

Ventura Water Cost of Service & Rate Design Study

Citizen Advisory Committee Meeting
October 12, 2011



Overview

- Introduction – RFC Team
- Rate Study Overview
 - Objectives & Issues
 - Existing Water & Wastewater Rates
 - Scope of Cost of Service & Rate Study
 - COS & Rate Study Process
 - Schedule
- Pricing Objectives Workshop
- Next Steps/Discussion/Q&A

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Introduction – RFC Team

Raftells Financial Consultants, Inc. (RFC)

- National full-service water and wastewater financial consulting firm
- One of the largest utility consulting firms
- Our staff has served over 400 utilities and conducted thousands of projects
- Over 250 years of combined experience
- In 2010, RFC worked in 26 states and conducted over 200 studies
- Recognized industry leader




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Objectives of Rate Study

- Develop long-term financial plan for financial stability
 - Meet operating and capital costs, debt coverage and reserve requirements
- Design appropriate rate structure to enhance equity, revenue stability, and promote conservation
- Ensure public acceptance and successful implementation

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Current Issues

- Current rate structure not changed since early 90s
- Significant CIP in the coming years to meet aging infrastructure
- Reduced water supply and additional water treatment needed
- Increased wastewater treatment costs pursuant to consent decree requirements

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Existing Rates - Water

Bi-Monthly Service Charge

Meter Size	Inside City	Outside City	Fire Line	Reclaimed
5/8" & 3/4"	\$15.03	\$25.55	\$2.11	\$15.03
1"	\$28.74	\$48.86	\$6.93	\$28.74
1 1/2"	\$47.76	\$81.19	\$6.93	\$47.76
2"	\$66.76	\$113.49	\$6.93	\$66.76
3"	\$150.42	\$255.71	\$20.80	\$150.42
4"	\$245.49	\$417.33	\$41.60	\$245.49
6"	\$483.06	\$821.20	\$115.58	\$483.06
8"	\$720.60	\$1,225.02	\$242.71	\$720.60
10"	\$958.15	\$1,628.86	\$416.08	\$958.15
12"	\$1,100.68	\$1,871.16	\$429.94	\$1,100.68

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Existing Rates - Water

Volume Rates (\$/hcf)		Inside City	Outside City
SFR			
Tier 1	1 to 16	\$2.02	\$3.43
Tier 2	17 to 42	\$2.66	\$4.52
Tier 3	43+	\$4.27	\$7.26
MFR			
Tier 1	1 to 10	\$2.02	\$3.43
Tier 2	11 to 24	\$2.66	\$4.52
Tier 3	25+	\$4.27	\$7.26
Non-Residential		\$2.66	\$4.52
City Parks		\$1.40	\$1.40
Reclaimed Water		\$0.50	\$0.50

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- ### Issues with Water Rates
- Tier 2 cut-off for SFR customers is at 42 hcf, may be too generous
 - City Parks rates are too low
 - Reclaimed Water rates
 - Need nexus between Inside City and Outside-City rates – currently Outside-City rates are at 1.70 times Inside City rates
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Existing Rates - Wastewater

SFR & MFR	HCF*	BI-Monthly Rate
Tier 1	0 - 8	\$34.27
Tier 2	9 - 10	\$42.24
Tier 3	11 - 12	\$50.00
Tier 4	13 - 14	\$57.76
Tier 5	15 - 16	\$65.51
Tier 6	17+	\$73.27
Schools (with showers - 100 ADA)		\$131.89
Schools (no showers - 100 ADA)		\$102.58
Churches		\$73.27

*HCF determined based on lowest billing between November through April

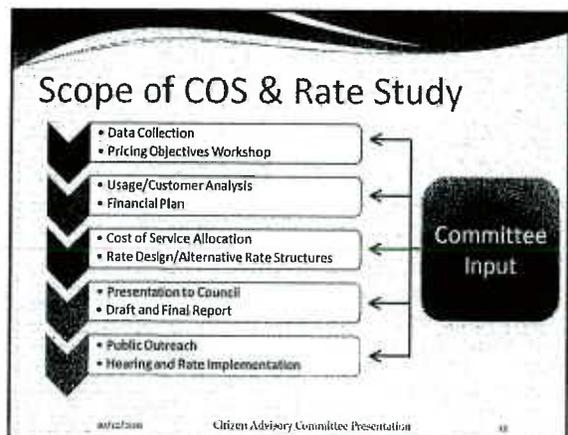
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Existing Rates - Wastewater

