



November 10, 2020 LVMWD Regular Board Meeting

TO: Board of Directors

FROM: Finance & Administration

Subject : 2020 Rate Study: Cost of Service Analysis and Proposed Rates

SUMMARY:

The District contracted with Raftelis Financial Consultants, Inc. (Raftelis) to complete a financial review, cost of services analysis and rate study for its three enterprises. On August 18, 2020, staff and Raftelis representatives provided the Board with a presentation on the results of the financial analysis. Based on input received from the Board, Raftelis completed a draft cost of service study for the District's potable water, recycled water and sanitation systems. In addition, Raftelis developed proposed rates that are designed to support the District's operational needs for calendar years 2021 through 2025. At the meeting, staff and Raftelis representatives will review the draft cost of service study and proposed rates. Attached for reference are copies of the presentation materials for the meeting and draft frequently asked questions that are proposed for use in the public outreach process.

RECOMMENDATION(S):

Review and provide feedback on the draft cost of service analysis and proposed rates to support the District's operational needs for calendar years 2021 through 2025.

FISCAL IMPACT:

Yes

ITEM BUDGETED:

Yes

FINANCIAL IMPACT:

Completion of the rate setting process is a key element to ensuring that the District's financial needs are met for the next five-year period of 2021 through 2025.

DISCUSSION:

On August 6, 2019, the Board awarded a professional services agreement to Raftelis Financial Consultants, Inc. (Raftelis) to complete a financial analysis and rate study for the five-year period beginning on January 1, 2021. The contract was awarded well in advance of 2021 to allow for coordination of the rate process and preparation of the District's 10-year Infrastructure Investment Plan.

On July 21, 2020, the Board approved the following guiding principles for the current rate study to ensure that the District is able to provide reliable water and sanitation services to customers, while supporting water-use efficiency as a California way of life.

- Maintain a rate structure that is fair and equitable across customer classes.
 - Re-examine commercial water budgets to promote efficient use in a manner that supports business and economic development.
- Maximize revenue stability to navigate variable economic and hydrologic conditions.
- Provide a strong price signal to drive an efficiency ethic and minimize rate impacts to efficient customers.
- Ensure that rates are compliant with California Law.

On August 18, 2020, Raftelis presented to the Board on the results of the financial review and revenue requirements necessary to accomplish the guiding principles, planned operations and maintenance activities and the next five-years of the Infrastructure Investment Plan. Raftelis presented the following three scenarios for each enterprise, which were designed to meet the revenue requirements over the next five-years:

- Scenario No. 1 – level revenue adjustments over the five-year period.
- Scenarios No. 2 – deferral of revenue adjustments until 2022, except for the pass through of additional wholesale water costs.
- Scenario No. 3 – a hybrid approach with lower revenue adjustments in 2021, followed by level revenue adjustments for 2022 through 2025.

The Board directed staff to focus the rate development on Scenarios Nos. 1 and 3 for the Potable Water and Sanitation Enterprises and on Scenario No. 1 for the Recycled Water Enterprise. The Board also expressed support for a recommendation to modify commercial water budgets to be 100% of the three-year average and reduce the number of tiers for commercial accounts to three: efficient, inefficient and excessive.

At the meeting, Raftelis will present the Board with the results of the draft cost of service analysis and proposed rates based on the selected scenarios. Raftelis will also present a recommendation to modify the Readiness to Serve Charge for the Recycled Water Enterprise to match the Potable Water Enterprise with respect to cost recovery percentage as a result of the new cost of service analysis.

Following is a summary of the next steps for rate study process:

- December 15, 2021 – Submit Cost of Service Analysis report to Board and set a public hearing.
- Late December through January 31, 2021 – Conduct public outreach on the proposed rates.
- February 2, 2021 – Hold public hearing.
- March 1, 2021 – Implement new rates (future adjustments would be proposed to occur on January 1st of each subsequent year).

Prepared by: Donald Patterson, Director of Finance and Administration

ATTACHMENTS:

Staff Presentation
Raftelis Presentation
Draft FAQs