenues for FY 2021/22 are expected to be similar to the revenues from the previous year (FY 2020/21) since no rate increases were implemented in the interim (see Section 1.1). The impact of the current drought on water usage revenue is not yet understood therefore no changes in water usage behavior has been assumed for this year nor future years. In fact, recent analysis by the City suggests that water usage may have actually increased in 2021 (perhaps to irrigation in compensation for the dry winter). That being said, drought awareness is expected to increase therefore it isn't clear whether the recent water usage increases will continue, flatten, or be reversed.

As such, estimated future water demand and rate revenues include the small amount of customer growth (see Section 2.3) as well as the annual rate revenue adjustments proposed by this Study but no changes in water usage behavior. Budgeted and projected rate revenues (including proposed rate adjustments) are listed in **Schedule 3**.

2.5 NON-RATE REVENUES

In addition to rate revenue, the City receives additional “non-rate revenue” from sources such as miscellaneous service fees, Capacity Charges, penalties, and interest revenue on investments. Projections of all non-rate revenues were based on FY 2021/22 budgeted revenues, as directed by City staff, with the exception of interest income which was calculated annually based upon projected fund balances and assumed interest rate of 0.5%. Water Capacity Charge revenue is assumed to continue at a pace similar to the average over the past 3 years (about \$725 thousand, see Section 2.3). Forecasted non-rate revenues are listed in **Schedule 3**. It is worth noting that the City can collect as much as \$200 thousand in late payment penalties, but there has been a moratorium on late penalties during the on-going Covid pandemics. We assume that penalty collections will resume in FY 2022/23.

Figure 2 below depicts the relative amount of Water Enterprise revenues for FY 2021/22.

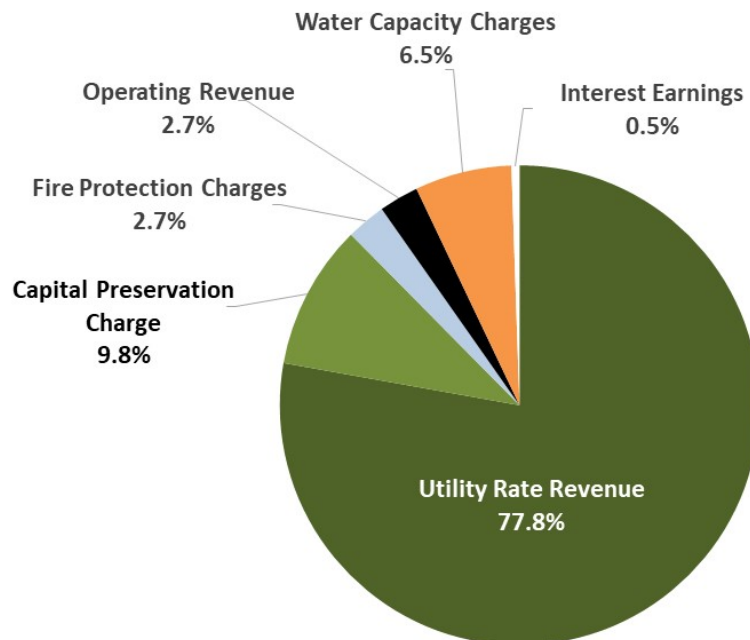


Figure 2: Revenue Categories (FY 2021/22)

2.6 OPERATING AND DEBT EXPENSES

The City's expenses include operating and maintenance expenses, internal loan repayments, and capital spending. The following section addresses operating expenses and the internal loan, while capital spending is addressed separately in Section 2.8.

This financial plan uses budgeted expenditures for FY 2021/22 as a starting point for projecting future operating and maintenance expenses. Current day expenses were adjusted for inflation over the 10-year planning period (see Section 2.7).

Currently about 40 percent of the City's water supply is pumped groundwater with the balance purchased from the Sonoma Water. The current ratio of groundwater use is up from 33 percent in 2017. The 2017 study had recommended that the City maximize the use of groundwater (because groundwater is less expensive than purchased water) while continuing to comply with a 2002 settlement agreement which stipulates the City can use no more than 2,576 acre-feet (AF) of groundwater per year (which is a little more than 50 percent of the City's typical water needs). Minimizing groundwater usage also reflects the City's long-term goal of managing groundwater use sustainably, consistent with the adopted Groundwater Management Plan for the Santa Rosa Plain Groundwater Basin. By definition, managing the groundwater sustainably means limiting long-term groundwater extraction to the amount of recharge, thereby avoiding long-term depletion of the aquifer. Based on conversations with City staff, this Study assumes that about 40 percent of the City's water supply will come from groundwater over the next 10 years (about 1,930 AF annually). This represents an increase in water purchase costs over FY 2020/21 when the City only budgeted to purchase 55 percent of its water from Sonoma Water (rather than 60 percent).

The Water Enterprise's current debt obligation is limited to an internal loan, with average repayments of about \$320 thousand per year through FY 2028/29.

Major budgeted expense categories for FY 2021/22 are depicted in **Figure 3**. Projected operating and maintenance costs are listed in detail in **Schedule 1**.

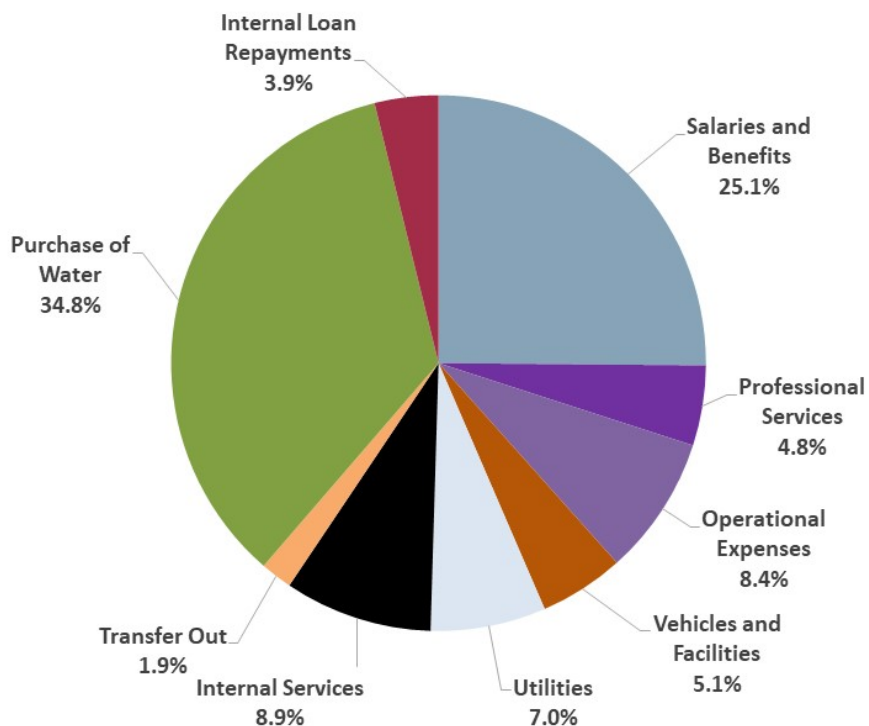


Figure 3: Operating and Debt Expense Categories (budgeted for FY 2020/21)

Annual cost escalation factors for the various types of expenses were developed based upon a review of historical inflation trends, published inflation forecasts, industry experience, and discussions with City staff. During the projection period, expenses related to most expenses, including salaries, utilities, professional services and supplies were projected to increase at a rate of 3% per year. Some cost categories were projected to increase at a different pace, including:

- 6% per year for wholesale water purchases based on recent rate increases by Sonoma County Water Agency
- 6% per year for benefits based on Staff's understanding of expected costs associated with pension obligations

2.8 CAPITAL IMPROVEMENT PROGRAM

Figure 4 shows that from FY 2015/16 to FY 2020/21 the City averaged \$3.7 million in cash financed (“pay-go”) capital spending. Going forward (between FY 2021/22 and FY 2025/26), the City is planning to increase its annual spending to an average of \$4.2 million per year (not including inflation). The City is increasing its capital spending in order to pro-actively address water system rehabilitation needs associated with aging pipes, pump stations, water tanks, and other system deficiencies. A 5-year detailed list of capital projects and associated costs is provided in Schedule 2 (capital spending from FY 2026/27 through FY 2031/32 was assumed to be equal to the average of the previous 4 years plus inflation).

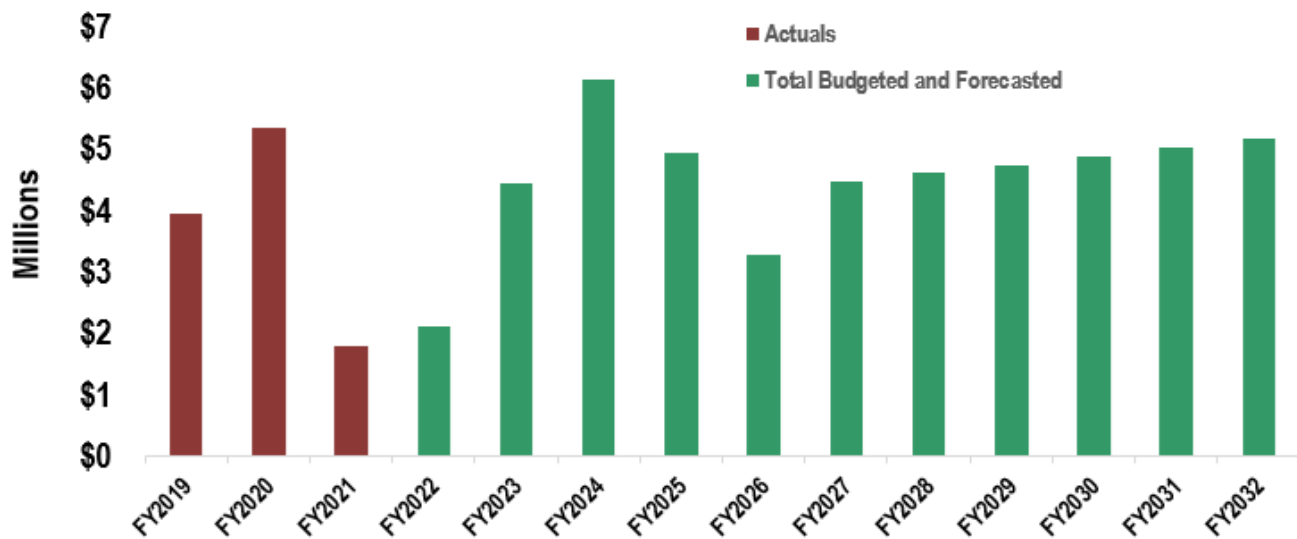


Figure 4: Historic and Projected Capital Spending

As part of this Study, we worked with City staff to evaluate alternative financing approaches for the above-mentioned capital expenses. Debt can be a useful tool for public utilities that are facing a sudden increase (or “spike”) in capital spending. Given that no such spikes are projected for the Water Enterprise, this Study does not propose the issuance of debt.

2.10 CASH RESERVE POLICIES

Cash reserve policies are cash balances targets that are retained for specific cash flow needs. The target for reserves is an important component when developing a multi-year Financial Plan and maintaining prudent reserves is an essential component of any sound financial management strategy. Utilities rely on reserves for financial stability; credit rating agencies evaluate utilities in part on their adherence to formally adopted reserve targets; and lending agencies require utility enterprises to maintain specific debt reserves for outstanding loans. The target levels of the policies below are consistent with 1) the City's established policies and practices; 2) the findings of reserve studies conducted by the AWWA; 3) a healthy level of reserves for a utility per the evaluation criteria published by rating agencies (e.g., Fitch, Moody's, and Standard & Poor's); and 4) the consultant's industry experience for similar systems.

The following recommended reserve policies are based on adopted policies (Resolution No. 2020-008). The policy recommendations are intended to help the City mitigate and manage financial risk while meeting service and financial obligations.

- ***Operating Reserve*** – The City maintains an Operating Reserve equal to 50 percent of annual operating and maintenance costs, including debt service when applicable, for the water system. The purpose of the Operating Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The reserve target for FY 2021/22 was about \$3.65 million.
- **Rate Stabilization Reserve** – The City also maintains Rate Stabilization Reserve of \$1.5 million within the Operating Fund. This reserve bolsters financial stability and can be drawn upon for drought or other emergency purposes and would reduce the utility's financial risk.

The balance in the Operating Fund in excess of the target amounts for the Operating Reserve and the Rate Stabilization Reserve can be considered "available balance". The financial plan model generally seeks to reduce any available balance over time.