Commercial		BI-Monthly Rate	Commercial		BI-Monthly Rate
HCF			HCF		
Group 1			Group 5		
Tier 1	0 - 8	\$16.07	Tier 1	0 - 8	\$47.74
Tier 2	9+	\$2.63	Tier 2	9+	\$6.57
Group 2			Group 6		
Tier 1	0 - 8	\$24.26	All		\$73.27
Tier 2	9+	\$3.15			
Group 3			Industrial (Monthly)		
Tier 1	0 - 8	\$36.38	Flow (MG)		\$2,470.10
Tier 2	9+	\$5.39	COD (klbs)		\$280.51
Group 4			SS (klbs)		\$597.62
Tier 1	0 - 8	\$6.79			
Tier 2	9+	\$7.03			

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- ### Issues with Wastewater Rates
- Residential rates can be simplified into a fixed and variable rate instead of current six-tier structure
 - Need to review the rates for Churches
 - Some churches have schools, others do not
 - Revisit non-residential rates to meet cost of service requirements
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What is COS Study?

Methodical process by which we calculate a structure of fair and equitable rates in proportion to the service received.

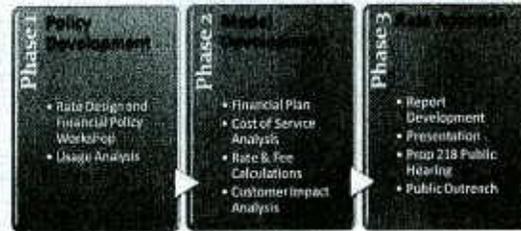
- Compile costs and customer data and determine revenue requirements from rates
- Organize data to perform allocation to cost centers
- Calculate unit costs
- Assign unit costs to customers to calculate user rates

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COS & Rate Study Process



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Proposition 218 Requirements

- Proposition 218 and Government Code Sec. 54999.7 state:
 - Cost of providing water and wastewater service should be proportional to level of fees and charges
 - Revenues derived from the fee may not exceed the funds required to provide the service
 - The amount of the fee may not exceed the proportional cost of the service attributable to the parcel upon which the fee is imposed
 - Nexus between the benefit and the cost of providing service

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Meeting Schedule

- October 1, 2011
 - Orientation Tour & Discussion
- October 12, 2011
 - Study Overview and Pricing Objectives
- November 16, 2011
 - Financial Plans
- December 14, 2011
 - Cost Allocation/Rate Design
- January 18, 2012
 - Review Draft Report/Recommendations

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Pricing Objectives



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Identify Financial and Pricing Objectives.

- Cost of Service Based Allocations
- Minimization of Customer Impacts
- Equitable Contributions from New Customers
- Economic Development
- Rate Stability
- Affordability
- Simple to Understand and Update
- Ease of Implementation
- Defensibility
- Revenue Stability
- Conservation/Demand Management



Identify Financial and Pricing Objectives

COST OF SERVICE BASED ALLOCATIONS

- Recovery of costs from customers and customers classes in proportion to cost of providing service
- Customers are more willing to accept their fair share of costs
- "Level of Equity" tradeoff

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Identify Financial and Pricing Objectives

MINIMIZATION OF CUSTOMER IMPACTS

- Avoiding large changes in bills
- Customer service implications
- Should rate increases be phased?

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Identify Financial and Pricing Objectives

EQUITABLE CONTRIBUTIONS FROM NEW CUSTOMERS

- Connection charges
- "Growth pays for growth"
- Intergenerational equity

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Identify Financial and Pricing Objectives

ECONOMIC DEVELOPMENT

- Water and sewer service as incentive for economic development
- Comparability with our neighbors?
- Potential rate structures
 - Interruptible rates
 - Subsidized rates
 - Marginal cost rates
- Potential legal and political risks

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Identify Financial and Pricing Objectives

RATE STABILITY

- Identify a reasonable planning period
- Smooth program of rate adjustments is usually preferable
- Volatile swings should be avoided

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Identify Financial and Pricing Objectives

