



**ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT**

100 NORTH CANYONS PARKWAY LIVERMORE, CA 94551 PHONE (925) 454-5000 FAX (925) 454-5727

**ORIGINATING SECTION: Administration**  
**CONTACT: Tom Hughes / Tamara Baptista**

**AGENDA DATE:** October 1, 2014

**ITEM NO. 5**

**SUBJECT: Water Rates for 2015 & 2016**

**SUMMARY:**

- Water rates for 2015 and 2016 were discussed at the Finance Committee meetings on August 28, 2014 and September 8, 2014.
- Also, meetings were held with the Retailers on September 4, 2014 to discuss water rates.
- Based upon input and feedback at these meetings, staff has calculated the impact of different rates using our rate model.
- Staff has prepared the attached report discussing three rate model calculations:
  1. Baseline-No Water Rate Increase  
This rate model calculation was developed in response to the Finance Committee.
  2. 3% CPI for both 2015 and 2016; reduce transfer to AMP to \$7 Million  
This rate model calculation was also developed in response to the Finance Committee's request to find a creative way to keep rate increases as low as possible.
  3. 7% increase for both 2015 and 2016  
Staff believes that this rate model calculation offers the lowest possible rate increase and has the smallest possible impact on reserves, during the two-year study period.
- Staff met with the Retailers again on September 25, 2014.

**FUNDING:**

The water rate determines the amount of revenue from water sales to operate the Water Enterprise (Fund 100).

**RECOMMENDED ACTION:**

Discuss and provide direction to staff.



**ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT**

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**Interoffice Memorandum**

**DATE:** October 1, 2014

**TO:** Jill Duerig, General Manager  
Tom Hughes, Assistant General Manager, Administration

**FROM:** Tamara Baptista, Finance Manager

**SUBJECT: Water Rates for 2015 & 2016**

**SUMMARY:**

Two years ago, the Board established a two-year treated water rate schedule for calendar years 2013 and 2014. Setting treated water rates on a two-year basis provides greater predictability and stability, both for our customers and for Zone 7. This approach also streamlines the rate-setting process, which significantly improves efficiencies by reducing administrative staff time spent on treated water rates.

The process for developing this two-year rate schedule includes estimating the cost of service for fiscal years FY 14/15 through 16/17 and estimating revenues. The cost of service includes Water Enterprise Fund (Fund 100) operating expenses and the annual capital contribution to the Renewal and Replacement/System-wide Improvements Fund 120 (the transfer for the Asset Management Program). The operating expenses were calculated using a ‘discounted budget’ to more accurately estimate actual costs of service. The ‘discounted budget’ was developed by taking each cost category and determining if cost savings or increased costs were anticipated during the two-year rate period. The contribution to Fund 120 is anticipated to increase annually based on the AMP funding schedule adopted by the Zone 7 Board on June 15, 2011.

Water rates for 2015 and 2016 were discussed at the Finance Committee meetings on August 28, 2014 and September 9, 2014. Staff also held retailer meetings on September 4. Based upon input and feedback at these meetings, staff has calculated the impact of different rates using our rate model. Attachment 1 represents the baseline which shows the impact of no increase in rates. Attachment 2 shows the impact of a 3% CPI increase for the next two years. Both of these calculations were developed as a result of input from the Finance Committee members.

Attachment 3 is a calculation of a 7% increase for the next two years. Based upon the Capital Improvement Program (CIP) presented earlier which details the Agency’s capital requirements and the impact on reserve levels, staff is recommending a 7% increase because this is what is necessary

to maintain reserve levels and insure that funding is available for the annual contribution to the Agency Management Plan (AMP). Historically, the Zone 7 Board has annually set treated water rates based on the funding requirements needed to support the water enterprise's annual operations and long-term capital needs. The Rate Model calculations are summarized below: (see Attachments 1, 2 and 3 for details):

- Baseline: No water rate increase

This rate model calculation was developed in response to the Finance Committee.

- In addition to the estimated use of reserves in Fund 100 approved as part of the FY 14/15 budget, this results in additional use of reserves in FY 15/16 (estimated at \$4,970,775) and in FY 16/17 (estimated at \$4,827,445).