A negative value for the available balance would indicate shortfalls in maintaining the minimum Operating Reserve and Rate Stabilization Reserve.

While not included in the current financial plan, the City may want to eventually consider adoption of a Capital Reserve policy which would serve the dual purpose of protecting the Water Enterprise from catastrophic failure of a major asset as well as providing a financial cash flow “cushion” for funding future spikes in capital spending (although no such spike is forecasted at this time).

2.11 PROPOSED RATE REVENUE INCREASES

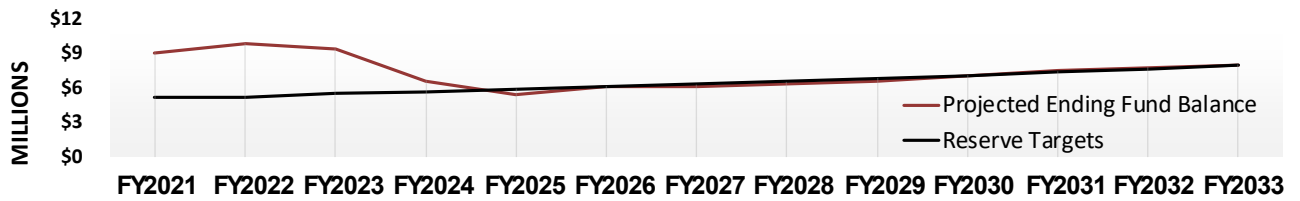
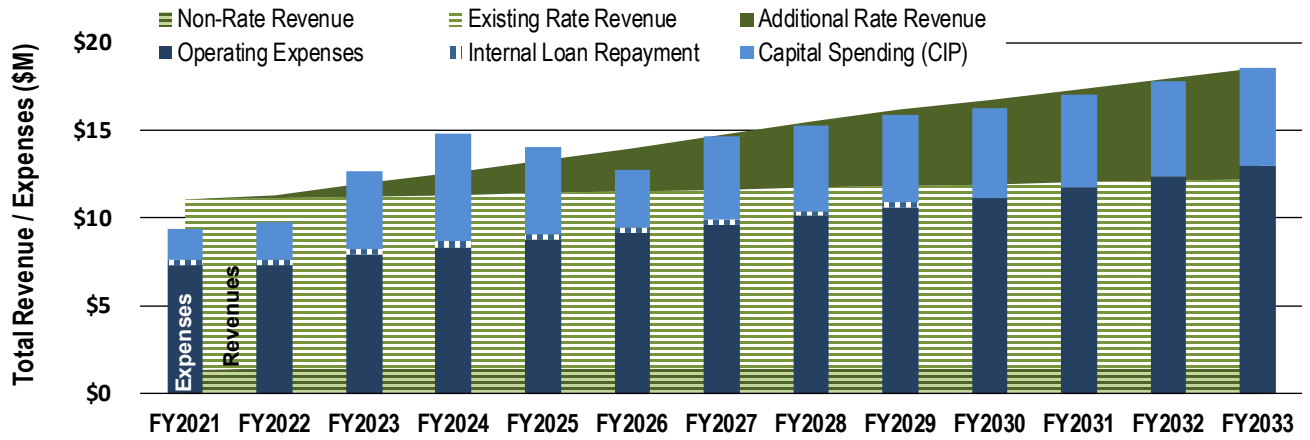
All of the above information was entered into a financial planning model to produce a 10-year projection of the sufficiency of current rate revenues to meet projected financial requirements and determine the level of rate revenue increases necessary in each year of the projection period.

Based upon the previously discussed financial data, assumptions, and policies, this Study proposes a 5-year schedule of annual overall rate revenue adjustments as detailed in Error! Reference source not found..

Table 1: Recommended Water Rate Revenue Increase

Rate Adjustment Date	Proposed Rate Revenue Increase
March 1, 2022	5.0%
Jan 1, 2023	5.0%
Jan 1, 2024	5.0%
Jan 1, 2025	5.0%
Jan 1, 2026	5.0%

Figure 5, which shows that the combined reserves for Funds 511 and 531 are maintained over the course of the planning period.



Rate Revenue Increase:	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%
	Proposed Rate Schedule					Projected Increases (TBD)						

Figure 5: Financial Projection with Recommended Rate Revenue Increases

Section 3. COST OF SERVICE & RATE STRUCTURE

The Cost-of-Service Analysis (COSA) evaluates the cost of providing water and allocates those costs to rate structure components to ensure the proposed rates are aligned with the costs to provide service. The COSA is performed in order to comply with Proposition 218, which requires water rates not exceed the proportional cost of the service attributable to the parcel receiving service.

Upon completion of the COSA, a rate structure analysis was performed to evaluate rate structure modifications and calculate specific rate schedules for implementation in the second half of FY 2021/22. The complete schedule of proposed rates for FY 2021/22 through FY 2025/26 is detailed in **Schedule 4**.

The rate structure proposed by this Study is designed to:

- ▶ Fairly and equitably recover costs through rates
- ▶ Conform to accepted industry practice and legal requirements
- ▶ Provide fiscal stability and recovery of system fixed costs
- ▶ Meet other rate setting objectives, as described in Section 1.4

This Study employed a COSA methodology that is consistent with the “commodity-demand” methodology promulgated in AWWA’s *Manual M1: Principles of Water Rates, Fees, and Charges (M1)*. This is a well-established methodology as recognized by the AWWA and other accepted industry standards.

3.1 CURRENT RATES

The structure for the City’s current water rates follow a common industry practice with a two-part structure that is comprised of two fixed components (the Service Charge and the Capital Preservation Charge) and a consumption-based Usage Rate. Both the Service Charge and the Capital Preservation Charge are charged based on the individual account’s meter size. Together the fixed charges currently recover approximately 42 percent of total rate revenue. The current Service Charge and

Capital Preservation Charge schedules are summarized in **Table 2**. Bills are sent to customers every two months.

Table 2: Current Fixed Monthly Rates

	Service Charge	Capital Preservation Charge
Up to 1" meter	\$21.63	\$7.50
1 1/2" meter	\$39.63	\$15.00
2" meter	\$61.21	\$24.00
3" meter	\$111.55	\$45.00
4" meter	\$183.48	\$75.00
6" meter	\$363.33	\$150.00
8" meter	\$579.14	\$240.00

The Usage Charge is assessed based on actual water usage (measured in gallons). The Usage Charge is tiered (\$0.00342 per gallon for Tier 1 and \$0.00463 per gallon for Tier 2) for single family residential customers and flat (or “uniform”) for all other customers (\$0.00398 per gallon).

3.2 CUSTOMER STATISTICS

Water rate calculations are based on a number of factors related to the City’s customer base. Factors include the number of customers, customer classes, meter size, and actual water usage. The City provides water service through about 9,650 water service connections (customer accounts). Single family comprise about 89 percent of the customer accounts and about 46 percent of annual water usage. Multi-family accounts make up almost 4 percent of the customer accounts and 35 percent of annual water usage. Finally, non-residential customers make up about 8% of the accounts and 18% of the water usage.

While there are extremes on both the low and high ends, average monthly single-family water usage is about 6.2 TGAL (or about 204 gallons per day). Non-residential water usage can vary dramatically, and non-residential customers are served by meters of varying sizes to accommodate the differences in water demands.

Service connections with different meter sizes can place different demands on the water system. For example, six times more water can be delivered through a 3” water meter than through a 1” meter. The current rate structure is based on hydraulic capacity factors which relate the potential demands on the water system from customers with different sized water meters. These factors are used to determine the number of equivalent meters represented by the total customer base with variable meter sizes.

Typically, the smallest meter size is assigned a hydraulic capacity factor of 1.0 and the ratios of rated flow capacities of the various meter sizes compared to the capacity of that smallest meter are used to determine the capacity factors for other meter sizes. This capacity relationship across meter sizes is used to allocate capacity-related fixed costs to various customers. This is also a common rate-setting practice used in the water industry. **Table 3** presents the rated flow capacity of various meter sizes and how these are used to develop hydraulic capacity factors (see rows 5 & 6). Table 3 also summarizes customer account and water usage data during calendar year (CY) 2020, used in water rate calculations.

Table 3: Summary of Water Service Connections and Water Usage

		1" and below	1 1/2"	2"	3"	4"	6"	8"	Total	Actual CY 2020 Water Use (TGAL)
<i>Number of Accounts</i> ¹										
1	Single Family Residential	8,559	1						8,560	640,000
2	Multi-Family	170	43	59	20	18	38	1	349	493,000
3	Non-Residential	370	171	173	15	16	3	1	749	258,000
4	Total Accounts	9,099	215	232	35	34	41	2	9,658	1,391,000
5	Meter Rating (gpm) ²	50	100	160	300	500	1,000	1,600		
6	Hydraulic Capacity Factor	1.0	2.0	3.2	6.0	10.0	20.0	32.0		
7	1" Equivalent Meters	9,099	430	742	210	340	820	64	11,705	

Notes:

¹ Water rate calculations are based on the customer base and water usage during the calendar year 2020.

² AWWA M1 Manual, 7th Edition, Table B-2

3.3 WATER RATE CALCULATIONS

- Determine annual water rate revenue requirements
- Analyze the cost of providing service and proportionately allocate costs to be recovered from customers either through one of the fixed charges or the usage rate.

3.3.1 Water Rate Revenue Requirements

The 10-year Financial Plan was used to identify the water rate revenue required to meet financial obligations for each fiscal year of the planning period. The water rate calculations presented herein are based on the revenue to be generated in FY 2021/22⁴, and reflects the proposed 5 percent overall rate increase to be incorporated in the City's Financial Plan. The annual water rate revenue requirement with this rate adjustment is \$10.1 million (see bottom of Table 4).

3.3.2 Cost-of-Service Analysis

Once the annual water rate revenue requirement was determined using the financial planning model, the next step in the rate-setting process was to allocate costs to be recovered through the various rate elements. Water rate calculations contained herein are intended to generate water rate revenue equal to the revenue requirement from the City's water service customers. The manner in which each customer is responsible for the water utility's costs is the determining factor in the cost-of-service analysis.

The cost allocation approach presented by this Study is consistent with the methodology that was used in the 2017 rate study. Used herein the methodology is commensurate with the available data and the requirement to fairly and reasonably reflect the cost difference to provide services to different types of customers. The goal of the methodology was to allocate costs in a manner that satisfy not only cost of service (proportionality) requirements, but also the objectives of revenue sufficiency, revenue stability, and encouraging water conservation.

⁴ The first proposed rate increases will occur on March 1, which is four months before the end of the fiscal year. In subsequent years the rate increases will occur on each January 1.

With regard to tiered water rates, in April 2015, the Fourth District Court of Appeal decided the *Capistrano Taxpayer Association v. City of San Juan Capistrano* case (SJC decision) that public agencies have authority to design tiered water rate structures, but that the tiers must be based on calculating the cost of providing water at various levels of usage. The SJC decision is one of several court cases addressing water and wastewater rates since voters approved Proposition 218 in 1996.

3.3.3 Allocation to Revenue Recovery Components

The cost allocation methodology begins by assigning all costs to one of three revenue recovery components. The cost allocation process is performed with data available in the Water Utility's detailed budget and related financial documents. The five categories include:

- The Customer Charge is intended to recover fixed costs such as meter reading and billing, which tend to vary as a function of the number of customers being served. Customer costs are allocated to customers based on the number of accounts. That is, every customer will pay an equal share of customer-related costs.
- The Meter Charge is also used to recover fixed costs; however, these costs tend to vary in relation to the capacity of the water system and the ability to serve the demands of active customers. Customers that place greater or lesser burdens on the capacity of the water system should bear greater or lesser shares of these costs. The sizing of the water system is based on the potential demand that each customer could place on the water system. Capacity-related costs are allocated to customers based on the hydraulic capacity of the water meter. The hydraulic capacity reflects the potential demand that a customer could place on the water system at any given time and is a general indicator of total system demands. A customer with a large meter size will be assigned a larger share of fixed capacity-related costs than one with a smaller meter. Costs that are driven by the size of water system include capital preservation projects, debt service, maintenance, and certain fixed operating costs. The City currently charges a separate Capital Preservation Charge that serves the same purpose as a Meter Charge (as described above) albeit with the sole purpose of funding Capital Preservation projects.

- The Usage Rates are primarily intended to recover the Water Enterprise’s variable costs (i.e., costs that vary entirely or substantially in response to the amount of actual water use or are reasonably allocated based on water use). Water purchase costs and energy costs are two typical examples. In addition to all of the utility’s variable costs, the Usage Rates also recover some fixed costs. It is reasonable to recover some fixed costs through the Usage Rates given the general impact of higher water usage on the need for system capacity and infrastructure.

