

# Staff Report

for the Regular Meeting of the Board of Directors of October 11, 2017

**TO:** Board of Directors

**FROM:** Remleh Scherzinger, MBA, PE, General Manager  
Marvin Davis, MBA, CPA, Finance Manager

**DATE:** October 4, 2017

**SUBJECT:** 2018 Rate Setting

***FINANCE***

**RECOMMENDATION:**

Review the 6% rate increase as approved by Resolution 2014-01 and 2014-02.

**BACKGROUND:**

The District retained Willdan Financial Services to prepare a Water Rate and Fee Study for the fiscal periods 2014 through 2018. Rate setting methodology requires analyzing historical and budgeted data while forecasting the necessary revenue to cover expenditure assumptions. The following table indicates the percentages and dollars over/under between the water study to actual and forecasted sales. For instance, in 2014, the initial year of the study, actual sales are -2.6% or \$512,986 under rate study. The \$6,722,372 loss in revenue over the period results from the mandated water conservation, demographic changes and base rate component.

	<u>2014 A</u>	<u>2015 A</u>	<u>2016 A</u>	<u>2017 F</u>	<u>2018 F</u>	<u>Total</u>
% Δ	-2.6%	-11.5%	-8.4%	-5.2%	-3.4%	
\$ Δ	-512,986	-2,373,028	-1,823,990	-1,189,446	-822,922	-6,722,372

The report recommended an annual 6% increase beginning January 1 over the fiscal years (2014 through 2018) to close the operational fiscal gap and the analysis clearly justify this recommendation. The fiscal budget operates below the District’s reserve policy of 6 months and borrows \$9 million from water reserves. While Debt Service Coverage (DSC) continues to decline, it is well within the acceptable range.

**BUDGETARY IMPACT:** Discussion



# Nevada Irrigation District

## Water Rate Analysis



# Water Rate Analysis

- Factors Influencing Rates
  - Board direction
  - Current financial position
  - Age of infrastructure
  - Geographical service area
  - In-house expertise
  - Current cost structure (fixed vs variable components)
  - Water rate development methodology (base vs commodity)
  - Historical and estimated consumption (drought, precipitation)
  - Political environment (local, regional, state, federal)



# Rate Comparison Table

	Year	Bi-Monthly (Base) 5/8" Meter <sup>1</sup>	Bi-Monthly 10 hcf <sup>2</sup>	Total Based on 10 hcf
City of Lincoln	FY 2017 Rate	\$68.70	\$13.22	\$81.92
	<b>FY 2018 Rate</b>	<b>76.26</b>	<b>14.70</b>	<b>90.96</b>
PCWA Proposed 2018 (6%)	2017 Rate	67.26	15.06	82.32
	<b>2018 Rate</b>	<b>71.32</b>	<b>15.40</b>	<b>86.72</b>
City of Grass Valley no increase	2017 Rate	52.00	26.25	78.25
	<b>2018 Rate</b>	<b>52.00</b>	<b>26.25</b>	<b>78.25</b>
El Dorado Irrig District Proposed 3% 2018	2017 Rate	59.88	14.54	74.42
	<b>2018 Rate</b>	<b>61.68</b>	<b>14.98</b>	<b>76.66</b>
City of Nevada City Rates readjusted in 2013	FY 2017 Rate	47.00	18.52	65.52
	<b>FY 2018 Rate</b>	<b>48.00</b>	<b>18.86</b>	<b>66.86</b>
NID Proposed 6% 2018	2017 Rate	46.84	19.30	66.14
	<b>2018 Rate</b>	<b>49.65</b>	<b>20.50</b>	<b>70.15</b>