- 3% CPI increases for 2015 and 2016 and reduce the transfer to the AMP to \$7 Million in FY 15/16

This rate model calculation was also developed in response to the Finance Committee's request to find a creative way to keep rate increases as low as possible. After the Committee Meeting, Board Member Ramirez-Holmes worked with staff on the development of this rate model. This rate model calculation is based on a 3% CPI in each fiscal year and lowers the contribution to the AMP in FY 15/16 from \$10,500,000 to \$7,000,000. The 3% increase also results in a net decrease in Fund 100 reserves of \$1,783,867.

- This calculation decreases the transfer to the AMP by \$3.5 Million in FY 15/16, effectively reducing reserves in Fund 120 by \$3.5 Million.
- Another impact is the \$1,940,605 use of reserves in FY 16/17. Even though this is offset by a \$156,918 increase in FY 15/16, the net impact is an overall \$1,783,867 reduction in reserves.
- *Note: the CPI increases represent the Consumer Price index – Bay Area increase from June 2013 to June 2014.*

**Staff Recommendation:**

- 7% increase for 2015 and 2016

The impact on reserves in FY 15/16 is a decrease of \$1,107,451 in Fund 100. In FY 16/17 this decrease is offset by a \$1,332,330 increase, for a small net increase of \$224,879. Staff believes that this option offers the lowest possible rate increase without depleting reserves during the two-year study period. Some of the advantages of maintaining the current level of reserves are as follows:

- There are various unknowns such as the length of time that the drought will continue. The assumption made in all of the rate models is that the cost of water purchases will decrease the operating expenses from \$32.6 Million in FY 15/16 to \$31.8 Million in FY 16/17 because the Agency may pay the cost of replenishing water for the Cawelo and Semitropic groundwater banking programs over time whereas in FY 14/15 and FY 16/17 obtaining water from these programs is necessary for water supply due to the drought and the low allocations from the DWR. Maintaining the current reserve level is an important safeguard in case the drought lasts longer than projected.
- Based upon the analysis of the CIP the reserves must be maintained in order to provide funding for the AMP.

- There is the possibility that expenses will be higher than projected in the rate model due to increased costs passed on to State Water Contractors by the State Department of Water Resources and water supply issues.
- The Agency's share of SWP projects such as the Delta improvements may need to be funded.

Staff met with the retailers again on September 25, 2014. Retailers continued to express concerns with permanent increases that exceed the CPI.

**RECOMMENDATION:**

Discuss and provide direction to staff.

**ATTACHMENTS:**

1. Baseline-No Water Rate Increase
2. 3% CPI for both 2015 and 2016 ; reduce transfer to AMP by \$3.5 Million to \$7 Million
3. 7% increase for both 2015 and 2016
4. Reserve Calculations

**Baseline -No Water Rate Increase**

Calendar Year	2013	2014	2015	2016
Water Rate per AF	\$945	\$970	\$970	\$970
Volume of Water Sales (AF)	41,476	28,911	37,038	39,056

	FY12/13 Audited Actual	FY13/14 Unaudited Actual	FY14/15 Discounted Budget	FY15/16 Forecast Budget	FY16/17 Forecast Budget
<b>Fund 100 - Water Enterprise</b>					
Beginning Fund Balance:	27,289,110	31,495,970	30,634,290	18,774,975	13,804,200
<u>Sources of Funds</u>					
Treated Water Revenue	37,494,692	34,965,126	31,991,106	37,207,717	38,690,702
Other Revenue	1,974,821	1,485,166	783,302	918,507	930,113
Total Sources	39,469,513	36,450,292	32,774,408	38,126,224	39,620,815
<u>Uses of Funds</u>					
Operating Expenses	28,662,653	28,811,973	31,809,799	32,596,999	31,786,500
Transfer to Fund 120	6,600,000	8,500,000	12,823,924	10,500,000	12,661,760
Total Uses	35,262,653	37,311,973	44,633,723	43,096,999	44,448,260
<b>Ending Fund Balance:</b>	<b>31,495,970</b>	<b>30,634,290</b>	<b>18,774,975</b>	<b>13,804,200</b>	<b>8,976,755</b>
Net Additions/(Uses) of Reserves	4,206,860	(861,681)	(11,859,315)	(4,970,775)	(4,827,445)
<u>Reserves Balances(End of Period)</u>					
Operating Reserve	8,308,044	7,182,825	7,930,183	7,064,820	6,643,344
Drought Contingency Reserve	5,861,673	5,861,673	0	0	0
Emergency Reserve	4,113,026	4,197,380	6,530,911	6,739,381	2,333,410
Rate Stabilization Reserve	13,213,227	13,392,411	4,313,881	0	0
Total	31,495,970	30,634,290	18,774,975	13,804,200	8,976,755

**Assumptions:**

The Board authorized a significant use of reserves in the FY 14/15 budget.  
Drought is a one-year event (2014).  
Post drought recovery is based on the 1990 drought which was two years, with the first year 14% less than normal and the second year at pre-drought level.