The Usage Rates are made up of tiered rates for Single Family Residential and uniform rates for all other customers. The Tier 1 rate is lower than the uniform rate, which is lower than the Tier 2 rate. The tiered rates are designed such that the average of all tiered water sold to Single Family Residential is equal to the uniform rate. The basis for the difference between Tier 1 versus Tier 2 rates is the fact that Tier 1 rates reflect the cost of providing local groundwater while Tier 2 rates reflect the cost of providing (more expensive) imported water. As such, the Usage Rate is made up of two separate charges: the Local Supply Charge and the Imported Supply Charge.

Table 4 summarizes how the FY 2021/22 revenue requirement is comprised of various functional categories of operating and maintenance costs and capital spending with offsetting revenues and the application of available reserves. It also illustrates how these functional cost categories are each assigned to one or more of the revenue recovery components, previously described.

The costs within each of the functional categories were derived from the line-item detailed budget for FY 2020/21. In reviewing Table 4, we see that all water purchase costs (row 10) and conservation-related costs⁵ (row 11) are allocated entirely to the Imported Supply Charge. Utility costs (row 8) are assumed to be driven by local water supply production and pressurization (since imported water is received pressurized). General and administrative costs (rows 5, 9, 12 and 13) are recovered primarily through the Account Charge (60 percent) with the balance recovered through the Usage Rate (split proportionately between Local and Imported Supply).

⁵ Conservation costs are recovered through Tier 2 because high-water users drive the need for the City’s conservation program.

Similarly, operating expenses (rows 3, 4, 6 and 7) are driven primarily by local water production (80 percent) with the balance recovered through the Usage Rate (split proportionately between Local and Imported Supply). Personnel-related costs (rows 1 and 2) are split between infrastructure management (40 percent to the Meter Charge) and water supply production (40 percent for local water and 20 percent for imported water). Capital spending and debt service (rows 14 and 15) are driven primarily by the size of the system and is therefore allocated 80 percent to the Meter Charge with the balance recovered through the Usage Rate (split proportionately between Local and Imported Supply). The Use of Reserves, fire protection charge revenue and rate revenue from growth (Rows 16 - 19) are credited based on the indirect method (based on the weighted average allocation of all previous costs). Finally, the City uses its discretion to crediting miscellaneous operating revenues to Tier 1 (Local Supply Charge) in the interest of providing affordable water.

The final allocations result in 4.6 percent of costs are recovered through the Account Charge, 35.7 percent are recovered through the Meter Charge, 21.7 percent are recovered through the Local Supply Charge, and 38.0 percent through the Imported Supply Charge. These ratios are similar but not identical to those developed in the 2017 water rate study. Changes to these allocation percentages is a natural by-product of shifts in the City's cost profile (such as the increase in capital spending).

Table 4: FY 2021/22 Allocation to Revenue Recovery Components

Budget Line Items	FY 2021/22 Budget	Percent Allocation				Cost Allocation			
		Account Charge	Meter Charge	Local Supply Charge	Imported Supply Charge	Account Charge	Meter Charge	Local Supply Charge	Imported Supply Charge
1 Salaries	\$1,258,000		40.0%	40.0%	20.0%		\$503,200	\$503,200	\$251,600
2 Benefits	\$666,000		40.0%	40.0%	20.0%		\$266,400	\$266,400	\$133,200
3 Operational Expenses	\$524,000			80.0%	20.0%			\$419,200	\$104,800
4 Professional Services	\$370,000			80.0%	20.0%			\$296,000	\$74,000
5 Information Technology	\$52,000	60.0%		17.7%	22.3%	\$31,200		\$9,179	\$11,621
6 Vehicles	\$267,000			80.0%	20.0%			\$213,600	\$53,400
7 Facilities	\$124,000			80.0%	20.0%			\$99,200	\$24,800
8 Utilities	\$534,000			80.0%	20.0%			\$427,200	\$106,800
9 Cost Allocation Plan	\$633,000	60.0%		17.7%	22.3%	\$379,800		\$111,741	\$141,459
10 Purchase of Water	\$2,664,000				100%				\$2,664,000
11 Conservation	\$120,000				100%				\$120,000
12 Reimbursement	\$20,000	60.0%		18%	22%	\$12,000		\$3,531	\$4,469
13 Transfer Out	\$127,000	60.0%		18%	22%	\$76,200		\$22,419	\$28,381
14 Debt Service	\$295,000		80%	9%	11%		\$236,000	\$26,038	\$32,962
15 Average Capital Spending	\$3,623,000		80%	9%	11%		\$2,898,400	\$319,777	\$404,823
16 Use of Reserves	(\$479,000)	4.4%	35%	24%	37%	(\$21,204)	(\$165,826)	(\$115,427)	(\$176,543)
17 Rate Revenue from Growth	(\$97,000)	4.4%	35%	24%	37%	(\$4,294)	(\$33,581)	(\$23,375)	(\$35,751)
18 Fire Protection Revenue	(\$294,000)	4.4%	35%	24%	37%	(\$13,015)	(\$101,780)	(\$70,847)	(\$108,358)
19 Non-Rate Revenue	(\$318,000)				100%				(\$318,000)
Total Revenue Requirement*:	\$10,089,000					\$460,700	\$3,602,800	\$2,189,800	\$3,835,700

Once functional cost categories are allocated to the revenue recovery components, the total for each component is divided by the number of associated units of demand to calculate unit costs (see **Table 5**). The units of demand include the number of customer accounts for the Account Charge, number of 1” equivalent meters for the Meter Charge, and annual water sales in Tier 1, Tier 2, and uniform rates for the Local Supply Charge and the Imported Supply Charge, respectively.

Table 5: FY 2021/22 Units Costs

		Account Charge	Meter Charge	Uniform Rate	Tier 1 Rate	Tier 2 Rate
Units of Service:	9,658	11,705	751,000	282,000	357,000	
	Accounts	Equivalent Meters	TGALs	TGALs	TGALs	
Revenue Requirement						
Personnel	\$1,924,000		\$769,600	\$623,708	\$353,795	\$176,897
	<i>Unit Cost:</i>	<i>\$0.00</i>	<i>\$65.75</i>	<i>\$0.83</i>	<i>\$1.25</i>	<i>\$0.50</i>
Operating Expenses	\$1,285,000			\$694,270	\$472,584	\$118,146
	<i>Unit Cost:</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.92</i>	<i>\$1.68</i>	<i>\$0.33</i>
Water Purchases	\$2,664,000			\$1,439,327		\$1,224,673
	<i>Unit Cost:</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$1.92</i>	<i>\$0.00</i>	<i>\$3.43</i>
Conservation	\$120,000			\$64,835		\$55,165
	<i>Unit Cost:</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.09</i>	<i>\$0.00</i>	<i>\$0.15</i>
Utilities	\$534,000			\$288,514	\$196,389	\$49,097
	<i>Unit Cost:</i>	<i>\$0.00</i>	<i>\$0.00</i>	<i>\$0.38</i>	<i>\$0.70</i>	<i>\$0.14</i>
General & Administrative	\$832,000	\$499,200		\$179,808	\$67,518	\$85,475
	<i>Unit Cost:</i>	<i>\$51.69</i>	<i>\$0.00</i>	<i>\$0.24</i>	<i>\$0.24</i>	<i>\$0.24</i>
Capital Spending	\$3,918,000		\$3,134,400	\$423,369	\$158,975	\$201,256
	<i>Unit Cost:</i>	<i>\$0.00</i>	<i>\$267.77</i>	<i>\$0.56</i>	<i>\$0.56</i>	<i>\$0.56</i>
Use of Reserves	-\$479,000	-\$21,204	-\$165,826	-\$157,748	-\$53,063	-\$81,159
	<i>Unit Credit:</i>	<i>-\$2.20</i>	<i>-\$14.17</i>	<i>-\$0.21</i>	<i>-\$0.19</i>	<i>-\$0.23</i>
Other Sources	-\$709,000	-\$17,308	-\$135,361	-\$300,579	-\$189,503	-\$66,249
	<i>Unit Credit:</i>	<i>-\$1.79</i>	<i>-\$11.56</i>	<i>-\$0.40</i>	<i>-\$0.67</i>	<i>-\$0.19</i>
Total Costs:	\$10,089,000	\$460,688	\$3,602,814	\$3,255,503	\$1,006,694	\$1,763,302
	Unit Costs:	\$3.98	\$25.65	\$4.33	\$3.57	\$4.94
		per account per month	Per equivalent meter per month	Per TGAL	Per TGAL	Per TGAL

Tier 1 Allocation

Given that Tier 1 represents the cost of local water supply, the Tier 1 water allocation (the amount of water each account receives before being charged at Tier 2 rates) should result in 40 percent of single family water being sold at Tier 1 rates (the same proportion as groundwater sales, see Section 2.6). As such, the allocation of water for Tier 1 is proposed to be lowered from 4000 gallons per month to 3000 gallons.

The City's Service Charges is a combination of the Account Charge and the Meter Charge, as described in Section 3.3.4. The Service Charge is a fixed monthly fee which apply to all customer water bills (depending on the size of the meter), regardless of

the amount of water actually used. Customers that use no water during a billing period are still required to pay the Service Charge because water service is immediately available to them. In calculating the Service Charge, the Account Charge is allocated equally to all customers and the Meter Charge is allocated to customers based on their meter size. For purposes of customer billing, the existing Capital Preservation Charge is folded into the Service Charge as explained in the text box on the next page.

The proposed monthly Service Charge for Year 1 of the proposed 5-year rate schedule for a 1” meter is \$29.63, as shown in **Table 6**. This value was calculated by adding the monthly Account Charge of \$3.98 plus \$25.65 for the monthly Meter Charge (both at the bottom of Table 5).

Table 6: Calculation of Proposed Monthly Service Charges

Meter Size	Account Charge	Meter Charge	Monthly Service Charge
Up to 1"	\$3.98	\$25.65	\$29.63
1.5"	\$3.98	\$51.30	\$55.28
2"	\$3.98	\$82.08	\$86.06
3"	\$3.98	\$153.89	\$157.87
4"	\$3.98	\$256.49	\$260.47
6"	\$3.98	\$512.98	\$516.96
8"	\$3.98	\$820.77	\$824.75

Capital Preservation Charge

The City currently charges a fixed Capital Preservation Charge along with a fixed Service Charge (see Section 3.1). Given that these two fixed charges are both assessed based on the size of each account's meter, this study proposes to combine the two charges into a single Service Charge. This will simplify customer bills. As rate revenue is collected by the City, a portion will need to be deposited to Fund 531 for the purpose of funding capital preservation projects. We recommend the funding levels indicated in the table below, which would fund approximately 90 percent of Capital Preservation spending. The remainder of Capital Preservation project costs should continue to be supported by rate revenue from Fund 511.

Capital Preservation Component of Monthly Service Charge
(for internal use only)

Up to 1" meter	\$23.00
1 1/2" meter	\$46.00
2" meter	\$73.60
3" meter	\$138.00
4" meter	\$230.00
6" meter	\$460.00
8" meter	\$736.00

3.3.4.2 WATER USAGE RATES

As discussed in Section 3.1, current water usage rates include a 2-tier rate structure for single-family accounts and a uniform rate for all other customers. As explained in Section 3.3.3, the price difference between Tier 1 and Tier 2 is based on the difference in the cost of delivering local groundwater as compared to the cost of providing imported water (as well as funding the conservation program, which should be funded by the City's largest water users). As presented at the bottom of Table 5, the proposed Tier 1 rate is \$3.57 per TGAL and the proposed Tier 2 rate is \$4.94 per TGAL. The uniform rate for other customers (which is effectively the weighted average of the Tier 1 and Tier 2 rates) is \$4.33 per TGAL.

As discussed in the text box in Section 3.3.4, in order to pair the Tier 1 water sales with the proportion of water that comes from groundwater, the Tier 1 water allocation is proposed to be decreased from 4,000 gallons per month to 3,000 gallons per month.

Because of the broad diversity of water use and water using characteristics exhibited by multi-family, commercial, industrial, and institutional customers, it continues to be appropriate to use a uniform water rate for these customer classes.

3.3.5 Bill Impacts of Proposed Water Rates

Table 7 summarizes how the proposed water rates for Year 1 would affect a sampling of customers. In most cases, water bills will increase by slightly more or less than the average 5 percent rate revenue increase for Year 1. These variations between customers are a result of the modest rate structure modifications and will only occur in the first year of the 5-year rate schedule.

