County Service Area #6 – Jones Valley Water

Rate Report – 2017.2

August 9, 2017

INTRODUCTION

County Service Area #6 – Jones Valley (CSA) was formed in 1980 and currently encompasses 3,033 acres. The system has been rebuilt and added onto a number of times, with the most recent expansion completed in 2013. It currently serves 472 active connections.

On March 8, 2017, the County Service Area #6 – Jones Valley Rate Report – 2017 was completed. On March 23, 2017, a public meeting was held at the Jones Valley Fire Hall. Staff present at that meeting reported that many customers in attendance thought the water use projection was overly conservative. With the drought over, or at least skipping a year, they asserted more water would be used. To account for this, a schedule with only three years of increases was considered.

One May 16, 2017, a Public Hearing on the proposed rate increase was held and a majority protest was received.

On June 13, 2017, acknowledging a negative fund balance in the CSA's finances, the Board of Supervisors declared an emergency and adopted an ordinance intended to limit the financial losses in the CSA in an attempt to maintain the CSA's long-term operating viability.

On July 18, 2017, the Board of Supervisors directed staff to prepare a rate study considering only one rate increase step (a one-year proposal).

On July 25, 2017, the Board of Supervisors adopted an ordinance establishing fees in order to recover the cost to the CSA of certain services such as processing late payments, collecting unpaid balances, shut-offs for failure to pay, backflow prevention testing, and other similar services.

EXISTING OPERATIONAL FUND

Financial information for the three most recent Fiscal Years (FY) years is available, however, FY 2016-17 includes a number of exceptional activities. For instance, the winter was very wet and turbidity in the raw water required a great deal of extra staff time to reduce the cloudiness so that it could be filtered and chlorinated. A rate study was completed and the protest procedures required by the California State Constitution were followed, increasing office costs.

Complete financials for FY 2014-15 and FY 2015-16 are included in **Exhibit A**. Because of the system expansion in 2013-14, use of data for that year and before is not predictive of future costs. Likewise, as noted above, use of financial information from FY 2016/17 is considered not to be predictive of future costs because certain costs are not expected to be recurring. Therefore, only FY 2014-15 and 2015-16 are considered in this rate report. **Table 1** shows revenue and expense.

Table 1 – Water Revenue and Expense

	FY 2014-15	FY 2015-16
Revenue	$177,502	$181,370
Expense	$221,111	$211,649

Depreciation is not shown in **Table** 1.

Even accounting with the most optimistic revenue and most conservative expense information, the rate structure in place today does not collect enough to cover regular operating costs. Revenue needs to increase almost 21% to meet normal operational needs.

FINANCIAL NEEDS

In order for the CSA to maintain its solvency and thus be able to continue to deliver water to the users, revenue collected must cover all operating costs, overhead and some depreciation. Depreciation is collected to offset the cost of future equipment replacement and repairs. Depreciation can also be looked at as a reserve to cover the inevitable need to repair or replace equipment.

As part of the routine process of bargaining with labor groups, the County entered into labor agreements in 2016. A 3% increase in the first year was negotiated, 3% the second and 2% in the third. This increases average labor costs by about $7,800 at the end of three years.

PG&E bills have totaled $40,776, $43,590 and $50,995 over the last three fiscal years respectively. Reference sources confirm this escalating trend and imply that it may continue. A 6% annual escalation is assumed over three years from the Rate Study basis. This calculation yields an additional $8,000 in annual operating costs.

Table 2 shows average expenses for (FY) 2014-15 and FY 2015-16 and increased labor costs. Full depreciation is also shown separately.

The CSA must collect at least $232,180 to cover basic operating needs in the next three years, barring further extraordinary operating costs like another very wet winter. As noted above, in order to ensure the long-term financial viability of the CSA thus allowing it to be able to continue water service,

reserves for the inevitable repair and replacement of equipment will ultimately have to be considered and include within the rate structure. In order to provide sufficient reserves for repair and replacement, an additional $277,857 would need to be collected through rates.

Table 2 – Additional Labor and Depreciation

	Average
Average Expense	$216,380
Additional Labor	$7,800
Electricity	$8,000
Total	$232,180
Depreciation	$277,857

OTHER FINANCIAL CONSIDERATIONS

As a result of the existing rate structure not providing sufficient revenue to cover operating costs, the CSA is insolvent. The CSA's minimal reserves had been diminishing and were quickly exhausted in FY 2016/17. The CSA has a negative fund balance of $54,000. The CSA owes another $28,000 for recent filter improvements. It has been assumed that $5,000 in expenses will be incurred to complete the process to propose a new rate increase. An operating reserve of $20,000 is proposed. These initial expenses total $107,000 and are to be recovered over three years (about $35,700 per year). It is important to note again, that this rate study is not taking into account sufficient reserves for repair and replacement cost of equipment which ultimately will need to be included.

