

# County Service Area #25 – Keswick Water

## Rate Report – 2015



### INTRODUCTION

County Service Area #25 – Keswick Water (CSA) currently has 205 meters installed with 195 active accounts. The system was constructed in the 1970's with expansion in the 1990's. There are about 6.5 miles of pipe serving 5,360 acres.

The CSA was formed in the 1960's as an independent community services district. It had its own 500 acre foot contract for project water with the United States Bureau of Reclamation (Reclamation). Its supply source is a turnout on the Spring Creek Conduit and its treatment plant and storage facilities are on federal lands managed by Reclamation.

In the early 1990's, the Community Services District ran into operational difficulties and became a County Service Area. In addition to the treatment, storage and distribution facilities, a small structure (the former office) and a park are managed by the Department of Public Works.

In 2009 the California Department of Public Health (CDPH) declared the CSA's filtration to be unapproved technology. CDPH also cited the system's storage as too small to meet state capacity requirements. They made approximately \$2 million available for design consulting and construction of upgrades to meet the changing requirements. Design work on this project began in late 2013, and construction was completed in April 2016.

## EXPENSES AND REVENUES

**Exhibit A** contains expense and revenue information back to Fiscal Year (FY) 2012-13. During the period shown, the CSA experience two years of drought with water supply cutbacks, increased water conservation, increased water purchase costs, additional costs and income related to the grant project, additional water costs for out-of-district water treatment, staff costs related to the project and a change in regulatory agencies from the Shasta County Department of Resource Management, Division of Environmental Health to the California State Water Resources Control Board, Division of Drinking Water (DoDW). The current year, FY 2016-17 is a projection based on the first seven months of operation. The grant funded cash flow has been removed from the balance sheet to make the information a little clearer.

Even with direct grant project costs and revenues removed, **Exhibit A** data presents no obvious trends. It appears that operational costs will reach \$110,896 this FY. This represents Total Expenditures line for FY 2016-17 in **Exhibit A** with depreciation subtracted. The amount includes A-87, which is a charge for other County provided services, such as the work of the Treasurer-Tax Collector in collecting and distributing the CSA's tax base (account number 101000). Depreciation is an amount determined by accounting standards that is intended to provide for replacement of equipment and structures. In an ideal world, the rate structure would allow full recovery of operation costs and depreciation.

Expected revenue this FY is \$95,238. Expected revenue includes money collected for use, money collected through the CSA's pre-Proposition 13 tax base (account number 101000 in **Exhibit A**), and various smaller amounts, such as connection fees. Excluding depreciation, a \$15,658 operational expense shortfall is anticipated.

## SYSTEM NEEDS

Revenue collected must cover all operating costs, overhead and enough depreciation to cover unanticipated expenses and some future equipment or structure replacement.

Because financial trends have not stabilized, a one-year increase is proposed to cover a \$15,700 operational expense shortfall. Some reasons for the apparently high costs of FY 2016-17 are known. The DoDW currently requires an update to the operations plan. Some work has been completed on this, but additional costs are anticipated. DoDW has also changed water sampling requirements and increased requirements for operator licensing.

A second year increase of 5% is proposed. It will give finances a longer settling period and allow operating cost and revenue trends to emerge and cover additional labor costs, as labor contracts were renegotiated in 2016 giving employees a 3% wage increase in 2017, 3% in 2018 and 2% in 2019.

## WATER USE PATTERNS

The treatment and distribution system are adequately sized to serve the current district.

During the period studied, the system was upgraded, which led to a period of about one year where customers experienced lower water pressure. In addition, California experienced five successive

years of drought. **Table 1** shows CSA customers responded to drought messaging. Quantities are shown in cubic feet (CF). Statistics are for non-zero readings.

**Table 1 – Use Statistics**

	FY 2012-13 Use CF	FY 2013-14 Use CF	FY 2014-15 Use CF	FY 2015-16 Use CF
Total Metered Use	6,662,743	6,219,212	4,814,315	3,264,800
Average Use	6,297	5,957	4,401	2,998
Median Use	3,061	2,916	1,827	1,489

## PROPOSED WATER RATES

Rate Ordinance 704 went into effect on July 3, 2015. It established the base quantity as 3,500 CF and set the base rate as \$45.00. The variable rate was set at \$1.40 for every 250 CF used above the base quantity. The CSA currently has no charges associated with vacation or standby service in its rate ordinance as is common practice in other county service areas.

The ratesetting method considers recovering fixed and variable costs. Fixed costs are those that happen in the regular course of business regardless of how much water is produced. For instance, an operator must check the plant daily and meters are read bi-monthly. Variable costs are those that are dependent on the amount of water produced. Because the CSA works largely on gravity, the largest variable cost is for raw water. Some labor is based on operating hours of machinery, and chlorine use is also directly production dependent, though these amounts are small compared to water purchase. A variable goal of \$15,000 is considered.