**Notes:**

For purposes of calculating reserves for this rate model, actual and discounted budget numbers in the rate model are used rather than the adopted budget numbers.

**Operating Expenses:**

All expense categories were reviewed to determine an appropriate discounted budgeted amount.

### 3% Water Rate Increase for 2 years/transfer for AMP \$7M

Calendar Year	2013	2014	2015	2016
Water Rate per AF	\$945	\$970	\$999	\$1,029
Volume of Water Sales (AF)	41,476	28,911	37,038	39,056

	FY12/13 Audited Actual	FY13/14 Unaudited Actual	FY14/15 Discounted Budget	FY15/16 Forecast Budget	FY16/17 Forecast Budget
<b>Fund 100 - Water Enterprise</b>					
Beginning Fund Balance:	27,289,110	31,495,970	30,634,290	19,258,321	19,415,239
<u>Sources of Funds</u>					
Treated Water Revenue	37,494,692	34,965,126	32,474,452	38,835,410	41,577,542
Other Revenue	1,974,821	1,485,166	783,302	918,507	930,113
Total Sources	39,469,513	36,450,292	33,257,754	39,753,917	42,507,655
<u>Uses of Funds</u>					
Operating Expenses	28,662,653	28,811,973	31,809,799	32,596,999	31,786,500
Transfer to Fund 120	6,600,000	8,500,000	12,823,924	7,000,000	12,661,760
Total Uses	35,262,653	37,311,973	44,633,723	39,596,999	44,448,260
<b>Ending Fund Balance:</b>	<b>31,495,970</b>	<b>30,634,290</b>	<b>19,258,321</b>	<b>19,415,239</b>	<b>17,474,634</b>
Net Additions/(Uses) of Reserves	4,206,860	(861,681)	(11,375,969)	156,918	(1,940,605)
<u>Reserves Balances(End of Period)</u>					
Operating Reserve	8,308,044	7,182,825	7,930,183	8,126,432	7,924,374
Drought Contingency Reserve	5,861,673	5,861,673	0	0	0
Emergency Reserve	4,113,026	4,197,380	6,530,911	6,739,381	7,000,231
Rate Stabilization Reserve	13,213,227	13,392,411	4,797,227	4,549,426	2,550,029
Total	31,495,970	30,634,290	19,258,321	19,415,239	17,474,634

#### Assumptions:

The Board authorized a significant use of reserves in the FY 14/15 budget.

Drought is a one-year event (2014).

Post drought recovery is based on the 1990 drought which was two years, with the first year 14% less than normal and the second year at pre-drought level.

#### Notes:

For purposes of calculating reserves for this rate model, actual and discounted budget numbers in the rate model are used rather than the adopted budget numbers.

#### Operating Expenses:

All expense categories were reviewed to determine an appropriate discounted budgeted amount.

**7% water rate increase for two years**

Calendar Year	2013	2014	2015	2016
Water Rate per AF	\$945	\$970	\$1,038	\$1,111
Volume of Water Sales (AF)	41,476	28,911	37,038	39,056