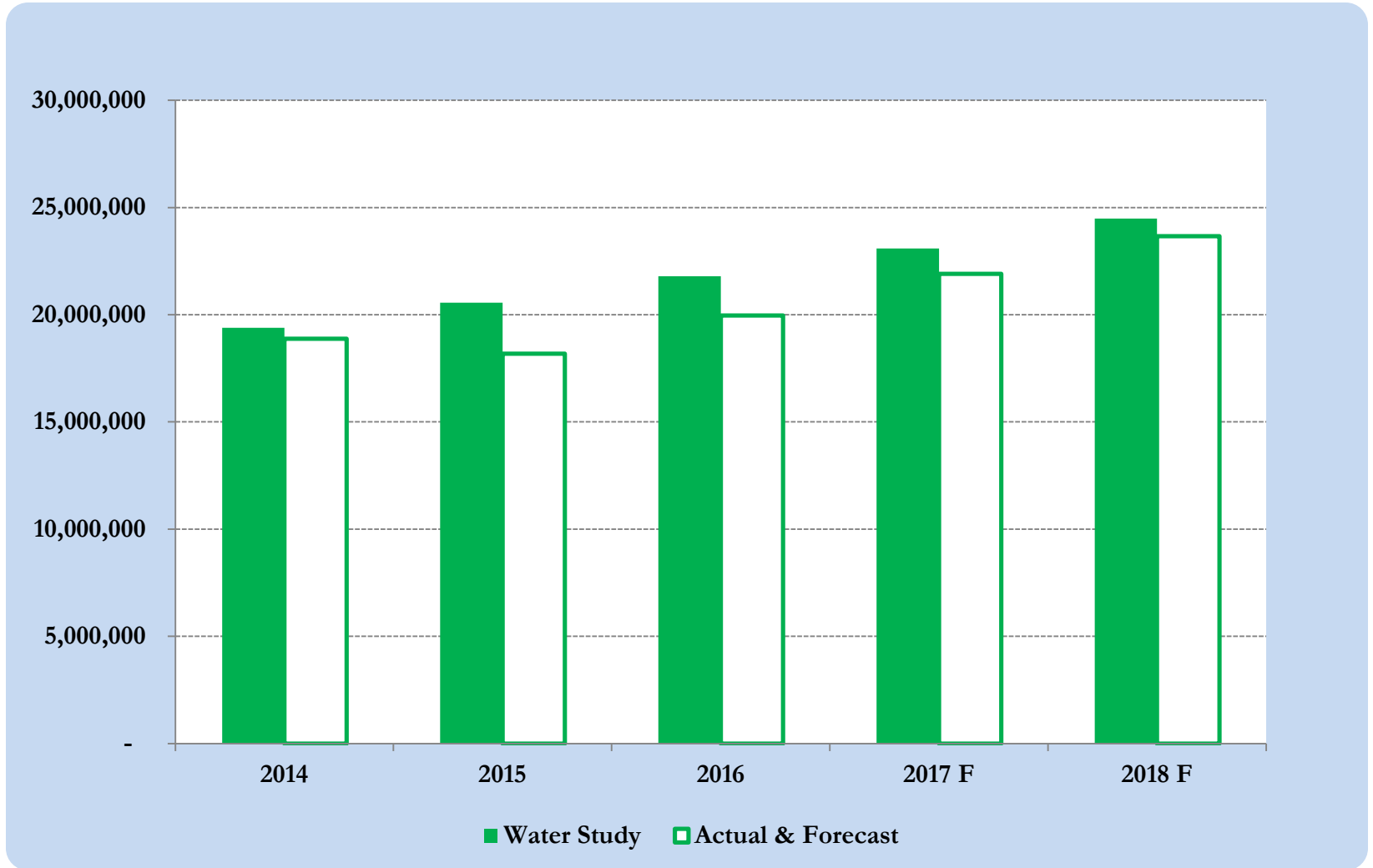
<sup>1</sup> City of Lincoln does not offer a 5/8" meter, rates are for 3/4" meter

<sup>2</sup> City of Lincoln, City of Grass Valley and City of Nevada City bill per 1,000 gallons, shown is for 7,000 gallons (9.36 HCF)



# Water Study vs Water Sales

(Study period 2014 - 2018)





# Recommendation

- Maintain current approved increase due to:
  - Accepted Rate Study Analysis
  - 2017 Borrowing \$7.9M from reserves
  - Short & Long-term Cash Forecast Analysis
  - 36% Historical conservation mandate
  - 2014 – 2018 revenue loss of \$6.7M
  - Regional Rate Comparison Table
  - Consistent with public agreement to drive down reserves