Table 7: Bill Impacts for a Sampling of Customers

	Meter Size	Monthly Water Use (TGAL)	Current Bill	Proposed Bill *	Change	
					\$	%
Single Family						
Low Use	1"	4.5	\$44.61	\$45.79	\$1.18	2.6%
Average Use	1"	8.2	\$62.40	\$66.18	\$3.78	6.1%
High Use	1"	24.7	\$138.61	\$147.50	\$8.88	6.4%
Multifamily						
Example #1	1"	15.0	\$88.83	\$94.58	\$5.75	6.5%
Example #2	1.5"	30.0	\$174.03	\$185.18	\$11.15	6.4%
Example #3	2"	50.0	\$284.21	\$302.56	\$18.35	6.5%
Non-Residential						
Example #1	1"	10.0	\$68.93	\$72.93	\$4.00	5.8%
Example #2	2"	50.0	\$284.21	\$302.56	\$18.35	6.5%
Example #3	3"	150.0	\$753.55	\$807.37	\$53.82	7.1%
Example #4	4"	300.0	\$1,452.48	\$1,559.47	\$106.99	7.4%
Example #5	6"	600.0	\$2,901.33	\$3,114.96	\$213.63	7.4%

* Results include the 5 percent Year 1 rate increases

3.4 ADOPTION OF PROPOSED RATES

The 5-year schedule of proposed water rates are presented in Schedule 4. The rates in Year 1 are proposed to be effective as of March 1, 2022 (4 months before the end

of the fiscal year) and thereafter the rate increases are proposed to occur on January 1 of their respective fiscal year.

Section 4. WATER SHORTAGE SURCHARGE POLICY

This section presents recommended updates to the City's existing Water Shortage Surcharge policy, which are to be overlaid on then-current water usage rates during the time that a water shortage is declared by the City. Water Shortage Surcharges would be temporary and affect only the Usage Rate and not the fixed Service Charge.

The Water Shortage Surcharge is a tool the City would use to reduce the (potentially severe) financial impacts associated with reduced water sales and increases in operating costs during a drought or other water shortage event. The multi-pronged approach includes implementing the temporary surcharge, reducing capital spending, and relying (modestly) on reserves to help bridge the financial deficit created by reduced water sales.

The proposed updates to the City's Water Shortage Surcharges addresses the requirements of (recently passed) Senate Bill (SB) 606 and the updates to the City's 2020 WSCP, which defines six stages of water shortage.

Table 8 presents:

- 1) The water usage reduction goals by WSCP-defined stage (row 1)
- 2) The assumed actual water use reduction during each respective stage (rows 27 - 29)
- 3) The proposed Water Shortage Surcharge expressed as a percent increase to the Usage Charge (row 3)
- 4) The changes in revenue for each respective stage (rows 4 - 9)
- 5) The changes in expenditures for each respective stage (row 10 - 25)
- 6) The financial deficit that will occur even with the mitigating measures (row 26).

The Water Shortage Surcharges have been calibrated to yield an overall deficit between \$126 thousand and \$211 thousand per year. This means that the surcharge will not totally offset the financial impact of the water shortage event. Given the City's reserve policies, this size of a deficit was deemed sustainable for the duration of an extended drought (up to 6 years). In the event the financial deficits are larger or if reserve levels are already low, the City has the option of reducing capital spending to further mitigate the revenue shortfall.

Table 8: Proposed Water Shortage Surcharges & Financial Strategy

	Normal Supply	Stage 1 Voluntary	Stage 2 Mandatory	Stage 3 Mandatory	Stage 4 Mandatory	Stage 5 Mandatory	Stage 6 Mandatory
Percent Shortage Range ¹ -->	None	Up to 10%	Up to 20%	Up to 30%	Up to 40%	Up to 50%	Over 50%
1 Assumed Demand Reduction -->	None	5%	15%	25%	35%	45%	50%
2 Water Supply from Groundwater ² -->	43%	45%	50%	57%	66%	78%	86%
3 Water Shortage Surcharge ³ -->	NA	None	None	5%	10%	15%	20%
Revenues							
4 Fixed Rate Revenue	\$ 3,974,000	\$ 3,974,000	\$ 3,974,000	\$ 3,974,000	\$ 3,974,000	\$ 3,974,000	\$ 3,974,000
5 Water Usage Charge Revenue ⁴	\$ 5,893,000	\$ 5,598,000	\$ 5,009,000	\$ 4,420,000	\$ 3,830,000	\$ 3,241,000	\$ 2,947,000
6 Water Shortage Surcharge Revenue ⁵	\$ -	\$ -	\$ -	\$ 221,000	\$ 383,000	\$ 486,150	\$ 589,400
7 Other Operating Revenue	\$ 612,000	\$ 612,000	\$ 612,000	\$ 612,000	\$ 612,000	\$ 612,000	\$ 612,000
8 Total Revenues	\$ 10,479,000	\$ 10,184,000	\$ 9,595,000	\$ 9,227,000	\$ 8,799,000	\$ 8,313,150	\$ 8,122,400
9 % of normal		97%	92%	88%	84%	79%	78%
Expenditures and Transfers							
10 Salaries & Benefits	\$ 1,924,000	\$ 1,924,000	\$ 1,924,000	\$ 1,924,000	\$ 1,924,000	\$ 1,924,000	\$ 1,924,000
11 Operational Expense	\$ 524,000	\$ 524,000	\$ 524,000	\$ 524,000	\$ 524,000	\$ 524,000	\$ 524,000
12 Water Conservation ⁶	\$ 120,000	\$ 120,000	\$ 145,000	\$ 170,000	\$ 195,000	\$ 220,000	\$ 245,000
13 Professional Services	\$ 370,000	\$ 370,000	\$ 370,000	\$ 370,000	\$ 370,000	\$ 370,000	\$ 370,000
14 Internal Services ⁷	\$ 1,127,000	\$ 1,127,000	\$ 1,127,000	\$ 1,127,000	\$ 1,127,000	\$ 1,127,000	\$ 1,127,000
18 Purchase of Water ⁸	\$ 2,664,000	\$ 2,431,000	\$ 1,966,000	\$ 1,500,000	\$ 1,035,000	\$ 569,000	\$ 336,000
19 Average Capital Spending	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
20 Increase in Reserves ⁹	\$ 1,825,000	\$ 1,825,000	\$ 1,825,000	\$ 1,825,000	\$ 1,825,000	\$ 1,825,000	\$ 1,825,000
21 Total Expenditures & Transfers	\$ 10,479,000	\$ 10,246,000	\$ 9,806,000	\$ 9,365,000	\$ 8,925,000	\$ 8,484,000	\$ 8,276,000
22 % of normal		98%	94%	89%	85%	81%	79%
23 Surplus/(Deficit) Due to Shortage ¹⁰	\$ -	\$ (62,000)	\$ (211,000)	\$ (138,000)	\$ (126,000)	\$ (170,850)	\$ (153,600)
Estimated Water Production (AF)							
24 Groundwater	1,990	1,990	1,990	1,990	1,990	1,990	1,990
25 SCWA Water	2,663	2,430	1,965	1,500	1,034	569	336
26 Total Water Supply	4,653	4,420	3,955	3,490	3,024	2,559	2,326

Notes:

- ¹ Per the 2020 Water Shortage Contingency Plan
- ² The City has forecasted that groundwater reliance will remain at the same level for the study period, therefore the relative amount of supply from groundwater will increase as total water usage decreases.
- ³ Temporary water shortage surcharges are an incremental increase in water usage rates at the percentages shown
- ⁴ Water usage charge revenue will decline in proportion to water sales volume.
- ⁵ Additional revenue derived from temporary water shortage surcharge during periods of mandatory use restrictions.
- ⁶ Estimated water conservation costs increase during periods of water shortage.
- ⁷ Includes Information technology, cost allocation plan, reimbursements, internal transfers, and internal loan.
- ⁸ SCWA water purchase costs decrease due to reduced demand and reduced purchase volume.
- ⁹ When compared to this Study's proforma, the change in reserves doesn't match the Test Year because this table has been calibrated to account for average capital spending rather than the Test Year budget.
- ¹⁰ These deficits have been mitigated by water shortage surcharge revenues sufficiently to be supportable by emergency reserves. While not modeled here, modest decreases in capital spending could be used to further mitigate revenue shortfalls.

The temporary water shortage rate surcharge is not intended to be a penalty for excessive use; rather it represents each customer’s fair share of the cost of partially bridging the financial deficit created by reduced water sales during periods of water shortage. Customers would participate in bearing this cost in proportion to their water use.

Water shortage rate surcharges would provide modest revenue increases for addressing water supply shortages and the resulting reduced water demand. As illustrated graphically in Table 10, the water shortage rate surcharge revenue only partially replaces lost revenue due to reduced water sales. As a result, even with the water shortage rate surcharges, the proposed water rates for water shortage conditions are less than the total cost of providing water service. The information in Table 10 reflects revenue estimates based on implementation of water shortage rate surcharges in 2022.

If adopted, the temporary water shortage rate surcharges would depend on the specific stage of shortage, as declared by the City Council. The surcharges would continue only as long as the shortage conditions exist. When the shortage is declared over, then the water shortage rate surcharges would be discontinued.

Table 9 provide an example of how the Water Shortage Surcharge would be applied to the rates proposed for 2022.

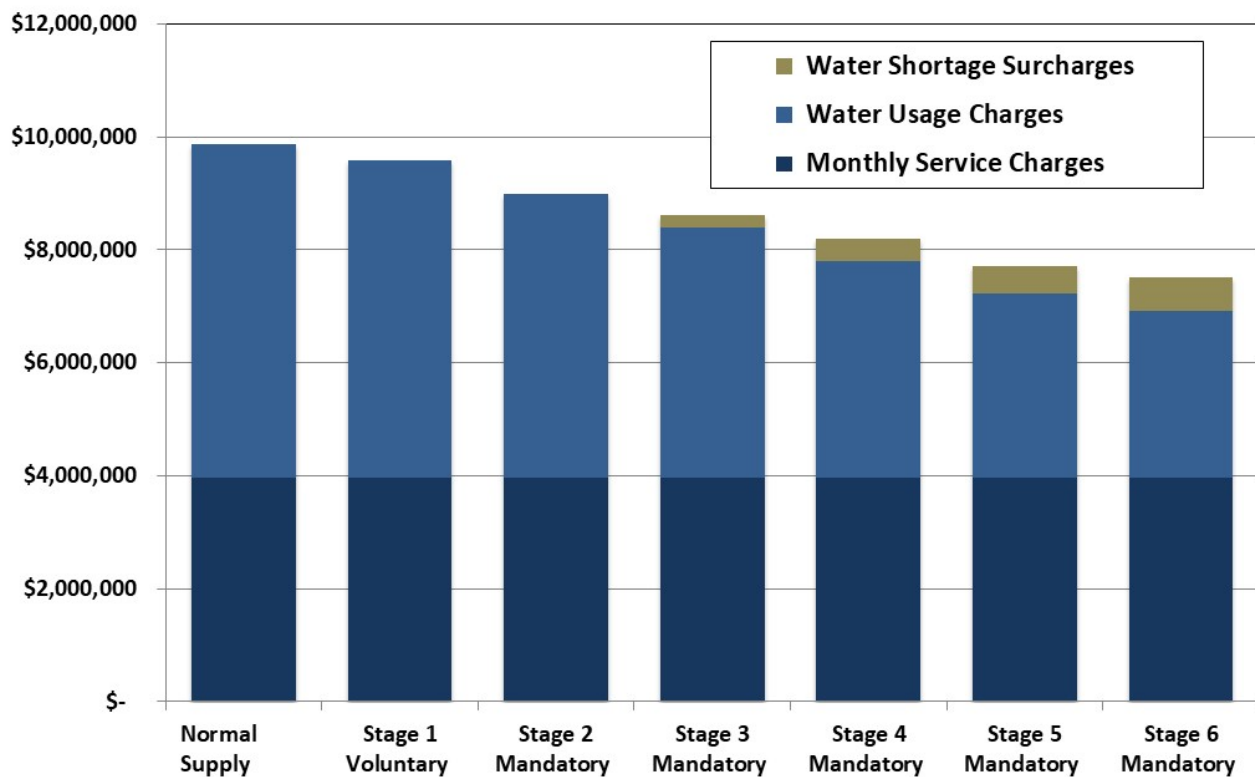
Table 9: Illustration of Water Shortage Surcharge Application

	Normal Supply	Stage 1 Voluntary	Stage 2 Mandatory	Stage 3 Mandatory	Stage 4 Mandatory	Stage 5 Mandatory	Stage 6 Mandatory
Assumed Demand Reduction-->	None	5%	15%	25%	35%	45%	50%
Water Shortage Surcharge ¹-->		None	None	5%	10%	15%	20%
Water Usage Rate with Surcharge Applied (\$/gallon) ²							
Single Family Residential							
Tier 1 (0 to 3,000 gal/mo)	\$0.00357	\$0.00357	\$0.00357	\$0.00375	\$0.00393	\$0.00411	\$0.00428
Tier 2 (above 3,000 gal/mo)	\$0.00494	\$0.00494	\$0.00494	\$0.00519	\$0.00543	\$0.00568	\$0.00593
Multi-Family and Non-Res. (all water)	\$0.00433	\$0.00433	\$0.00433	\$0.00455	\$0.00476	\$0.00498	\$0.00520
Hydrant Meters	\$0.00796	\$0.00796	\$0.00796	\$0.00836	\$0.00876	\$0.00915	\$0.00955
Fixed Monthly Charge ³							
Service Charge	Varies		----- No changes to the service charge -----				

Notes:

- ¹ Temporary water shortage surcharges are incremental increases in the normal water usage rates applied during periods of water shortage, declared by the City Council.
- ² This table shows the temporary water shortage surcharges applied to the proposed rate increases (for March 2022) for illustrative purposes. The percentages shown in this table would be applied to any then-current rates in future years.
- ³ No changes to the fixed monthly services charges would be imposed as a result of declared water shortages.

