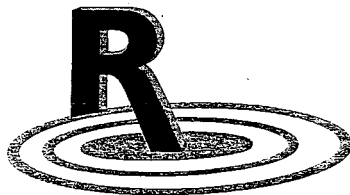


RIO LINDA/ELVERTA
COMMUNITY WATER DISTRICT
Long-Range Financial Plan and
Water Rate/Capacity Charge Study
FINAL REPORT

November 20, 2000



REED CONSULTING GROUP

(c) Any audit conducted by an independent auditor to determine whether a fee or charge levied by a local agency exceeds the amount reasonably necessary to cover the cost of providing the product or service shall conform to generally accepted auditing standards.

(d) The procedures specified in this section shall be alternative and in addition to those specified in Section 54985.

(e) The Legislature finds and declares that oversight of local agency fees is a matter of statewide interest and concern. It is, therefore, the intent of the Legislature that this chapter shall supersede all conflicting local laws and shall apply in charter cities.

(f) This section shall not be construed as granting any additional authority to any local agency to levy any fee or charge which is not otherwise authorized by another provision of law, nor shall its provisions be construed as granting authority to any local agency to levy a new fee or charge when other provisions of law specifically prohibit the levy of a fee or charge.

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EXECUTIVE SUMMARY

The Rio Linda/Elverta Community Water District is in urgent need to significantly increase water rates. The District's financial situation has reached a critical juncture. Operational costs and debt service obligations exceed current revenues. The recently completed water master plan¹ indicates that the District needs to significantly increase capital program expenditures to rehabilitate, upgrade, and expand the water system.

In order to meet obligations and fund the recommended capital program the District will need to increase water rates by an estimated 150 percent over the next several years. An increase of 100 percent is needed now to stabilize the current financial situation and begin to reverse the District's current course. A significant increase to the District's capacity charges for new service connections is also recommended.

At present the District estimates current water rates to generate \$692,000² per year. Budgeted operating and maintenance costs, current debt service obligations, plus recommended capital program expenditures, less other revenues total \$1,768,300 as summarized below. Water rates should generate this level of revenue in order to eliminate the current deficit.

Oper. & Maint. Costs =	\$842,100
Annual Debt Service =	467,500
Capital Program ³ =	829,400
Less Other Revenues =	<u>(370,700)</u>
TOTAL COSTS =	\$1,768,300

While only limited capital program expenditures were budgeted for FY 00-01, the water master plan indicates a need to replace and upgrade a number of wells and pipelines. At present, the District is using available reserves to cover the current

¹ RL/ECWD Water Master Plan, Camp Dresser & McKee, November 2000.

² From RL/ECWD budget for FY 00-01.

³ Ten-year annual average master plan expenditures plus budgeted capital costs.

deficit. With the recommended level of capital program expenditures the District's reserves will be exhausted within about three years if water rates are not increased.

An immediate 100 percent rate increase is proposed. Even with this increase the District will continue to have a deficit. Therefore, additional rate increases will be needed in subsequent years. Future rate increases might be lessened if the District is successful in winning pending litigation related to the District's previous investment in the Northridge conveyance pipeline.

To partially mitigate the rate impact, the District plans to implement monthly billing of all customers in conjunction with the rate increase. Current water rates for most single family customers include a bi-monthly minimum charge of \$18.00. The minimum charge includes water use up to 20 CCF⁴ during the two-month billing period. Water use from 21 to 50 CCF is charged at \$0.20 per CCF, and any additional use is charged at \$0.25 per CCF. With the proposed rate increase (and monthly billing), most single family customers will pay a monthly minimum charge of \$18.00 (including 10 CCF of water), plus \$0.40 per CCF for use from 11 to 25 CCF and \$0.50 per CCF for use above 25 CCF per month.

A typical single family water bill⁵ will be about \$21.20 per month. Monthly bills for similar water use within other water utilities in the Sacramento region range from \$11.65 to \$32.00.