It is anticipated that the non-water service fees adopted on July 25th will offset costs of providing certain services by approximately $12,000 per year. Office labor and expenses will be reduced by approximately $6,000 per year. Additionally, it is anticipated the late fee will reduce the number of customers paying late thus improving the CSA's cash flow. In addition, the new non-water service fees related costs of collection, shut offs due to non-payment, and restoring service after payment will offset the labor costs associated with those services. Additional field labor costs to test backflow prevention devices that will be offset will also be in the $6,000 range. This should express itself as a $12,000 reduction in operating costs.

Total revenue need is $255,880.

EXISTING WATER USE PATTERNS

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

During development of this rate report, individual meter use from bi-monthly billings for the service period from July 1, 2014, through June 30, 2016, was examined. This period coincided with a drought. Average use during single billing cycles is 14,935 gallons and median use is 7,140 gallons. Prior to the drought, average use was 20,232 gallons and median use 8,500 gallons. Water use in the CSA proved responsive to the drought. The preparation of this study is particularly difficult because of the various factors impacting the use of water and expenses in the past several years. As a result of the expansion of the system in 2013-14, data from that year and before is not particularly predictive of future revenue and expenses. In addition, during FY 2014/15 and 2015/16, the State of California was in the midst

of critical water shortages due to drought. Finally, increased costs were experienced in the CSA in FY 2016/17 which, at present, are not expected to be recurring. All these factors make analyzing the expected revenues and expenses more difficult. It remains to be seen how the end of the drought will impact water usage or whether California could return to drought conditions. It also remains to be seen whether some of the other costs that are not expected to be recur could, in fact, impact the CSA going forward.

PROPOSED WATER RATES

Rate Ordinance 707 went into effect on July 28, 2015. It preserved the prior standard rate structure, shown in **Figure 3** but added a commodity charge to offset the cost of water purchased at a rate greater than CVP supplies. The commodity charge is revenue neutral, functional, and will be retained.

Figure 3 – Existing Rate Structure

QUANTITIES	RATES
0 to 2,000 gallons	$33.95
2,000 to 10,000 gallons	$0.23 per 100 gallons used
More than 10,000 gallons	$0.13 per 100 gallons used

The new rate structure should closely match recurring fixed costs to the base rate and variable costs to the per gallon charge. Fixed costs are those that occur independent of the quantity of water produced. For instance, an operator must check the plant daily and meters must be read bi-monthly as long as the system is operating. The most obvious variable cost is for utilities; chemical costs and a certain amount of maintenance is also based on the amount of water produced. Standby and vacation rates are unchanged and are set at $10 per billing cycle and treated as fixed.

The proposed rate structure establishes a base quantity of 7,000 gallons for each bi-monthly billing cycle. Many water districts recover base costs through a meter fee: for the pleasure of having a meter, customers pay the base cost, then any usage fees. Many of the county service areas use the approximate median water usage as the base quantity. This encourages a limited amount of daily use which serves to keep water in the pipes and tanks moving, which is important in largely linear piping systems. The base quantity proposed is the most appropriate based on the County's current analysis of the revenue, expenses, and need for operating reserves and considering the need for a certain minimum of water to be provided in order to avoid costs.

Table 4 shows a rate proposal which meets the short-term financial needs of the CSA. It uses a modified version of the model developed for the original rate study taking into account new or additional information. Again, as noted before, there is no allowance for pump replacement, filter rehabilitation or other routine capital need.

Table 4 – One Year Proposal - 7,000 Gallon Base Quantity

	Current	Year 1
Base Rate	$33.95	$56.20
Per 100 Gallon	$0.23	$0.27
Average Bi-Monthly	$58.85	$77.80
Percent Increase	-	32.2%
Median Bi-Monthly	$45.91	$56.74
Percent Increase	-	23.6%
Revenue	$175,176	$256,043

CONCLUSION

The rate structure and schedule proposed in **Table 4** recovers current operating costs and recovers from negative cash flow over a period of three years. No money is set aside for future capital needs. After the planning horizon (or sooner, if operational conditions demand), the rate structure should be reconsidered in order to maintain the long-term ability to provide water in the CSA.