Table 10: Estimated Rate Revenue Under Water Shortage Conditions



Water shortage rate surcharges have been specifically designed such that customers achieving required water use reduction goals will have lower water bills than they would with normal water rates and normal water usage. Customers that do not meet water use reduction goals may have higher water bills. Because the water shortage rate surcharges apply to all water usage, all customers will participate in bridging the financial gap created by water shortage. Of course, those customers that use the least amount of water or conserve the most will pay less through the water shortage rate surcharges.

Table 11 illustrates how three different single family customers would be affected by the water shortage rate surcharges across various shortage conditions. Monthly water bills are shown for customers that, under normal conditions, use 6,200 gallons monthly (average), 4,000 gallons (below average), and 10,000 gallons (above average) of water. Water bills are calculated for customers meeting requested water use reduction goals, and customers that do not conserve at all.

Table 11: Sample Single Family Res. Bills with Shortage Rate Surcharges

Water Shortage Level	Water Use Reduction Goal	Monthly Water Use (Gal.)	Service Charge	Usage Charge	Water Shortage Surcharge	Total Water Bill	% Change from Normal Bill
Average Single Family Customer Meeting Reduction Goals							
Normal Supply	None	6,200	\$29.63	\$26.52	\$0.00	\$56.15	0.0%
Stage 1 Voluntary	Up to 10%	5,890	\$29.63	\$24.99	\$0.00	\$54.62	-2.7%
Stage 2 Mandatory	Up to 20%	5,270	\$29.63	\$21.92	\$0.00	\$51.55	-8.2%
Stage 3 Mandatory	Up to 30%	4,650	\$29.63	\$18.86	\$0.94	\$49.43	-12.0%
Stage 4 Mandatory	Up to 40%	4,030	\$29.63	\$15.80	\$1.58	\$47.01	-16.3%
Stage 5 Mandatory	Up to 50%	3,410	\$29.63	\$12.74	\$1.91	\$44.28	-21.1%
Stage 6 Mandatory	Over 50%	3,100	\$29.63	\$11.20	\$2.24	\$43.07	-23.3%
Average Single Family Customer With No Water Use Reduction							
Normal Supply	None	6,200	\$29.63	\$26.52	\$0.00	\$56.15	0.0%
Stage 1 Voluntary	Up to 10%	6,200	\$29.63	\$26.52	\$0.00	\$56.15	0.0%
Stage 2 Mandatory	Up to 20%	6,200	\$29.63	\$26.52	\$0.00	\$56.15	0.0%
Stage 3 Mandatory	Up to 30%	6,200	\$29.63	\$26.52	\$1.33	\$57.47	2.4%
Stage 4 Mandatory	Up to 40%	6,200	\$29.63	\$26.52	\$2.65	\$58.80	4.7%
Stage 5 Mandatory	Up to 50%	6,200	\$29.63	\$26.52	\$3.98	\$60.13	7.1%
Stage 6 Mandatory	Over 50%	6,200	\$29.63	\$26.52	\$5.30	\$61.45	9.4%
Water Shortage Stage	Water Use Reduction Goal	Monthly Water Use (Gal.)	Service Charge	Usage Charge	Water Shortage Surcharge	Total Water Bill	% Change from Normal Bill
Low Water-Using Single Family Customer Meeting Reduction Goals							
Normal Supply	None	4,000	\$29.63	\$15.65	\$0.00	\$45.28	0.0%
Stage 1 Voluntary	Up to 10%	3,800	\$29.63	\$14.66	\$0.00	\$44.29	-2.2%
Stage 2 Mandatory	Up to 20%	3,400	\$29.63	\$12.69	\$0.00	\$42.32	-6.5%
Stage 3 Mandatory	Up to 30%	3,000	\$29.63	\$10.71	\$0.54	\$40.88	-9.7%
Stage 4 Mandatory	Up to 40%	2,600	\$29.63	\$9.28	\$0.93	\$39.84	-12.0%
Stage 5 Mandatory	Up to 50%	2,200	\$29.63	\$7.85	\$1.18	\$38.66	-14.6%
Stage 6 Mandatory	Over 50%	2,000	\$29.63	\$7.14	\$1.43	\$38.20	-15.6%
Low Water-Using Single Family Customer With No Water Use Reduction							
Normal Supply	None	4,000	\$29.63	\$15.65	\$0.00	\$45.28	0.0%
Stage 1 Voluntary	Up to 10%	4,000	\$29.63	\$15.65	\$0.00	\$45.28	0.0%
Stage 2 Mandatory	Up to 20%	4,000	\$29.63	\$15.65	\$0.00	\$45.28	0.0%
Stage 3 Mandatory	Up to 30%	4,000	\$29.63	\$15.65	\$0.78	\$46.06	1.7%
Stage 4 Mandatory	Up to 40%	4,000	\$29.63	\$15.65	\$1.57	\$46.85	3.5%
Stage 5 Mandatory	Up to 50%	4,000	\$29.63	\$15.65	\$2.35	\$47.63	5.2%
Stage 6 Mandatory	Over 50%	4,000	\$29.63	\$15.65	\$3.13	\$48.41	6.9%
Water Shortage Stage	Water Use Reduction Goal	Monthly Water Use (Gal.)	Service Charge	Usage Charge	Water Shortage Surcharge	Total Water Bill	% Change from Normal Bill
High Water-Using Single Family Customer Meeting Reduction Goals							
Normal Supply	None	10,000	\$29.63	\$45.29	\$0.00	\$74.92	0.0%
Stage 1 Voluntary	Up to 10%	9,500	\$29.63	\$42.82	\$0.00	\$72.45	-3.3%
Stage 2 Mandatory	Up to 20%	8,500	\$29.63	\$37.88	\$0.00	\$67.51	-9.9%
Stage 3 Mandatory	Up to 30%	7,500	\$29.63	\$32.94	\$1.65	\$64.22	-14.3%
Stage 4 Mandatory	Up to 40%	6,500	\$29.63	\$28.00	\$2.80	\$60.43	-19.3%
Stage 5 Mandatory	Up to 50%	5,500	\$29.63	\$23.06	\$3.46	\$56.15	-25.1%
Stage 6 Mandatory	Over 50%	5,000	\$29.63	\$20.59	\$4.12	\$54.34	-27.5%
High Water-Using Single Family Customer With No Water Use Reduction							
Normal Supply	None	10,000	\$29.63	\$45.29	\$0.00	\$74.92	0.0%
Stage 1 Voluntary	Up to 10%	10,000	\$29.63	\$45.29	\$0.00	\$74.92	0.0%
Stage 2 Mandatory	Up to 20%	10,000	\$29.63	\$45.29	\$0.00	\$74.92	0.0%
Stage 3 Mandatory	Up to 30%	10,000	\$29.63	\$45.29	\$2.26	\$77.18	3.0%
Stage 4 Mandatory	Up to 40%	10,000	\$29.63	\$45.29	\$4.53	\$79.45	6.0%
Stage 5 Mandatory	Up to 50%	10,000	\$29.63	\$45.29	\$6.79	\$81.71	9.1%
Stage 6 Mandatory	Over 50%	10,000	\$29.63	\$45.29	\$9.06	\$83.98	12.1%

Section 5. CONCLUSION

This Study used methodologies that are aligned with industry standard practices for rate setting as promulgated by AWWA and applicable laws, including California's Proposition 218. The proposed annual adjustments to the water rates are expected to enable the City to continue to provide reliable service to customers while meeting the state's mandates.

The water rates, including the Water Shortage Surcharges, will need to be adopted in accordance with Proposition 218, which will require a detailed notice describing the proposed charges to be mailed to each affected property owner or customer at least 45 days prior to conducting a public hearing to adopt the rates. The City should consult with its legal counsel on the appropriate procedures for those fees.

As with past practice, the City should monitor financial conditions and needs on an ongoing (annual) basis and update the financial plan model if conditions or plans change sufficiently to warrant an update. Actual future conditions, such as water demand, water sales revenue, water purchase costs, operating and maintenance expenses, capital preservation project costs/timing, project financing, etc., may differ from the financial plan assumptions reflected herein. Material differences affecting the overall financial condition of the water system may warrant closer review and/or an earlier update. The need for and magnitude of annual water rate increases may also be affected by differences between assumed and actual conditions.

SCHEDULES

Schedule 1 – Projected Operating Expenses

Schedule 2 - Capital Spending Plan

Schedule 3 - Cash Flow Pro Formas (Funds 511, 531 and 519)

Schedule 4 – 5-Year Schedule of Proposed Water Rates

Schedule 1 –Budgeted and Projected Operating Expense (1 of 3)