The District's Board of Directors has studied master plan and financial issues closely on several occasions in recent months. While not popular the rate increase is long overdue. Customers will be notified of the proposed rate increase, and will be given an opportunity to comment on the proposal before the District's Board of Directors takes final action.

⁴ One CCF = 100 cubic feet = 748 gallons.

⁵ Assumes a 5/8" meter and median usage of 18 CCF.

I. INTRODUCTION AND SUMMARY

INTRODUCTION

Beginning in the fall of 1999, the Rio Linda/Elverta Community Services District (District) engaged Reed Consulting Group (RCG) to assist with a variety of financial and water rate issues including:

- ❖ Preparing a comparative survey of water rates and administrative service fees within the Sacramento region
- ❖ Developing a long-range financial plan consistent with the recently prepared water master plan and other obligations
- ❖ Evaluating the current financial situation and developing a strategy for improving the current situation
- ❖ Recommending near-term adjustments to water rate schedules
- ❖ Calculating capacity charges for new development based on the master plan.

The District also plans to perform a comprehensive water rate structure study to assess possible improvements for the existing rate structure. That effort is expected to occur in early 2001. This report summarizes the analyses, findings, and recommendations related to the tasks listed above.

FINANCIAL PLAN

The long-range financial plan was developed to serve as a planning and management tool to help ensure that the operations, debt service obligations, and capital program needs of the District are met in a financially sound manner. The plan includes estimates for future water rate increases, as well as proposed financing strategies to fund needed capital projects,

This report focuses primarily on the 10-year long-range plan. The plan includes estimates of future operating and non-operating revenues, operating and maintenance expenditures, debt service requirements, and capital program needs. Like all future estimates, the plan is based on a number of assumptions including rate of growth, interest and inflation rates, future operating and capital program needs, and others. To the extent that actual conditions differ from the underlying assumptions reflected in the plan, actual results may differ from the plan.

One of the benefits of a multi-year plan is that it provides decision-makers with information regarding current and future conditions. The impact of various actions or assumptions can be modeled and evaluated. A number of long-range plan scenarios were presented to the Board of Directors. Refinements were made, at the direction of the Board, to reduce the level of water

rate increases required from original estimates. Nevertheless, the District is facing an urgent need to dramatically increase water rates in the near future.

In 1994, the District issued about \$5 million in certificates of participation (COPs) to pay for the District's share of capacity in the Northridge Water District (NWD's) conveyance pipeline. The pipeline would have enabled the delivery of surface water from Folsom reservoir to the District's service area, and relieved demands on existing groundwater supplies. However, as a result of inaccurate cost estimates on the conveyance pipeline project the District terminated its participation in the project and relinquished its capacity in the pipeline. However, the District only received about \$3.1 million of its original investment as a result of this action⁶.

The District last increased water rates in 1994. However, the current level of rates is insufficient to meet existing debt service obligations or capital program needs. In order to meet the District current obligations the District needs to increase water rates by more than 100 percent. Based on the long-range plan presented herein, the overall annual water rate increases estimated for the next five years are:

FY 00-01	100%
FY 01-02	15%
FY 02-03	8%
FY 03-04	3%
FY 04-05	3%

WATER RATES

It is recommended that the District immediately increase the water rates by 100 percent, as shown in **Exhibit I-1**. The District's financial situation should then be reviewed on an annual basis and the rates adjusted in accordance with requirements to meet long-range plan objectives. It is estimated that within a few years the District's rates should stabilize to level that would only require inflationary adjustments thereafter. Beyond FY 00-01, the resolution of pending litigation could affect the amount of future rate increases. The estimated rate increases would provide sufficient funds for operations, debt service obligations, and near-term (next 10 years) master plan projects.

The District plans to implement monthly billing (instead of bi-monthly billing) when the water rate increase is implemented. With the recommended rates, customers monthly water bills would essentially be the same as current bi-monthly bills.

⁶ Litigation is pending that may result in recovery of additional funds for the District. However, due to the uncertainty of the outcome of this litigation the long-range plan does not include any funds that may result from this action by the District.