Median use is currently 1,489 CF. But prior to the drought, the median use appears to have been stable around 3,000 CF. Because the CSA customers have demonstrated they can limit use when called upon to do so, the rest of this report will consider a 3,000 CF base quantity.

The rate structure must produce approximately \$84,600 in revenue to balance this fiscal year.

**Table 2** presents a rate structure which generates the revenue needed and is followed by a small second year increase to allow finances to settle (provided the drought or other abnormal events do not recur).

**Table 2 – Proposed Two Year Rate Schedule**

	Current	Year 1	Year 2
Base Rate	\$45.00 for 3,500 CF	\$59.50 for 3,000 CF	\$62.45 for 3,000 CF
Variable Rate	\$2.40/250 CF after base	\$0.75/100 CF after base	\$0.80/100 CF after base
Annual Revenue	\$64,395	\$84,601	\$89,070

## OTHER FEES

The extraordinary commodity cost fee established in Ordinance 704 covered the increased cost of transferred water during the drought and should be retained.

Other fees and charges were considered during this review. See **Exhibit B** for calculations.

It is recommended that a fee for annual backflow prevention device (BFP) checking be established. A BFP is required in Shasta County when a customer develops a private well or other backflow risk to prevent the possibility of cross-connecting untested water supplies with the public supply. The recommended fee for annual testing is \$85. There are currently no BFP devices in the CSA and the work load cannot be split.

Restoring a disconnected service takes approximately 45 minute for a utility worker already in the field. The recommended fee is \$65.

## TRENDS AND COMPARISONS

Base water rates were last increased in 2012. The proposed increases would be phased in over two years beginning in 2017. The proposed increase thus covers eight years. Existing and proposed revenues per the rate model are shown in **Table 3** below.

**Table 3: Four Year Revenue**

	2015	2019	% Increase	Annual % Increase
Water Revenues	\$64395	\$89,070	38.3	8.4

The final rates compare favorably with similar rates in the larger community. The proposed rates are in line with other systems in the region as shown in the graphs in **Exhibit C**. It should also be noted that the CSA serves a small customer base whereas many comparison systems serve larger customer bases and thus enjoy economies of scale.

## CONCLUSION

Fingers crossed, this generates enough money to get through the next few years.

Attachment:

- Exhibit A:** Expense and Revenue Statement
- Exhibit B:** Other Fee Calculations
- Exhibit C:** Local Water Use Comparison