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32
400 Salaries											
1 Salaries - DS WTR	\$87,300	\$89,919	\$92,617	\$95,395	\$98,257	\$101,205	\$104,241	\$107,368	\$110,589	\$113,907	\$117,324
2 Salaries - PW WTR	\$1,069,531	\$1,101,617	\$1,134,665	\$1,168,705	\$1,203,767	\$1,239,880	\$1,277,076	\$1,315,388	\$1,354,850	\$1,395,495	\$1,437,360
3 Longevity - PW WTR	\$19,392	\$19,974	\$20,573	\$21,190	\$21,826	\$22,481	\$23,155	\$23,850	\$24,565	\$25,302	\$26,061
4 Standby Wkend - WTR	\$10,500	\$10,815	\$11,139	\$11,474	\$11,818	\$12,172	\$12,538	\$12,914	\$13,301	\$13,700	\$14,111
5 Standby Wknight - PW WTR	\$13,500	\$13,905	\$14,322	\$14,752	\$15,194	\$15,650	\$16,120	\$16,603	\$17,101	\$17,614	\$18,143
6 OT Salaries - PW WTR	\$26,000	\$26,780	\$27,583	\$28,411	\$29,263	\$30,141	\$31,045	\$31,977	\$32,936	\$33,924	\$34,942
7 Education Stipend - PW WTR	\$32,272	\$33,240	\$34,237	\$35,264	\$36,322	\$37,412	\$38,534	\$39,690	\$40,881	\$42,108	\$43,371
450 Benefits											
8 Admin Payoff - DS WTR	\$378	\$401	\$425	\$450	\$477	\$506	\$536	\$568	\$602	\$639	\$677
9 PERS Employer - DS WTR	\$24,394	\$25,858	\$27,409	\$29,054	\$30,797	\$32,645	\$34,603	\$36,680	\$38,880	\$41,213	\$43,686
10 Alt Bene Nationwide - DS WTR	\$294	\$312	\$330	\$350	\$371	\$393	\$417	\$442	\$469	\$497	\$527
11 RHSA Plan - DS WTR	\$828	\$878	\$930	\$986	\$1,045	\$1,108	\$1,175	\$1,245	\$1,320	\$1,399	\$1,483
12 Kaiser Hlth Ins - DS WTR	\$3,964	\$4,202	\$4,454	\$4,721	\$5,004	\$5,305	\$5,623	\$5,960	\$6,318	\$6,697	\$7,099
13 Eye Care - DS WTR	\$179	\$190	\$201	\$213	\$226	\$240	\$254	\$269	\$285	\$302	\$321
14 Dental - DS WTR	\$1,191	\$1,262	\$1,338	\$1,419	\$1,504	\$1,594	\$1,689	\$1,791	\$1,898	\$2,012	\$2,133
15 Medicare - PW WTR	\$1,266	\$1,342	\$1,422	\$1,508	\$1,598	\$1,694	\$1,796	\$1,904	\$2,018	\$2,139	\$2,267
16 Sutter Hlth Ins - WTR	\$3,625	\$3,843	\$4,073	\$4,317	\$4,576	\$4,851	\$5,142	\$5,451	\$5,778	\$6,124	\$6,492
17 Life Ins - DS WTR	\$314	\$333	\$353	\$374	\$396	\$420	\$445	\$472	\$500	\$530	\$562
18 LTDisability - DS WTR	\$778	\$825	\$874	\$927	\$982	\$1,041	\$1,104	\$1,170	\$1,240	\$1,314	\$1,393
19 STDisability - DS WTR	\$429	\$455	\$482	\$511	\$542	\$574	\$609	\$645	\$684	\$725	\$768
20 EAP - DS WTR	\$40	\$42	\$45	\$48	\$50	\$54	\$57	\$60	\$64	\$68	\$72
21 Auto Allowance - DS WTR	\$787	\$834	\$884	\$937	\$994	\$1,053	\$1,116	\$1,183	\$1,254	\$1,330	\$1,409
22 Workers Comp - DS WTR	\$3,190	\$3,381	\$3,584	\$3,799	\$4,027	\$4,269	\$4,525	\$4,797	\$5,084	\$5,389	\$5,713
23 Admin Payoff - PW WTR	\$2,777	\$2,944	\$3,120	\$3,307	\$3,506	\$3,716	\$3,939	\$4,176	\$4,426	\$4,692	\$4,973
24 PERS Employer - PW WTR	\$333,001	\$352,981	\$374,160	\$396,610	\$420,406	\$445,630	\$472,368	\$500,710	\$530,753	\$562,598	\$596,354
25 Alt Ben ICMA - PW WTR	\$9,870	\$10,462	\$11,090	\$11,755	\$12,461	\$13,208	\$14,001	\$14,841	\$15,731	\$16,675	\$17,676
26 RHSA Plan - PW WTR	\$10,956	\$11,613	\$12,310	\$13,049	\$13,832	\$14,662	\$15,541	\$16,474	\$17,462	\$18,510	\$19,621
27 REMIF Health Ins- PW WTR	\$8,316	\$8,815	\$9,344	\$9,904	\$10,499	\$11,129	\$11,796	\$12,504	\$13,254	\$14,050	\$14,893
28 Kaiser Hlth Ins - PW WTR	\$119,248	\$126,403	\$133,987	\$142,026	\$150,548	\$159,581	\$169,156	\$179,305	\$190,063	\$201,467	\$213,555
29 Eye Care - PW WTR	\$1,878	\$1,991	\$2,110	\$2,237	\$2,371	\$2,513	\$2,664	\$2,824	\$2,993	\$3,173	\$3,363
30 Dental - PW WTR	\$12,525	\$13,277	\$14,073	\$14,917	\$15,813	\$16,761	\$17,767	\$18,833	\$19,963	\$21,161	\$22,430
31 Medicare - PW WTR	\$16,257	\$17,232	\$18,266	\$19,362	\$20,524	\$21,756	\$23,061	\$24,445	\$25,911	\$27,466	\$29,114
32 Sutter Health Ins- PW WTR	\$954	\$1,011	\$1,072	\$1,136	\$1,204	\$1,277	\$1,353	\$1,434	\$1,521	\$1,612	\$1,708
33 Life Ins - PW WTR	\$2,981	\$3,160	\$3,349	\$3,550	\$3,763	\$3,989	\$4,229	\$4,482	\$4,751	\$5,036	\$5,339
34 LTDisability - PW WTR	\$5,960	\$6,318	\$6,697	\$7,098	\$7,524	\$7,976	\$8,454	\$8,962	\$9,499	\$10,069	\$10,673
35 STDisability - PW WTR	\$3,288	\$3,485	\$3,694	\$3,916	\$4,151	\$4,400	\$4,664	\$4,944	\$5,241	\$5,555	\$5,888
36 EAP - PW WTR	\$416	\$441	\$467	\$495	\$525	\$557	\$590	\$626	\$663	\$703	\$745
37 Auto Allowance - PW WTR	\$3,933	\$4,169	\$4,419	\$4,684	\$4,965	\$5,263	\$5,579	\$5,914	\$6,269	\$6,645	\$7,043
38 Workers Comp - PW WTR	\$91,872	\$97,384	\$103,227	\$109,421	\$115,986	\$122,945	\$130,322	\$138,142	\$146,430	\$155,216	\$164,529

Schedule 1 - Budgeted and Projected Operating Expense (2 of 3)

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32
500 Operational Expense											
39 Office Supplies - Water	\$2,000	\$2,060	\$2,122	\$2,185	\$2,251	\$2,319	\$2,388	\$2,460	\$2,534	\$2,610	\$2,688
40 Postage & Shipping - Water	\$13,000	\$13,390	\$13,792	\$14,205	\$14,632	\$15,071	\$15,523	\$15,988	\$16,468	\$16,962	\$17,471
41 Printing - Water	\$4,000	\$4,120	\$4,244	\$4,371	\$4,502	\$4,637	\$4,776	\$4,919	\$5,067	\$5,219	\$5,376
42 Bank Charges - WTR	\$55,000	\$56,650	\$58,350	\$60,100	\$61,903	\$63,760	\$65,673	\$67,643	\$69,672	\$71,763	\$73,915
43 Spec Dept Exp - Water	\$50,000	\$51,500	\$53,045	\$54,636	\$56,275	\$57,964	\$59,703	\$61,494	\$63,339	\$65,239	\$67,196
44 DistributionSystemRepair-Water	\$120,000	\$123,600	\$127,308	\$131,127	\$135,061	\$139,113	\$143,286	\$147,585	\$152,012	\$156,573	\$161,270
45 License Permit & Fees - Water	\$45,000	\$46,350	\$47,741	\$49,173	\$50,648	\$52,167	\$53,732	\$55,344	\$57,005	\$58,715	\$60,476
46 Uniform & Boot purchase - WTR	\$4,500	\$4,635	\$4,774	\$4,917	\$5,065	\$5,217	\$5,373	\$5,534	\$5,700	\$5,871	\$6,048
47 Uniform Laundry Svcs -Water	\$3,700	\$3,811	\$3,925	\$4,043	\$4,164	\$4,289	\$4,418	\$4,551	\$4,687	\$4,828	\$4,972
48 Dues & Subscription - Water	\$2,000	\$2,060	\$2,122	\$2,185	\$2,251	\$2,319	\$2,388	\$2,460	\$2,534	\$2,610	\$2,688
49 Haz Materials - Water	\$1,000	\$1,030	\$1,061	\$1,093	\$1,126	\$1,159	\$1,194	\$1,230	\$1,267	\$1,305	\$1,344
50 Meters & Supplies Existng Conn	\$50,000	\$51,500	\$53,045	\$54,636	\$56,275	\$57,964	\$59,703	\$61,494	\$63,339	\$65,239	\$67,196
51 Meters & Supplies NEW connecti	\$95,000	\$97,850	\$100,786	\$103,809	\$106,923	\$110,131	\$113,435	\$116,838	\$120,343	\$123,953	\$127,672
52 Equipment under 5K - Water	\$50,000	\$51,500	\$53,045	\$54,636	\$56,275	\$57,964	\$59,703	\$61,494	\$63,339	\$65,239	\$67,196
53 Softwr License & Maint - Water	\$12,000	\$12,360	\$12,731	\$13,113	\$13,506	\$13,911	\$14,329	\$14,758	\$15,201	\$15,657	\$16,127
54 SmTools & Equip - WTR	\$11,500	\$11,845	\$12,200	\$12,566	\$12,943	\$13,332	\$13,732	\$14,144	\$14,568	\$15,005	\$15,455
55 Equipment Rental - Water	\$8,000	\$8,240	\$8,487	\$8,742	\$9,004	\$9,274	\$9,552	\$9,839	\$10,134	\$10,438	\$10,751
56 Water Conservation Measures	\$10,000	\$10,300	\$10,609	\$10,927	\$11,255	\$11,593	\$11,941	\$12,299	\$12,668	\$13,048	\$13,439
57 Property Tax - WTR	\$23,876	\$24,592	\$25,330	\$26,090	\$26,873	\$27,679	\$28,509	\$29,364	\$30,245	\$31,153	\$32,087
58 Liability Ins Premium - Water	\$48,158	\$49,603	\$51,091	\$52,624	\$54,202	\$55,828	\$57,503	\$59,228	\$61,005	\$62,835	\$64,720
59 Training & Travel - WTR	\$10,000	\$10,300	\$10,609	\$10,927	\$11,255	\$11,593	\$11,941	\$12,299	\$12,668	\$13,048	\$13,439
60 Bad Debt -Wtr	\$25,000	\$25,750	\$26,523	\$27,318	\$28,138	\$28,982	\$29,851	\$30,747	\$31,669	\$32,619	\$33,598
510 Contract-Profess Services											
61 Contractual Svs - Water	\$350,000	\$360,500	\$371,315	\$382,454	\$393,928	\$405,746	\$417,918	\$430,456	\$443,370	\$456,671	\$470,371
62 Legal Svcs - Water	\$20,000	\$20,600	\$21,218	\$21,855	\$22,510	\$23,185	\$23,881	\$24,597	\$25,335	\$26,095	\$26,878

Schedule 1 - Budgeted and Projected Operating Expense (3 of 3)

	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27	FY2027/28	FY2028/29	FY2029/30	FY2030/31	FY2031/32
520 Information Technology											
63 IT Services - Water	\$52,120	\$53,684	\$55,294	\$56,953	\$58,662	\$60,421	\$62,234	\$64,101	\$66,024	\$68,005	\$70,045
530 Vehicle Expenses											
64 Gas & Oil - Water	\$35,000	\$36,050	\$37,132	\$38,245	\$39,393	\$40,575	\$41,792	\$43,046	\$44,337	\$45,667	\$47,037
65 Vehicle Rep & Maint - WTR	\$2,000	\$2,060	\$2,122	\$2,185	\$2,251	\$2,319	\$2,388	\$2,460	\$2,534	\$2,610	\$2,688
66 Auto Ins - Water	\$6,962	\$7,171	\$7,386	\$7,608	\$7,836	\$8,071	\$8,313	\$8,562	\$8,819	\$9,084	\$9,356
67 Fleet Services - Water	\$76,670	\$78,970	\$81,339	\$83,779	\$86,293	\$88,882	\$91,548	\$94,294	\$97,123	\$100,037	\$103,038
68 Vehicle Rplcmnt Charges-WTR	\$146,806	\$151,210	\$155,746	\$160,419	\$165,231	\$170,188	\$175,294	\$180,553	\$185,969	\$191,549	\$197,295
540 Facilities											
69 Repairs & Maint Routine-Water	\$30,000	\$30,900	\$31,827	\$32,782	\$33,765	\$34,778	\$35,822	\$36,896	\$38,003	\$39,143	\$40,317
70 Property Ins Premium - Water	\$94,468	\$97,302	\$100,221	\$103,228	\$106,325	\$109,514	\$112,800	\$116,184	\$119,669	\$123,259	\$126,957
550 Utilities											
71 PG&E - Water	\$525,000	\$540,750	\$556,973	\$573,682	\$590,892	\$608,619	\$626,877	\$645,684	\$665,054	\$685,006	\$705,556
72 Water Costs- Water	\$500	\$515	\$530	\$546	\$563	\$580	\$597	\$615	\$633	\$652	\$672
73 Telephone & Internet - Water	\$450	\$464	\$477	\$492	\$506	\$522	\$537	\$553	\$570	\$587	\$605
74 Cell Phone - WTR	\$8,500	\$8,755	\$9,018	\$9,288	\$9,567	\$9,854	\$10,149	\$10,454	\$10,768	\$11,091	\$11,423
600 Cost Allocation Plan											
75 Cost Alloc Exp - Water	\$632,655	\$651,635	\$671,184	\$691,319	\$712,059	\$733,421	\$755,423	\$778,086	\$801,428	\$825,471	\$850,235
630 Purchase of Water											
76 Purchase of Water - Water	\$2,664,353	\$3,101,255	\$3,320,203	\$3,554,610	\$3,805,565	\$4,074,238	\$4,361,879	\$4,669,828	\$4,999,518	\$5,352,484	\$5,730,369
699 Reimbursements											
77 Labor Reimbursement PW WTR	\$20,000	\$20,600	\$21,218	\$21,855	\$22,510	\$23,185	\$23,881	\$24,597	\$25,335	\$26,095	\$26,878
800 Transfers Out											
78 Trans Out to GF Retiree Med	\$127,000	\$130,810	\$134,734	\$138,776	\$142,940	\$147,228	\$151,645	\$156,194	\$160,880	\$165,706	\$170,677
79 Total Operating Expenses	\$7,360,602	\$7,958,368	\$8,344,205	\$8,751,777	\$9,182,440	\$9,637,640	\$10,118,916	\$10,627,913	\$11,166,383	\$11,736,195	\$12,339,342