AFFORDABILITY

- Lifeline rates
- Percentage of income payment plans
- Rate discounts
- Potential legal risks

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Identify Financial and Pricing Objectives

SIMPLE TO UNDERSTAND AND UPDATE

- Communication with customers and elected officials
- Customer service impacts
- Administration and updating

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Identify Financial and Pricing Objectives

EASE OF IMPLEMENTATION

- Impact on customer service staff
- Billing software capability
- Data requirements and costs

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Identify Financial and Pricing Objectives

DEFENSIBILITY

- Consistency with:
 - Accepted practice and industry standards
 - Local & state statutes, contractual obligations, etc.
- Potential for litigation
- Effective in meeting bond covenants

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Identify Financial and Pricing Objectives

REVENUE STABILITY

- Revenues are predictable and stable
- Revenues matched with revenue requirements

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Identify Financial and Pricing Objectives

CONSERVATION/DEMAND MANAGEMENT

- Should the pricing structure encourage more efficient water use?
- Which customer classes should be targeted?
- Which demand is targeted?

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Pricing Objectives Exercise

Pricing Objectives Instruction

- Rank the main objectives as follows
 - Most Important (maximum 3 objectives)
 - Very Important (maximum 3 objectives)
 - Important
 - Least Important
- Rank the sub-objectives from 1 to 6 with "1" being most important and "6" least important

Next Steps/Discussion/Q&A

- Agenda for Next Meeting
 - Pricing Objectives Results
 - Financial Plans for Water and Wastewater
 - Revenue adjustments schedule
- City Council Presentation of Pricing Objectives - Monday, November 14.

Pricing Objectives

Pricing Objective	Description
Cost of Service Based Allocations	The rate structure should ensure that each customer class is contributing equitably towards revenue requirements based upon the costs of providing service to each customer class.
Minimization of Customer Impacts	The rate structure should be developed such that adverse rate impacts on each customer class are minimized.
Equitable Contributions from New Customers	New customers should be responsible for the capital costs of providing them service.
Economic Development	The rate structure should incorporate a preferential rate that may be used to attract economic development to Manly.
Rate Stability	The rate structure should minimize dramatic rate increases or decreases over the planning period.
Affordability	The rate structure should not overly burden low-volume customers.

Pricing Objectives (cont'd)

Pricing Objective	Description
Simple to Understand and Update	The rate structure should be easy for City customers to understand, utilizing a moderate level of educational tools. In addition, the rate structure should be able to be effectively maintained by City staff in future years.
Ease of Implementation	The rate structure should be compatible with City's billing system. In addition, the rate structure should allow for the continuation of existing management and system reports.
Defensibility	The rate structure should be consistent with the rate setting methodologies provided by AWWA and applicable laws, in order to ensure that rates are defensible if challenged in court.
Revenue Stability	The rate structure should provide for a steady and predictable stream of revenues to the utility such that the utility is capable of meeting its current financial requirements.
Conservation/Demand Management	The rate structure should encourage water conservation as well as assist in managing system demand.

Pricing Objective Sample

	Classification of Pricing Objective			
	Most Important (Maximum of 3)	Very Important (Maximum of 3)	Important	Least Important
Cost of Service Based Allocations	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Minimization of Customer Impacts	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Equitable Contributions from New Customers	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Economic Development	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Rate Stability	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Affordability	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Simple to Understand and Update	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Ease of Implementation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defensibility	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Revenue Stability	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Conservation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Pricing Objectives Rating Scale

Pricing goals will be evaluated as follows:

- Most Important = 4
- Very Important = 3
- Important = 2
- Least Important = 1

Sample of Pricing Objective Results

Classification	Rank Total	Objective	Current Risk Score	Model Risk Score
I	1	Financial Efficiency	A	A-
	2	Revenue Stability	A-	B+
	3	Rate Stability	B+	B
II	4	Flexible Cash from New Customers	A	A
	5	Diversity	C+	A-
	6	Cost of Service Based Alignment	C	A-
III	7	Customer Based Management	C	A-
	8	Minimization of Customer Inquiries	A	B
	9	Ease of Implementation	A	B+
IV	10	People to Understand and Update	A	B+
	11	Affordability to Disadvantaged Customers	C	B
	12	Economic Development	B	B
OVERALL SCORE			B+	A-