	FY12/13 Audited Actual	FY13/14 Unaudited Actual	FY14/15 Discounted Budget	FY15/16 Forecast Budget	FY16/17 Forecast Budget
<b>Fund 100 - Water Enterprise</b>					
Beginning Fund Balance:	27,289,110	31,495,970	30,634,290	19,908,337	18,800,886
<u>Sources of Funds</u>					
Treated Water Revenue	37,494,692	34,965,126	33,124,468	41,071,041	44,850,477
Other Revenue	1,974,821	1,485,166	783,302	918,507	930,113
Total Sources	39,469,513	36,450,292	33,907,770	41,989,548	45,780,590
<u>Uses of Funds</u>					
Operating Expenses	28,662,653	28,811,973	31,809,799	32,596,999	31,786,500
Transfer to Fund 120	6,600,000	8,500,000	12,823,924	10,500,000	12,661,760
Total Uses	35,262,653	37,311,973	44,633,723	43,096,999	44,448,260
<b>Ending Fund Balance:</b>	<b>31,495,970</b>	<b>30,634,290</b>	<b>19,908,337</b>	<b>18,800,886</b>	<b>20,133,216</b>
Net Additions/(Uses) of Reserves	4,206,860	(861,681)	(10,725,953)	(1,107,451)	1,332,330
<u>Reserves Balances(End of Period)</u>					
Operating Reserve	8,308,044	7,182,825	7,930,183	8,126,432	7,924,374
Drought Contingency Reserve	5,861,673	5,861,673	0	0	0
Emergency Reserve	4,113,026	4,197,380	6,530,911	6,739,381	7,000,231
Rate Stabilization Reserve	13,213,227	13,392,411	5,447,243	3,935,073	5,208,611
Total	31,495,970	30,634,290	19,908,337	18,800,886	20,133,216

**Assumptions:**

The Board authorized a significant use of reserves in the FY 14/15 budget.  
Drought is a one-year event (2014).  
Post drought recovery is based on the 1990 drought which was two years, with the first year 14% less than normal and the second year at pre-drought level.

**Notes:**

For purposes of calculating reserves for this rate model, actual and discounted budget numbers in the rate model are used rather than the adopted budget numbers.

**Operating Expenses:**

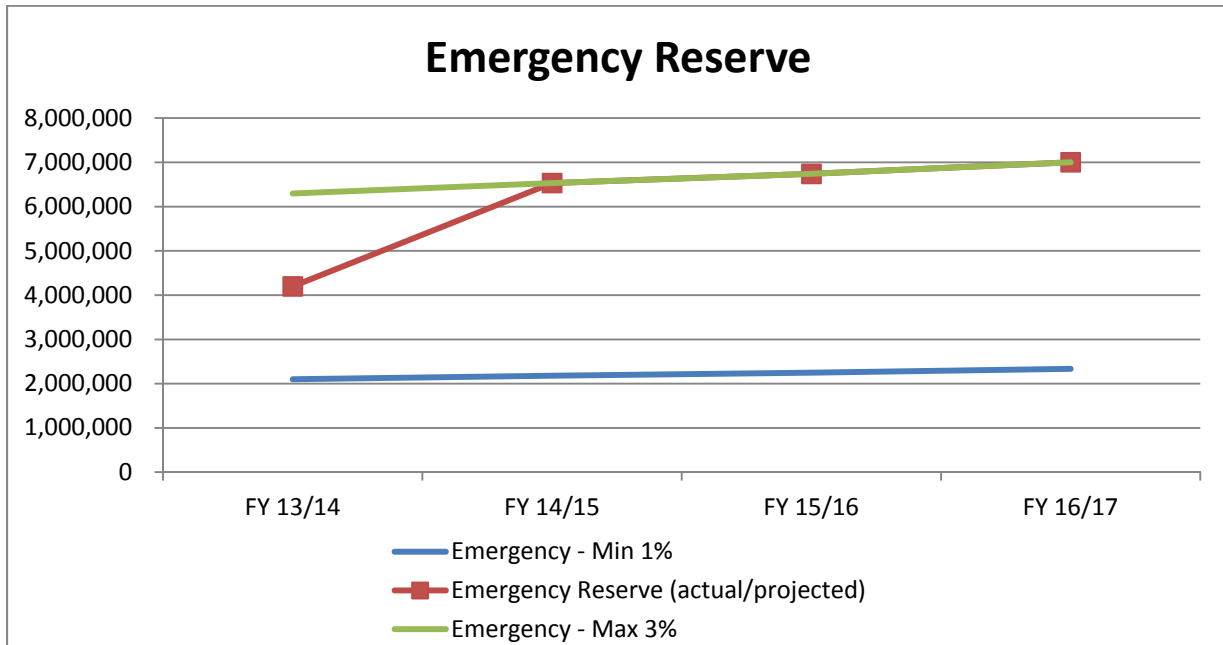
All expense categories were reviewed to determine an appropriate discounted budgeted amount.