Schedule 2 –5-Year Capital Improvement Plan

	Assumed Funding Source	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27
1	Water Meter Replacements	F531	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
2	Well Pump/Motor Replacement Program	F531	\$ 150,000	\$ 75,000	\$ 50,000	\$ 500,000
3	Well Electrical and Structural Upgrade Project	F519	\$ 100,000	\$ 950,000	\$ 150,000	\$ 250,000
4	A Section Water Line Replacement Phase 2	F531	\$ 250,000	\$ 2,544,197		
5	Tank Re-Coating Project	F531	\$ 500,000			
6	B Section Water Line Replacement	F531	\$ 300,000	\$ 1,500,000		
7	Aqueduct Tie-in Replacement/Upgrade	F531	\$ 150,000	\$ 800,000		
8	Tank #9	F519	\$ 1,000,000			
9	Southwest Water Line Replacement	F531		\$ 200,000	\$ 1,500,000	
10	PDA Water Line Replacement	F531				
11	Bonnie Ave Water Line Replacement	F531	\$ 150,000	\$ 900,000	\$ 150,000	\$ 900,000
12	Preventative Maintenance Water Line Replacement	F531			\$ 1,250,000	\$ 1,250,000
13	Snyder Lane Widening Water Line Replacement	F531	\$ 250,000	\$ 1,200,000		
14	Non-routine lateral replacement	F531		\$ 600,000		\$ 600,000
15	Total Capital Spending:		\$ 2,100,000	\$ 4,425,000	\$ 5,944,197	\$ 4,650,000
					\$ 3,000,000	

Schedule 3 (1 of 3) - Cash Flow Pro Forma for Water Utility Fund (Fund 511)

	Budget FY2022	Forecast FY2023	Forecast FY2024	Forecast FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	Forecast FY2031	Forecast FY2032	Forecast FY2033	
1	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	4.00%	3.00%	3.00%	3.00%	3.00%	
Rate Revenue													
2	Utility Rate Revenue	\$6,539,000	\$6,951,000	\$7,531,000	\$8,146,000	\$8,799,000	\$9,493,000	\$10,232,000	\$11,016,000	\$11,704,000	\$12,277,000	\$12,874,000	\$13,495,000
3	Change due to growth & use	\$86,000	\$70,000	\$75,000	\$81,000	\$88,000	\$95,000	\$102,000	\$110,000	\$117,000	\$123,000	\$129,000	\$135,000
4	Increase due to rate adjustments		\$255,000	\$270,000	\$286,000	\$303,000	\$322,000	\$341,000	\$289,000	\$228,000	\$237,000	\$246,000	\$256,000
Non-Rate Revenues													
5	Penalties	\$0	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000	\$83,000
6	Fire Protection Charge	\$294,135	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000	\$294,000
7	Miscellaneous Fees	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Fund 511 Interest Earnings	\$25,000	\$33,000	\$31,000	\$30,000	\$27,000	\$29,000	\$31,000	\$31,000	\$33,000	\$36,000	\$39,000	\$41,000
9	Operating Revenue	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000	\$287,000
10	Total Revenue	\$7,231,135	\$7,973,000	\$8,571,000	\$9,207,000	\$9,881,000	\$10,603,000	\$11,370,000	\$12,110,000	\$12,746,000	\$13,337,000	\$13,952,000	\$14,591,000
O&M Costs													
11	Salaries	\$1,258,000	\$1,296,000	\$1,335,000	\$1,375,000	\$1,416,000	\$1,459,000	\$1,503,000	\$1,548,000	\$1,594,000	\$1,642,000	\$1,691,000	\$1,742,000
12	Benefits	\$666,000	\$706,000	\$748,000	\$793,000	\$841,000	\$891,000	\$945,000	\$1,001,000	\$1,061,000	\$1,125,000	\$1,193,000	\$1,264,000
13	Operational Expenses	\$644,000	\$663,000	\$683,000	\$703,000	\$725,000	\$746,000	\$769,000	\$792,000	\$815,000	\$840,000	\$865,000	\$891,000
14	Professional Services	\$370,000	\$381,000	\$393,000	\$404,000	\$416,000	\$429,000	\$442,000	\$455,000	\$469,000	\$483,000	\$497,000	\$512,000
15	Information Technology	\$52,000	\$54,000	\$55,000	\$57,000	\$59,000	\$60,000	\$62,000	\$64,000	\$66,000	\$68,000	\$70,000	\$72,000
16	Vehicles	\$267,000	\$275,000	\$284,000	\$292,000	\$301,000	\$310,000	\$319,000	\$329,000	\$339,000	\$349,000	\$359,000	\$370,000
17	Facilities	\$124,000	\$128,000	\$132,000	\$136,000	\$140,000	\$144,000	\$149,000	\$153,000	\$158,000	\$162,000	\$167,000	\$172,000
18	Utilities	\$534,000	\$550,000	\$567,000	\$584,000	\$602,000	\$620,000	\$638,000	\$657,000	\$677,000	\$697,000	\$718,000	\$740,000
19	Cost Allocation Plan	\$633,000	\$652,000	\$671,000	\$691,000	\$712,000	\$733,000	\$755,000	\$778,000	\$801,000	\$825,000	\$850,000	\$876,000
20	Purchase of Water	\$2,664,000	\$3,101,000	\$3,320,000	\$3,555,000	\$3,806,000	\$4,074,000	\$4,362,000	\$4,670,000	\$5,000,000	\$5,352,000	\$5,730,000	\$6,135,000
21	Reimbursement	\$20,000	\$21,000	\$21,000	\$22,000	\$23,000	\$23,000	\$24,000	\$25,000	\$25,000	\$26,000	\$27,000	\$28,000
22	Transfer Out	\$127,000	\$131,000	\$135,000	\$139,000	\$143,000	\$147,000	\$152,000	\$156,000	\$161,000	\$166,000	\$171,000	\$176,000
23	Total Operating Expenses	\$7,359,000	\$7,958,000	\$8,344,000	\$8,751,000	\$9,184,000	\$9,636,000	\$10,120,000	\$10,628,000	\$11,166,000	\$11,735,000	\$12,338,000	\$12,978,000
Other Costs													
24	Existing Internal Loan Repayment	\$295,000	\$308,000	\$388,000	\$340,000	\$316,000	\$304,000	\$298,000	\$298,000	\$0	\$0	\$0	\$0
25	Transfer Out to F531	-	-	-	794,238	-	317,619	776,310	868,310	964,310	1,063,310	1,166,310	1,273,310
26	Total Capital Expenses	\$295,000	\$308,000	\$388,000	\$1,134,238	\$316,000	\$621,619	\$1,074,310	\$1,166,310	\$964,310	\$1,063,310	\$1,166,310	\$1,273,310
27	Total Revenue Requirement	\$7,654,000	\$8,266,000	\$8,732,000	\$9,885,238	\$9,500,000	\$10,257,619	\$11,194,310	\$11,794,310	\$12,130,310	\$12,798,310	\$13,504,310	\$14,251,310
28	Beginning Year Balance	\$6,932,000	\$6,509,000	\$6,216,000	\$6,055,000	\$5,376,762	\$5,757,762	\$6,103,142	\$6,278,833	\$6,594,523	\$7,210,214	\$7,748,904	\$8,196,594
29	Surplus/(Shortfall)	(\$422,865)	(\$293,000)	(\$161,000)	(\$678,238)	\$381,000	\$345,381	\$175,690	\$315,690	\$615,690	\$538,690	\$447,690	\$339,690
30	End of Year Balance	\$6,509,135	\$6,216,000	\$6,055,000	\$5,376,762	\$5,757,762	\$6,103,142	\$6,278,833	\$6,594,523	\$7,210,214	\$7,748,904	\$8,196,594	\$8,536,285
31	<i>Combined Reserve Target</i>	\$5,180,000	\$5,479,000	\$5,672,000	\$5,876,000	\$6,092,000	\$6,318,000	\$6,560,000	\$6,814,000	\$7,083,000	\$7,368,000	\$7,669,000	\$7,989,000
32	<i>Available Cash</i>	\$3,488,224	\$737,000	\$383,000	(\$499,238)	(\$334,238)	(\$214,858)	(\$281,167)	(\$219,477)	\$127,214	\$380,904	\$527,594	\$547,285

Schedule 3 (2 of 3) - Cash Flow Pro Forma for Capital Preservation Fund (Fund 531)

	Budget FY2022	Forecast FY2023	Forecast FY2024	Forecast FY2025	Forecast FY2026	Forecast FY2027	Forecast FY2028	Forecast FY2029	Forecast FY2030	Forecast FY2031	Forecast FY2032	Forecast FY2033
1 Beginning Balance	\$1,113,000	\$3,360,690	\$3,176,381	\$531,071	\$0	\$367,690	\$0	\$0	\$0	\$0	\$0	\$0
Revenues												
2 Capital Preservation Charge	\$3,230,690	\$3,241,690	\$3,273,690	\$3,306,690	\$3,339,690	\$3,372,690	\$3,406,690	\$3,440,690	\$3,474,690	\$3,509,690	\$3,544,690	\$3,579,690
3 Change due to growth	\$11,000	\$32,000	\$33,000	\$33,000	\$33,000	\$34,000	\$34,000	\$34,000	\$35,000	\$35,000	\$35,000	\$36,000
4 Non-Rate Revenue												
5 Fund 531 Interest Earnings	\$6,000	\$17,000	\$16,000	\$3,000	\$0	\$2,000	\$0	\$0	\$0	\$0	\$0	\$0
6 Transfer In from F511	-	-	-	794,238	-	317,619	776,310	868,310	964,310	1,063,310	1,166,310	1,273,310
7 Total Revenues	3,247,690	3,290,690	3,322,690	4,136,929	3,372,690	3,726,310	4,217,000	4,343,000	4,474,000	4,608,000	4,746,000	4,889,000
Expenditures												
8 Capital Spending	1,000,000	3,475,000	5,968,000	4,668,000	3,005,000	4,094,000	4,217,000	4,343,000	4,474,000	4,608,000	4,746,000	4,889,000
9 Surplus/(Shortfall)	\$2,247,690	(\$184,310)	(\$2,645,310)	(\$531,071)	\$367,690	(\$367,690)	\$0	\$0	\$0	\$0	\$0	\$0
10 Capital Fund Ending Balance	\$3,360,690	\$3,176,381	\$531,071	\$0	\$367,690	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Schedule 3 (3 of 3) - Cash Flow Pro Forma for Water Capacity Developer Fund (Fund 519)

	Budget FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031	Forecast FY 2032	Forecast FY 2033
1 Beginning Balance	\$1,138,000	\$884,000	\$676,000	\$1,262,000	\$1,725,000	\$2,177,000	\$2,534,000	\$2,878,000	\$3,211,000	\$3,532,000	\$3,841,000	\$4,137,000
Revenues												
2 Capacity Charge Revenue	842,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000	725,000
3 Fund 519 Interest Earnings	\$4,000	\$17,000	\$16,000	\$3,000	\$0	\$2,000	\$0	\$0	\$0	\$0	\$0	\$0
4 Total Revenues	846,000	742,000	741,000	728,000	725,000	727,000	725,000	725,000	725,000	725,000	725,000	725,000
Expenditures												
5 Total Capital Spending	1,100,000	950,000	155,000	265,000	273,000	370,000	381,000	392,000	404,000	416,000	429,000	442,000
6 Surplus/(Shortfall)	(254,000)	(208,000)	586,000	463,000	452,000	357,000	344,000	333,000	321,000	309,000	296,000	283,000
7 Capacity Developer Fund Ending Balance	\$884,000	\$676,000	\$1,262,000	\$1,725,000	\$2,177,000	\$2,534,000	\$2,878,000	\$3,211,000	\$3,532,000	\$3,841,000	\$4,137,000	\$4,420,000