Attachment:

Exhibit A: Expense and Revenue Statement

EXHIBIT A

Acct No.s	Classification	Actual 2014-15	Actual 2015-16	Actual 2016-17*
EXPENSES:				
SERVICES AND SUPPLIES				
032500	COMMUNICATIONS	1,245	834	1,209
033103	MISC INSURANCE	1,452	1,380	1,389
033500	MAINTENANCE OF EQUIPMENT	10,690	10,215	18,363
033700	MAINTENANCE OF STRUCTURES	22	0	0
033791	CHS FAC MGMT MAINT STR	300	683	950
034100	MEMBERSHIPS	153	163	161
034591	CHGS OC POSTAGE SVS	4,080	3,118	4,181
034800	PROF & SPECIAL SERVICES	18,582	10,383	31,181
034826	PROF LAB SVS	6,292	6,062	6,857
034829	PROF MAINTENANCE SVS	91,600	97,270	137,770
034892	CHGS IT PROFESSIONAL SVS	0	224	0
034900	PUB & LEGAL NOTICES	0	122	0
035100	RENTS & LEASES OF EQUIPMENT	243	441	410
035500	SMALL TOOLS & EQUIPMENT	374	27	477
035700	SPECIAL DEPARTMENTAL EXPENSE	3,150	2,955	2,977
035900	TRANS/TRAVEL	2,598	3,202	3,242
036100	UTILITIES	63,465	63,155	54,168
	TOTAL SERVICES AND SUPPLIES	204,245	200,234	263,335
OTHER CHARGES				
050001	CENTRAL SERVICE COST A-87	16,875	10,924	6,657
050800	TAXES & ASSESSMENTS	0	582	658
050900	DEPRECIATION	277,857	277,857	277,857
051100	BAD DEBTS	(9)	(91)	0
	TOTAL OTHER CHARGES	294,723	289,272	285,171
OTHER FINANCING USES				
096629	TRANS OUT CSA#6 ELK TRAIL S/A	4,694	0	0
	TOTAL OTHER FINANCING USES	4,694	0	0
	TOTAL EXPENDITURES	503,663	489,506	548,506
* Subject to change after accruals are posted.				
REVENUE:				
REVENUE FROM MONEY & PROPERTY				
420000	INTEREST	366	121	200
420001	CHANGE IN FAIR VAL INV	0	0	0
	TOTAL REVENUE FROM MONEY & PROPERTY	366	121	200
INTERGOVERNMENTAL REVENUES				
560502	FED WATER SYSTEM IMPROVE GRANT	0	0	0
	TOTAL INTERGOVERNMENTAL REVENUES	0	0	0

EXHIBIT A

Acct No.s	Classification	Actual 2014-15	Actual 2015-16	Actual 2016-17*	
CHARGES FOR SERVICES					
668132	SPECIAL ASSESSMENT	0	0	0	
668144	S/A IN LIEU PARCEL CHGS CURR	13,601	13,781	13,780	*
668194	S/A DEL WATER CURR	4,432	3,289	4,400	
693020	WATER SERVICE COLLECTIONS	158,568	163,300	170,000	
693060	INSPECTION FEES	450	0	500	
693900	CONNECTION FEES	450	1,000	500	
	TOTAL CHARGES FOR SERVICES	177,502	181,370	189,180	
MISCELLANEOUS REVENUES					
795100	PRIOR YEAR VOIDED WRTS/CHECKS	0	0	0	
799300	MISCELLANEOUS REVENUE	36	108	0	
799390	MISCELLANEOUS REVENUE		3,067	0	
799391	PRIOR PERIOD ADJUSTMENT	3,247,593	0	0	
799850	REIMB MISC COSTS	0	0	0	
799851	REIMB DAMAGES COUNTY	1,610	0	0	
	TOTAL MISCELLANEOUS REVENUES	3,249,239	3,175	0	
OTHER FINANCING SOURCES TRAN IN					
806350	TRNS IN CSA#6 JONES VLY 350	0	25,000	13,000	
806371	TRAN IN SHASTA CO WATER AGNCY	0	0	0	
	TOTAL OTHER FIN SRCS TRAN IN	0	25,000	13,000	
OTHER FINANCE SRCS L/T DEBT PRCD					
850000	L/T DEBT PROCEEDS	0	0	0	
	TOTAL OTH FINANCE CRCS L/T DEBT PRCD	0	0	0	
	TOTAL REVENUES	3,427,107	209,666	202,380	
	EXPENSES (OVER) UNDER REVENUES	**2,923,445**	**(279,840)**	**(346,126)**	