Exhibit I-1
Rio Linda/Elverta Community Water District
Proposed Water Rates to be Effective January 2001

<i>Monthly Service Charge (\$/Mo.)</i>		
<u>Meter Size</u>	<u>Service Charge</u>	
5/8"	\$18.00	
3/4"	\$18.70	
1"	\$20.76	
1 1/2"	\$44.30	
2"	\$70.60	
3"	\$109.38	
4"	\$156.46	
Add'l living or business units	\$9.00	
<i>Monthly Commodity Charges</i>		
<u>Meter Size</u>	<u>Range of Use (CCF/Mo.)</u>	<u>Commodity Rate (\$/CCF)</u>
5/8", 3/4", and 1"	0 to 10 CCF	\$0.00
	11 to 25 CCF	\$0.40
	26+ CCF	\$0.50
1 1/2"	0 to 40 CCF	\$0.00
	41+ CCF	\$0.50
2"	0 to 75 CCF	\$0.00
	76+ CCF	\$0.50
3"	0 to 100 CCF	\$0.00
	101+ CCF	\$0.50
4"	0 to 150 CCF	\$0.00
	151+ CCF	\$0.50

WATER SYSTEM CAPACITY CHARGES

This report also includes recommendations pertaining to capacity charges for new water service customers. Capacity charges are one-time fees paid at time of connection to the water system and represent the estimated reasonable cost of providing water system capacity to new development⁷. Proposed water system capacity charges as summarized in Exhibit I-2. Capacity charges have not been adjusted since 1994, and a significant increase in the charges is warranted.

⁷ Capacity charges would also apply to existing development newly connecting to the water system.

Exhibit I-2
Rio Linda/Elverta Community Water District
Proposed Water System Capacity Charges

<i>Water System Capacity Charges</i>	
<u>Meter Size</u>	<u>Capacity Charge</u>
5/8"	\$1,845
3/4"	\$2,768
1"	\$4,613
1 1/2"	\$9,225
2"	\$14,760
3"	\$29,520
4"	\$46,125
6"	\$92,250
8"	\$147,600

ORGANIZATION OF THIS REPORT

The remainder of this report provides details of the long-range financial plan analyses, current and recommended water rates, capacity charges, and the results of the water rate survey. The report is organized as follows:

- ❖ *Section II* – Long-Range Financial Plan
- ❖ *Section III* – Water Rates
- ❖ *Section IV* – Capacity Charges

Results of the water rate survey are included in **Appendix A** of the report. **Appendix B** includes detailed exhibits of the long-range financial plan model. **Appendix C** includes current Government Code sections pertaining to water system capacity charges.

II. LONG-RANGE FINANCIAL PLAN

This section of the report describes the details of the 10-year long-range financial plan developed for the District. **Appendix B**, at the end of this report, contains printouts of the financial plan model worksheets that make up the long-range plan with the proposed financial strategy.

CURRENT FINANCIAL SITUATION

The District's financial situation has reached a critical juncture. Operational costs and debt service obligation significantly exceed current revenues, and only limited capital improvements are planned. In addition, the recently completed water master plan⁸ suggests that the District should spend an average of about \$720,000 per year on recommended capital improvements. In recent years the District has used available reserves to make debt service payments and to cover costs that exceed current revenue. However, this trend needs to be reversed.

Exhibit II-1 graphically summarizes the District's FY 00-01 budgeted revenues and expenditures. Only limited capital improvement expenditures have been budgeted. However, at a minimum, the District is in need of replacing at least one groundwater well in the near future. Without any increase in capital improvement expenditures the District's current reserves will be exhausted within about five years. With the recommended capital program contained in the master plan existing reserves will be exhausted within about three years.