Schedule 4 – 5-Year Schedule of Proposed Water Rates

		Proposed				
		March 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026
Rate Revenue Increases:		5.0%	5.0%	5.0%	5.0%	5.0%
Current						
Single Family Usage Rate (\$/gal.)						
Tier 1 ¹	\$0.003420	\$0.003570	\$0.003749	\$0.003936	\$0.004133	\$0.004340
Tier 2	\$0.004630	\$0.004940	\$0.005187	\$0.005446	\$0.005718	\$0.006004
Multi-Family and Non-Residential Usage Rate (\$/gal.)						
Uniform Rate	\$0.003980	\$0.004330	\$0.004547	\$0.004774	\$0.005013	\$0.005264
Fixed Monthly Service Charges						
Up to 1"	\$29.13	\$29.63	\$31.11	\$32.67	\$34.30	\$36.02
1.5"	\$54.63	\$55.28	\$58.04	\$60.94	\$63.99	\$67.19
2"	\$85.21	\$86.06	\$90.36	\$94.88	\$99.62	\$104.60
3"	\$156.55	\$157.87	\$165.76	\$174.05	\$182.75	\$191.89
4"	\$258.48	\$260.47	\$273.49	\$287.16	\$301.52	\$316.60
6"	\$513.33	\$516.96	\$542.81	\$569.95	\$598.45	\$628.37
8"	\$819.14	\$824.75	\$865.99	\$909.29	\$954.75	\$1,002.49

¹ For the first 3,000 gallons per month



Exhibit B

NOTICE OF PUBLIC HEARING

ON PROPOSED NEW/INCREASED WATER RATES

- WHERE:** Rohnert Park City Hall – Council Chamber
130 Avram Avenue
Rohnert Park, California
- WHEN:** Tuesday, February 8, 2022, not before 5:00 p.m. or as soon thereafter as the matter is reached on the agenda.
- PURPOSE:** To conduct a public hearing to consider adopting a new five-year schedule of water rates pursuant to Government Code Section 53756. Temporary water shortage surcharges that might be adopted would only be implemented during a declared future drought, as specified. At the public hearing, the City Council will accept oral and written testimony, as well as written protests, regarding the water rates.

Why am I Receiving this Notice?

You are receiving this notice because our records indicate that you are listed as an account holder and/or as the owner of a parcel receiving water service from the City of Rohnert Park (City). The purpose of this notice is to give you information about proposed new/increased water rates and how you can participate in the rate-setting process.

Rate History

The City of Rohnert Park works each day with limited resources to ensure that the residents and businesses receive clean, safe, and reliable water service, and that the City's water system is maintained to all required standards in order to protect our community's health and safety, as well as the environment.

Rohnert Park's water rates are near the lowest in the region. The City has routinely adopted a five year schedule, pursuant to Government Code Section 53756, for automatically adjusting water rates each January to reflect the effects of changes in the cost of purchasing water from the Sonoma County Water Agency (Sonoma Water) and general inflation.

Proposed New Water Rates

The proposed new water rates are based on a rate study conducted in 2021, which identifies a 10-year financial plan and provides a cost-of-service analysis for the water system to ensure that customers continue to pay their proportionate share of utility costs. In addition to general rate revenue increases and cost-of-service updates, the study proposes to consolidate the fixed capital preservation charge with the fixed service charge and update the drought surcharge rates that might be implemented in response to a drought under the City's Water Shortage Contingency

Exhibit B

Plan. The proposed 5-year rate schedule being considered by the City for adoption is shown in **Table 1**. The proposed updated temporary water shortage surcharge are illustrated in **Table 2**. The surcharges, if implemented during a future water shortage, are incremental increases to the City's water usage rates. The temporary surcharges would only be implemented when the City Council declares that conditions exist that meet the described water shortage stages.

Additional information on the proposed rate schedule and temporary water shortage surcharges are available in the *2021 Water Rate Study Report*, prepared by The Reed Group, Inc., dated November 03, 2021 (2021 Water Rate Study). The report is available online at www.rpcity.org.

Rate Calculation Methodology

The structure for the proposed water rates follow a common industry practice with a two-part structure that is comprised of a fixed components (the Service Charge) and a consumption-based Usage Rate. The Service Charge is composed of a customer charge (which is assessed equally to all accounts) and a meter charge (which is assessed based on meter size). The Service Charge is designed to fund a major of the utility's fixed costs, including administrative costs, capital preservation projects, and a portion of salaries and benefits. The Service Charges are designed to recover approximately 40 percent of total rate revenue.

The Usage Charge is assessed based on actual water usage. The Usage Charges are primarily intended to recover the water system's variable costs (i.e., costs that vary entirely or substantially in response to the amount of actual water use or are reasonably allocated based on water use). Water purchase costs and energy costs are two typical examples. In addition to all of the utility's variable costs, the Usage Rates also recover some fixed costs.

The Usage Charge is tiered for single family residential customers and flat (or "uniform") for all other customers. The basis for the difference between Tier 1 versus Tier 2 rates is the fact that Tier 1 rates reflect the cost of providing local groundwater while Tier 2 rates reflect the cost of providing (more expensive) imported water. The tiered rates are designed such that the average of all tiered water sold to Single Family Residential is equal to the uniform rate. The proposed tiered rates would reduce the Tier 1 allocation from 4,000 gallons per month to 3,000 gallons per month to ensure that the Tier 1 water sales are aligned with the amount of water that is pumped from groundwater.

The City bills customers once every two months, but retains the option to change to a monthly bill after rate adoption.

Exhibit B

Table 1 - Proposed 5-Year Water Rate Schedule

		Proposed				
		March 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026
Rate Revenue Increases:		5.0%	5.0%	5.0%	5.0%	5.0%
Current						
Single Family Usage Rate (\$/gal.)						
Tier 1	\$0.003420	\$0.003570	\$0.003749	\$0.003936	\$0.004133	\$0.004340
Tier 2	\$0.004630	\$0.004940	\$0.005187	\$0.005446	\$0.005718	\$0.006004
Multi-Family and Non-Residential Usage Rate (\$/gal.)						
Uniform Rate	\$0.003980	\$0.004330	\$0.004547	\$0.004774	\$0.005013	\$0.005264
Fixed Monthly Service Charges						
Up to 1"	\$29.13	\$29.63	\$31.11	\$32.67	\$34.30	\$36.02
1.5"	\$54.63	\$55.28	\$58.04	\$60.94	\$63.99	\$67.19
2"	\$85.21	\$86.06	\$90.36	\$94.88	\$99.62	\$104.60
3"	\$156.55	\$157.87	\$165.76	\$174.05	\$182.75	\$191.89
4"	\$258.48	\$260.47	\$273.49	\$287.16	\$301.52	\$316.60
6"	\$513.33	\$516.96	\$542.81	\$569.95	\$598.45	\$628.37
8"	\$819.14	\$824.75	\$865.99	\$909.29	\$954.75	\$1,002.49

Temporary Water Shortage Rate Surcharge

Water usage restrictions during extended drought have had a financial impact on the water utility because the reduction in water sales revenue exceeded the reduction in water system costs. The temporary water shortage rate surcharges were calculated by assigning the estimated financial deficit created by water shortage conditions to customers in proportion to each customer's water usage, so that each customer bears a proportionate share of the costs associated with water shortage conditions.

The temporary water shortage rate surcharges are implemented only when the City Council declares a water shortage emergency necessitating mandatory water use reductions corresponding with Stage 3 through 6 of the City's 2020 Water Shortage Contingency Plan. Temporary water shortage surcharges would be applied to the water usage rates (but not the monthly service charges), and the amount of the surcharge would vary with the amount of required water use reductions.

The temporary water shortage rate surcharges are expressed as a percentage of the normal water usage rate. The amount of the surcharge would depend on the water shortage stage established by the City Council. The specific rates shown in Table 2 are an example, based on the water rates proposed for March 1, 2022. As an example, with conditions of Stage 4, a 10 percent water shortage rate surcharge would temporarily increase the Tier 1 residential water usage rate from \$0.00357 per gallon to \$0.00393 per gallon (a surcharge of \$0.00036 per gallon). Other water usage rates would be similarly affected, as shown in Table 2. Monthly service charges would be unaffected. The temporary surcharge would be rescinded when the City Council declares an end to mandatory water use restrictions.

At this time the City Council has no plans to implement the proposed temporary

Exhibit B

water shortage rate surcharges.

Table 2 – Temporary Water Shortage Surcharge Structure

	Normal Supply	Stage 1 Voluntary	Stage 2 Mandatory	Stage 3 Mandatory	Stage 4 Mandatory	Stage 5 Mandatory	Stage 6 Mandatory
Assumed Demand Reduction-->	None	5%	15%	25%	35%	45%	50%
Water Shortage Surcharge ¹-->		None	None	5%	10%	15%	20%
Water Usage Rate with Surcharge Applied (\$/gallon) ²							
Single Family Residential							
Tier 1 (0 to 3,000 gal/mo)	\$0.00357	\$0.00357	\$0.00357	\$0.00375	\$0.00393	\$0.00411	\$0.00428
Tier 2 (above 3,000 gal/mo)	\$0.00494	\$0.00494	\$0.00494	\$0.00519	\$0.00543	\$0.00568	\$0.00593
Multi-Family and Non-Residential							
All Water Usage	\$0.00433	\$0.00433	\$0.00433	\$0.00455	\$0.00476	\$0.00498	\$0.00520
Hydrant Meters							
Construction Water	\$0.00796	\$0.00796	\$0.00796	\$0.00836	\$0.00876	\$0.00915	\$0.00955
Fixed Monthly Charge ³							
Service Charge	Varies	----- No changes to the service charge -----					

Notes:

- ¹ Temporary water shortage surcharges are incremental increases in the normal water usage rates applied during periods of water shortage, declared by the City Council.
- ² This table shows the temporary water shortage surcharges applied to the proposed rate increases (for March 2022) for illustrative purposes. The percentages shown in this table would be applied to any then-current rates in future years.
- ³ No changes to the fixed monthly services charges would be imposed as a result of declared water shortages.

How Much Will My Water Bill Be?

Monthly water bills will vary for each customer depending on the customer classification (single family, multi-family, commercial, or irrigation), the size of the water meter, and the amount of water used. For single family customers, with a 1” meter and 6,200 gallons of water use per month (the average consumption for single family residential accounts), will increase from \$53.14 to \$56.30.

Temporary water shortage rate surcharges will have no immediate impact on customer water bills. Details of how they might affect water bills, if implemented, are provided in the 2021 Water Rate Study.

You can find more information about your water service and usage patterns from your past water bills. If you would like assistance in determining how the proposed water rates may affect your water bill, please contact a Customer Service Representative at (707) 585-6750 Monday through Friday from 8:00 A.M. to 5:00 P.M

How Do I Protest?

Proposition 218 allows the owner of record or a tenant receiving water service on the parcel to submit a written protest at or before the close of the February 8 public hearing. If the person signing the protest is an owner of the parcel but is not listed

Exhibit B

as the owner on the last equalized assessment roll for Sonoma County, the protest must be accompanied by written evidence that the signer currently owns the property. In rental situations, if a tenant is the utility account holder for water service, the tenant also has the right to submit a written protest for the property. Only one protest per parcel will be counted. If valid protests are filed on behalf of a majority of the parcels that receive water service, the increased water rates will not be adopted.

All protests must:

1. Be in writing with an original signature from the property owner of record or tenant directly liable for the payment of the fee/account holder.
2. Identify the parcel for which the protest is filed, by street address or Assessor's Parcel Number (APN).
3. State that the signer opposes the proposed water rates.
4. Be received at City Hall at or before the close of the public hearing that will begin at 5:00 p.m. on February 8, 2022. A protest may be mailed to the City Clerk at 130 Avram Avenue, Rohnert Park, CA 94928 or delivered to the same address during regular business hours.

Email, fax, or telephone, and oral protests of any kind will not be counted. Mailed protests received after the close of the public hearing will not be counted, even if they were postmarked earlier.

If you have a disability, which requires an interpreter or other person to assist you while attending this City Council meeting, please contact the City Offices at (707) 588-2225 at least 72 hours prior to the meeting to ensure arrangements for accommodation by the City. Please make sure the City Clerk's Office is notified as soon as possible if you have a visual impairment requiring meeting materials to be produced in another format (Braille, audio-tape, etc.).

Be advised that pursuant to Government Code Section 53759(d) there is a 120-day statute of limitation for any challenge to the new, increased or extended fee or charge.

Questions?

For more information or to ask questions, please call (707) 585-6750 Monday through Friday from 8:00 A.M. to 5:00 P.M or visit www.rpcity.org.