# EMERGENCY RESERVE

The Emergency Reserve is calculated on the basis of capital assets. The actual/projected Emergency Reserve is calculated based on the maximum reserve starting in FY 14/15.

The Emergency Reserve can be used for any operating or capital purpose to begin repair of the water enterprise system after a catastrophic event, such as, but not limited to, an earthquake, fire, terrorist event, or storm while insurance claims are being processed or in the event of severe financial events that impact the financial soundness of Zone 7.

<b>Emergency Reserve</b>	<b>FY 13/14</b>	<b>FY 14/15</b>	<b>FY 15/16</b>	<b>FY 16/17</b>
Capital Assets	<b>209,869,017</b>	<b>217,697,017</b>	<b>224,646,017</b>	<b>233,341,017</b>
Emergency - Min 1%	2,098,690	2,176,970	2,246,460	2,333,410
Emergency Reserve (actual/projected)	4,197,380	6,530,911	6,739,381	7,000,231
Emergency - Max 3%	6,296,071	6,530,911	6,739,381	7,000,231



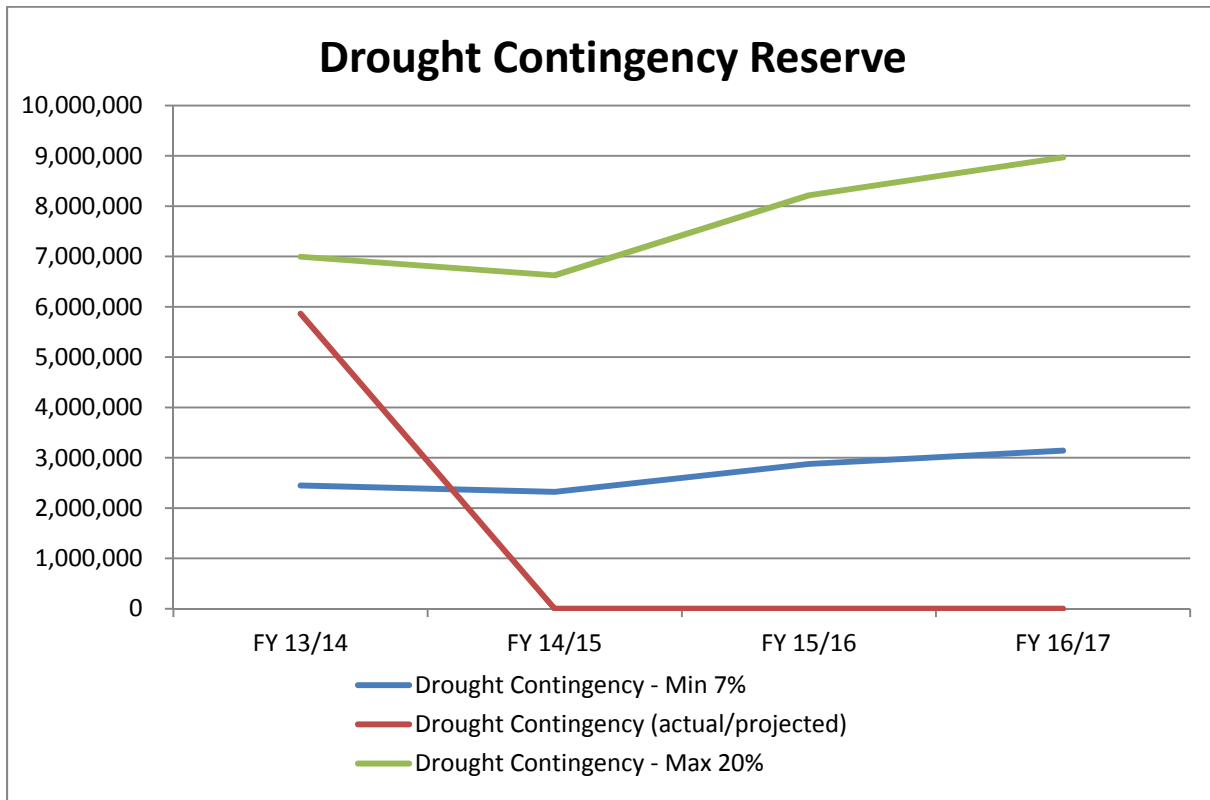


# DROUGHT CONTINGENCY RESERVE

The Drought Contingency Reserve is calculated on the basis of annual budgeted treated water sales. The actual/projected Drought Contingency Reserve is based on the FY 14/15 Board Adopted Budget.