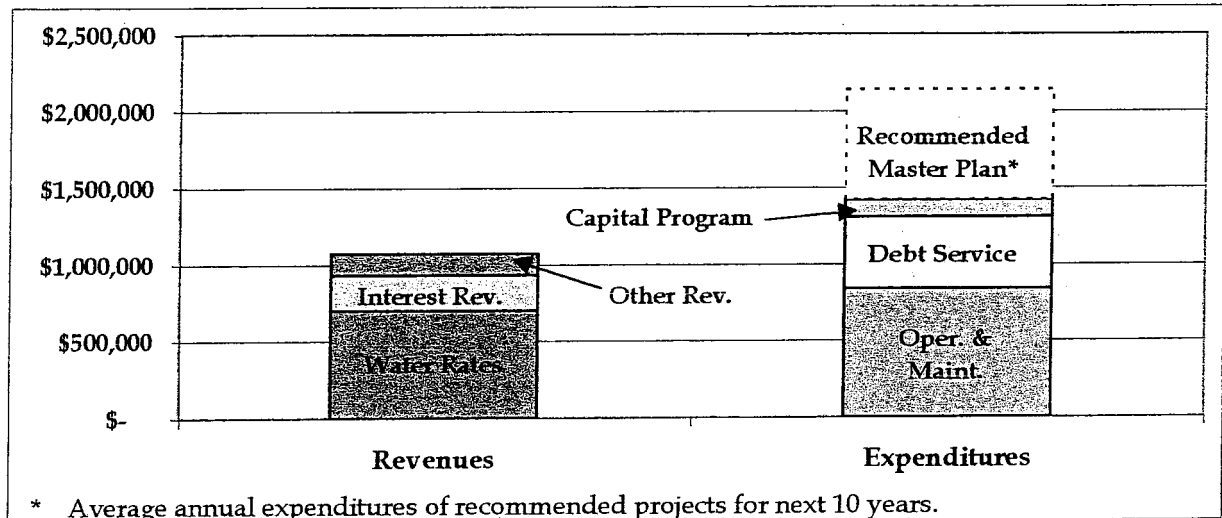
In order to meet existing debt service obligations and fully fund the capital program the District would need to increase water rates by an estimated 150 percent over the next several years. An increase of at least 100 percent is urgently needed to stabilize the District's financial situation and begin to reverse the District's current course. The remainder of this section describes the long-range financial plan and the basis for these significant findings.

FUND AND RESERVE STRUCTURES AND CASH FLOWS

The District's long-range financial plan model is a multi-year cash flow model. As a cash flow model, it differs from financial accounting income statements and balance sheets. The financial plan models sources and uses of funds into and out of the various funds and reserves of the water utility, with consideration of operations and maintenance costs, capital program needs, debt service obligations, and reserve policies.

⁸ *Rio Linda/Elverta Community Water District Water Master Plan, Camp Dresser & McKee, November 2000.*

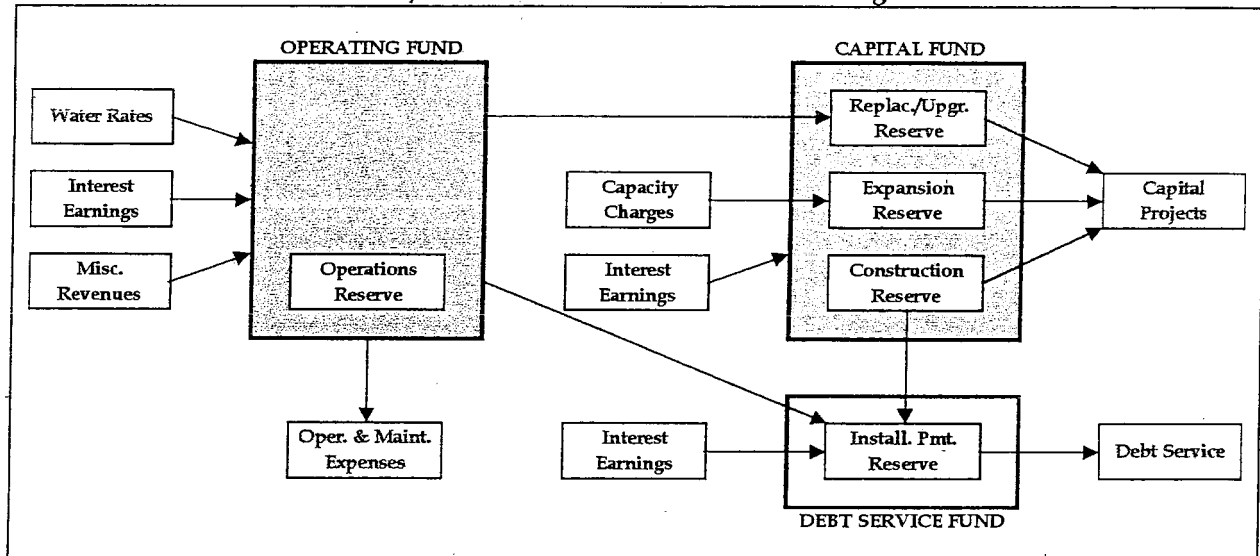
Exhibit II-1
Rio Linda/Elverta Community Water District
FY 00-01 Budgeted Revenues and Expenditures