## EXHIBIT A

<b>Shasta County DPW</b> <b>CSA #25 Keswick Water Admin.</b> <b>Organization Code 00394</b>						
ACCT NOS.	CLASSIFICATION	ACTUAL BALANCE 2012-13	ACTUAL BALANCE 2013-14	ACTUAL BALANCE 2014-15	ACTUAL BUDGET 2015-16	ESTIMATED BALANCE 2016-17
<b>EXPENSES:</b>						
<u>SERVICES AND SUPPLIES</u>						
032300	CLOTHING/PERSONAL SUPPLIES XP	2	11	0	0	0
032500	COMMUNICATIONS	178	199	207	237	211
032900	HOUSEHOLD EXPENSE	10	8	0	0	0
033500	MAINTENANCE OF EQUIPMENT	6,586	9,975	7,705	6,734	12,549
033791	CHS FAC MGMT MAINT STR	9,443	7,271	3,313	4,368	2,285
033900	MEDICAL DENTAL LAB SUPPLIES	0	0	709	706	176
034100	MEMBERSHIPS	153	153	163	167	0
034309	MISC XP PRIOR PERIOD REVENUE ADJUSTME	42	0	0	0	0
034310	MISC XP PRIOR PERIOD EXP ADJ	0	0	0	0	222
034591	CHGS OC POSTAGE SVS	789	1,027	1,338	1,124	1,455
034800	PROF & SPECIAL SERVICES	3,066	3,343	10,227	6,501	2,887
034826	PROF LAB SVS	3,281	3,463	2,653	3,530	3,420
034829	PROF MAINTENANCE SVS	32,750	38,405	38,676	28,711	58,967
034893	CHGS AUD PROP TAX SVS	645	642	645	681	607
034900	PUB & LEGAL NOTICES	0	1,700	149	403	0
035100	RENTS & LEASES OF EQUIPMENT	116	824	0	0	0
035500	SMALL TOOLS & EQUIPMENT	52	1,118	151	137	0
035700	SPECIAL DEPARTMENTAL EXPENSE	3,343	3,914	1,249	6,530	0
035900	TRANS/TRAVEL	246	28	0	231	0
036100	UTILITIES	11,391	13,216	36,831	25,442	14,337
	<b>TOTAL SERVICES AND SUPPLIES</b>	<b>72,092</b>	<b>85,296</b>	<b>104,015</b>	<b>85,501</b>	<b>97,116</b>
<u>OTHER CHARGES</u>						
050001	CENTRAL SERVICE COST A-87	4,694	4,871	2,580	8,161	13,780
050900	DEPRECIATION	14,404	14,404	14,404	21,364	75,000
051100	BAD DEBTS	(10)	(1)	(15)	(4)	0
	<b>TOTAL OTHER CHARGES</b>	<b>19,088</b>	<b>19,274</b>	<b>16,969</b>	<b>29,520</b>	<b>88,780</b>
	<b>TOTAL EXPENDITURES</b>	<b>91,181</b>	<b>104,570</b>	<b>120,984</b>	<b>115,021</b>	<b>185,896</b>
<b>REVENUE:</b>						
<u>TAXES</u>						
101000	CURRENT SECURED TAXES	17,863	18,126	18,968	20,022	18,207
101001	CURRENT UNITARY TAXES	1,130	1,144	1,170	1,275	1,009
101011	CURR SEC TAX DEL ADV TEETER	370	319	319	332	0
101100	SUPPLEMENTAL TAXES CURRENT	56	151	175	200	172
101111	SUPPLEMENTAL TAXES CURR	30	49	62	23	0
102000	CURRENT UNSECURED TAXES	1,150	1,147	1,052	1,066	1,230
103010	SUPPLEMENTAL TAXES PRIOR	1	1	1	1	0
104000	PRIOR YEAR UNSECURED TAXES	27	15	10	12	6
	<b>TOTAL CHARGES FOR SERVICES</b>	<b>20,628</b>	<b>20,951</b>	<b>21,758</b>	<b>22,931</b>	<b>20,624</b>
<u>REVENUE FROM MONEY &amp; PROPERTY</u>						
420000	INTEREST	467	(98)	(722)	(1,023)	(46)
420001	CHANGE IN FAIR VAL INV	(137)	0	0	0	0
	<b>TOTAL REVENUE FROM MONEY &amp; PROPERTY</b>	<b>331</b>	<b>(98)</b>	<b>(722)</b>	<b>(1,023)</b>	<b>(46)</b>
<u>INTERGOVERNMENTAL REVENUES</u>						
546000	STATE HOMEOWNERS EXEMPTION	381	367	364	366	360
	<b>TOTAL INTERGOVERNMENTAL REVENUES</b>	<b>381</b>	<b>367</b>	<b>364</b>	<b>366</b>	<b>360</b>
<u>CHARGES FOR SERVICES</u>						
668144	S/A IN LIEU PARCEL CHGS CURR	0	0	203	0	560
668194	S/A DEL WATER CURR	1,524	778	741	743	0
693020	WATER SERVICE COLLECTIONS	52,403	53,080	54,196	69,680	69,029
693500	SEWER SERVICE CHARGES	0	0	57	0	0
693900	CONNECTION FEES	0	0	669	0	0
	<b>TOTAL CHARGES FOR SERVICES</b>	<b>53,927</b>	<b>53,859</b>	<b>55,866</b>	<b>70,423</b>	<b>69,589</b>
<u>MISCELLANEOUS REVENUES</u>						
799300	MISCELLANEOUS REVENUE	3,276	3,328	12	0	12
799390	MISCELLANEOUS REVENUE	0	318	0	17,009	4,699
	<b>TOTAL MISCELLANEOUS REVENUES</b>	<b>3,276</b>	<b>3,646</b>	<b>12</b>	<b>17,009</b>	<b>4,711</b>
	<b>TOTAL REVENUES</b>	<b>78,543</b>	<b>78,724</b>	<b>77,277</b>	<b>109,706</b>	<b>95,238</b>
	<b>EXPENSES (OVER) UNDER REVENUES</b>	<b>(12,638)</b>	<b>(25,845)</b>	<b>(43,707)</b>	<b>(5,315)</b>	<b>(90,658)</b>

## EXHIBIT B

CSA 25 - Keswick

2017 Rate Study

*Rate for Backflow Prevention Device Checking*

\$	78.08	Water/Wastewater 2, 2016 Rate
\$	84.49	3% - 3% - 2% Wage Increases, 2017-2019
\$	81.29	Average
	1.00	Drive and Test Time
\$	81.29	

	1.74	Typical CSA Box Truck per Mile Rate, 2016
	5	Round Trip Mileage from Yard
\$	3.37	

\$ 84.66 Total

\$ 85.00	Recommend
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*Restoration of Service*

\$	78.08	Water/Wastewater 2, 2016 Rate
\$	84.49	3% - 3% - 2% Wage Increases, 2017-2019
\$	81.29	Average
	0.75	Restoration Time
\$	60.96	

	1.74	Typical CSA Box Truck per Mile Rate, 2016
	5	Assumed Mileage
\$	3.37	

\$ 64.33 Total

\$ 65.00	Recommend
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## Exhibit C

### CSA #25 – Keswick Community Comparison Chart