The Drought Contingency Reserve supplements losses to water sales revenue resulting from impacts of drought conditions due to regulatory or State and Federal mandated reductions in supply, or an unforeseen event such as a natural disaster, water shortage or other catastrophic event.

<b>Drought Contingency Reserve</b>	<b>FY 13/14</b>	<b>FY 14/15</b>	<b>FY 15/16</b>	<b>FY 16/17</b>
Annual Budgeted Treated Water Sales	<b>34,965,126</b>	<b>33,124,468</b>	<b>41,071,041</b>	<b>44,850,477</b>
Drought Contingency - Min 7%	2,447,559	2,318,713	2,874,973	3,139,533
Drought Contingency (actual/projected)	5,861,673	0	0	0
Drought Contingency - Max 20%	6,993,025	6,624,894	8,214,208	8,970,095

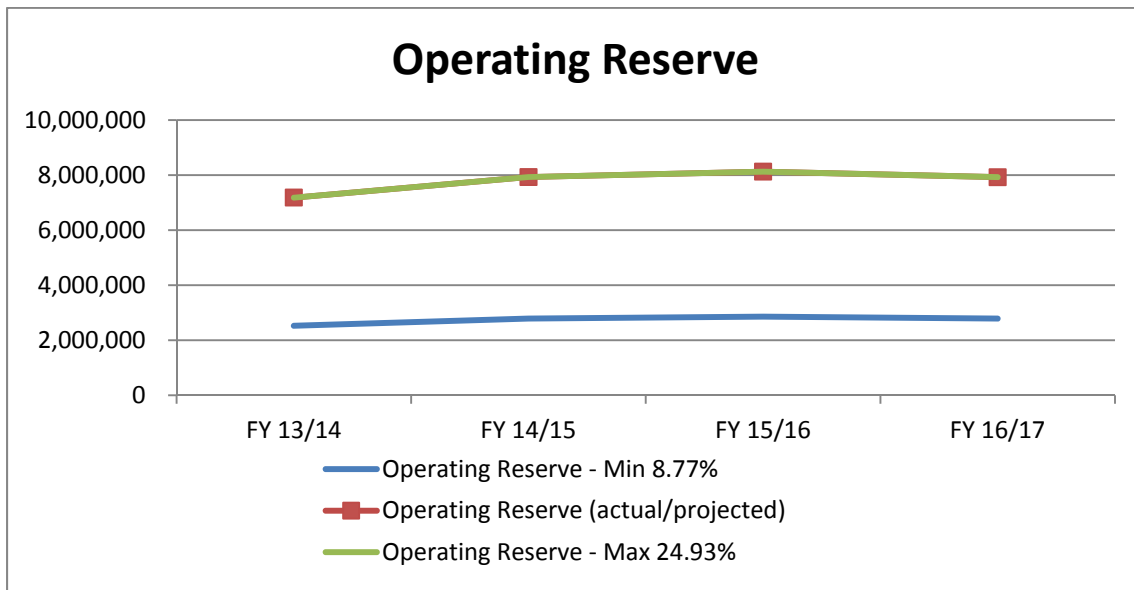


# OPERATING RESERVE

The Operating Reserve is calculated on the basis of annual budgeted operating expenses. The actual/projected Operating Reserve is calculated based on the maximum reserve starting in FY 13/14.

The Water Enterprise Operating Reserve is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs. Money on deposit in this fund may be used for unanticipated operating expenses, daily cash flow requirements and emergencies.