The financial plan was developed based on the fund, reserve, and account structures currently used by the District. **Exhibit II-2** schematically illustrates the fund and reserve structure, as well as the major inflows, outflows, and transfers between funds and reserves. An understanding of this fund/reserve structure is important in understanding the long-range plan worksheets that model the flow of funds through the utility from one year to the next. The funds and reserves that make up of District's financial structure include:

- ❖ *Operating Fund* - The operating fund is the primary fund for the District's day-to-day operations. Most of the water system revenues, including water rate revenues, flow into the operating fund and all operating and maintenance expenditures are paid out of this fund. The operating fund includes an operating reserve (as described below). Funds in excess of the operating reserve are identified as uncommitted fund balance, and are available for general purposes, including transfer to other funds/reserves.
- ◆ Operating Reserve - At present the District maintains several reserves for various operational needs. These include a cash flow reserve equal to 10 percent of operating revenue, a contingency reserve equal to 10 percent of operating expenditures, and an self-insurance reserve equal to \$10,000. Following discussions with District staff, we recommend that a single operating reserve be established equal to 50 percent of annual operating costs. The purpose of an operating reserve is to provide sufficient funds for continued operation in the event of unplanned operating and maintenance expenditures or irregular working capital needs. Water Utility operating reserves typically range from 10 to 50 percent of annual operating and maintenance expenditures. At the beginning of FY 00-01 the balance of the operating fund was \$442,000 or about 52 percent of budgeted operating and maintenance costs for the year.

Exhibit II-2
Rio Linda/Elverta Community Water District
Fund/Reserve Structure and Cash Flow Diagram



❖ *Capital Fund* - The capital fund is comprised of the replacement/upgrade reserve, the expansion reserve, and the construction reserve. Each of these reserves is described below.

◆ Replacement/Upgrade Reserve - At present, the District does not have a replacement/upgrade reserve. The proposed replacement/upgrade reserve would be used to account for and track the use of funds used for the replacement, rehabilitation, and upgrade of the water system. The replacement/upgrade reserve receives funds through transfers from the operating fund (i.e., water rate revenues). Moneys in the reserve are used to pay for the cost of replacement, rehabilitation, and upgrade capital projects. Replacement projects are currently funded with available funds in the operating fund. However, because of the District's financial condition very limited funds are available for this purpose. The recommended replacement/upgrade reserve provides a convenient mechanism for adequately funding a capital replacement and upgrade program on an ongoing basis. Consistent annual transfers from operations into the replacement/upgrade reserve helps to stabilize water rates and ensure adequate funding of an ongoing replacement program⁹.

◆ Expansion Reserve - The expansion reserve meets a statutory requirement to properly account for capacity charge revenues and expenditures. The primary source of revenue for the expansion reserve is capacity charges paid by new development or others connecting to the water system. This revenue should be

⁹ Some utilities call this a depreciation reserve and fund it with rate revenues at a level equal to annual accounting depreciation.