Operating Reserve	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Annual Budgeted Operating Expenses	<b>28,811,973</b>	<b>31,809,799</b>	<b>32,596,999</b>	<b>31,786,500<sup>1</sup></b>
Operating Reserve - Min 8.77%	2,526,810	2,789,719	2,858,757	2,787,676
Operating Reserve (actual/projected)	7,182,825	7,930,183	8,126,432	7,924,374
Operating Reserve - Max 24.93%	7,182,825	7,930,183	8,126,432	7,924,374



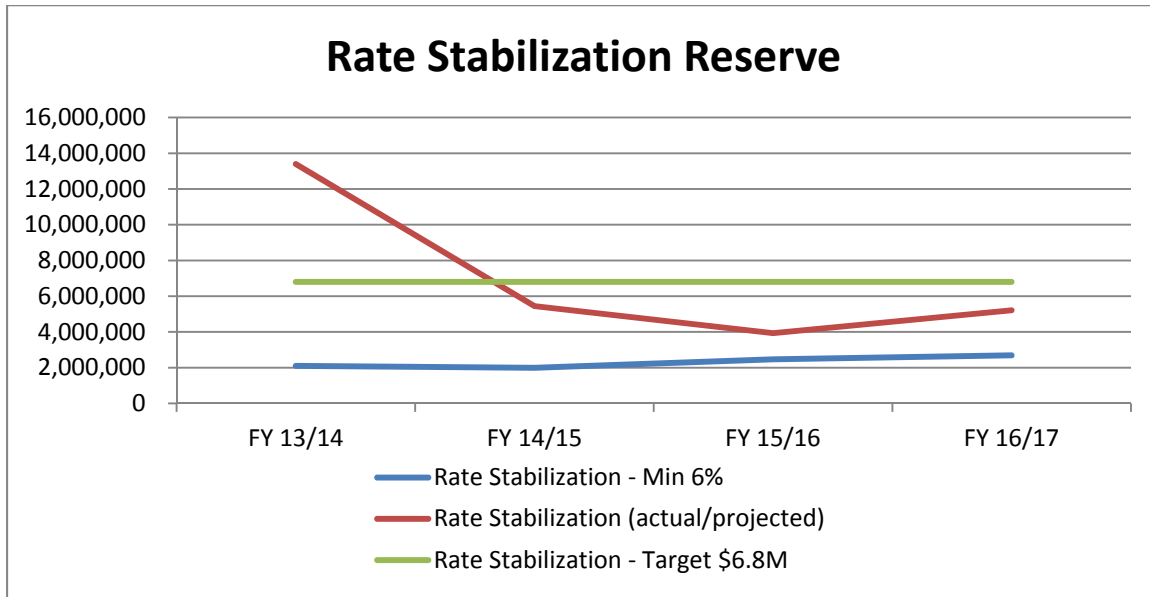
<sup>1</sup>The assumption made in all of the rate models is that the cost of water purchases will decrease the operating expenses from \$32.6 Million in FY 15/16 to \$31.8 Million in FY 16/17 because the Agency may pay the cost of replenishing water for the Cawelo and Semitropic groundwater banking programs over time whereas in FY 14/15 and FY 16/17 obtaining water from these programs is necessary for water supply due to the drought and the low allocations from the DWR.

# RATE STABILIZATION RESERVE

The Rate Stabilization Reserve is calculated on the basis of annual budgeted operating expenses. There is no maximum level. The actual/projected Rate Stabilization Reserve is calculated based on the total reserve balance less the balances of all other reserves starting in FY 14/15.<sup>1</sup>

The Rate Stabilization Reserve serves as a means to temper the need for significant water rate increases. Ongoing water rate increases are projected to meet the cost of service. The reserve will accumulate revenues for use during periods of unanticipated fluctuations in treated water rate revenues and cost of service.

Rate Stabilization Reserve	FY 13/14	FY 14/15	FY 15/16	FY 16/17
Annual Budgeted Treated Water Sales	<b>34,965,126</b>	<b>33,124,468</b>	<b>41,071,041</b>	<b>44,850,477</b>
Rate Stabilization - Min 6%	2,097,908	1,987,468	2,464,262	2,691,029
Rate Stabilization (actual/projected)	13,392,411 <sup>2</sup>	5,447,243	3,935,073	5,208,611
Rate Stabilization - Target \$6.8M	6,800,000	6,800,000	6,800,000	6,800,000



<sup>2</sup> Example: In FY 13/14 the Rate Stabilization Reserve is \$13,392,411, which is calculated by subtracting \$17,241,878 (the Operating Reserve of \$7,182,825, the Drought Contingency Reserve of \$5,861,673 and the Emergency Reserve of \$4,197,380) from the total reserves balance of \$30,634,290.