

Attachment # 2

Eldorado Area Water & Sanitation District

Cost of Service and Rate Design Study

Public Hearing: September 25, 2019



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Presentation Overview

- ❖ Economic Reality of Water
- ❖ Driving Forces for Change in Rates
- ❖ Project Approach
- ❖ Findings
- ❖ Recommendations

“When the well is dry, we learn the worth of water.”

- Ben Franklin -



Economic Reality of Water



- Water has an inherent value to fund infrastructure necessary for treatment and distribution
- Water is critical to a variety of businesses, and as a result, the economy
- Water is a fundamental building block for communities
- Water is a commodity which we cannot live without and is a limited and scarce resource in the Southwest

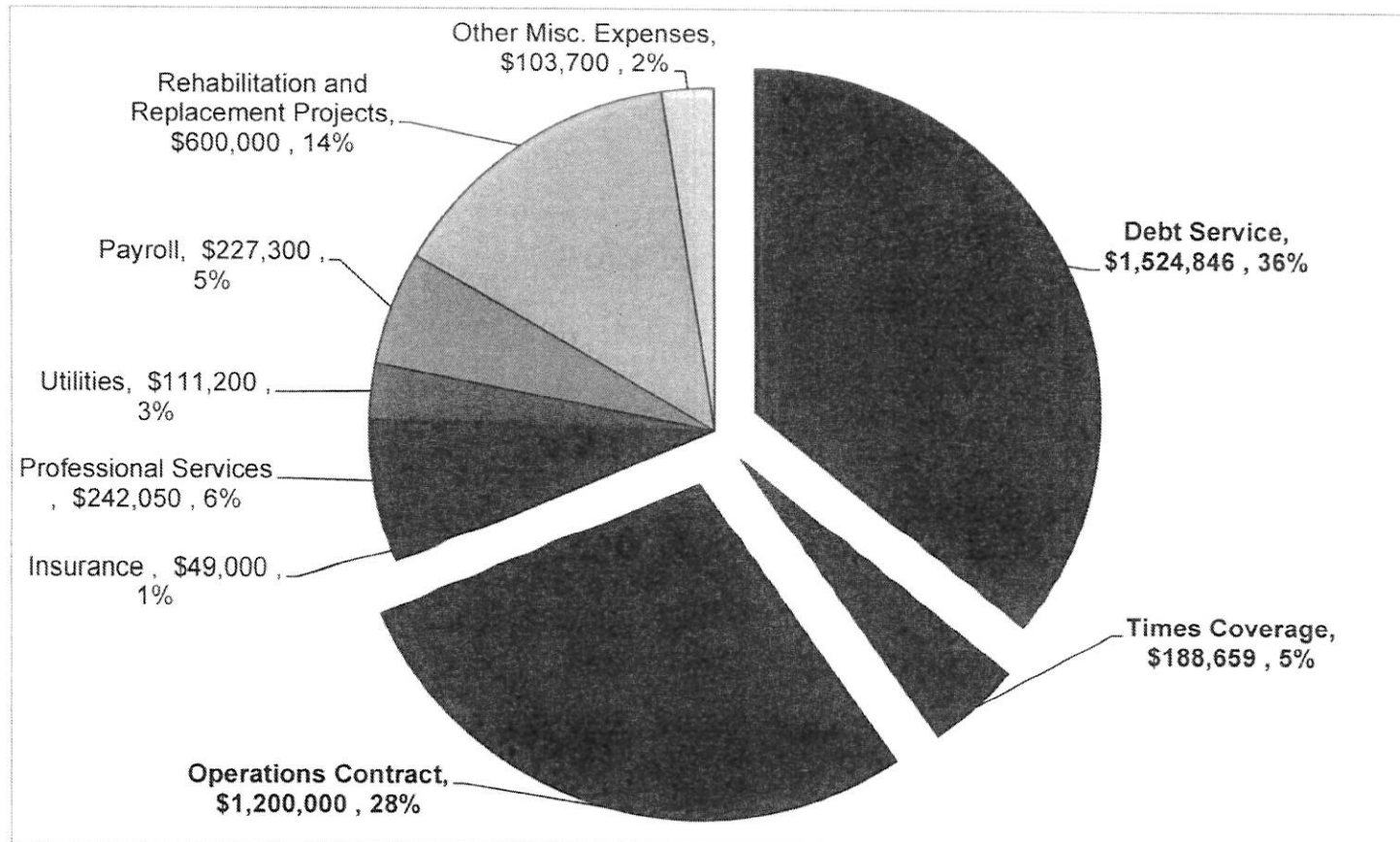


Driving Forces

- Rising O&M costs due to inflation
- Rising O&M costs due to increased management costs associated with increased data requirements and ongoing upgrades
- Aging water facility infrastructure (40 plus year old system) requiring extensive repair and replacement
- Future cost of securing additional water supplies
- Rehabilitation and replacement needs that are currently unfunded
- Inadequate revenues for capital needs
 - Approximately \$13M in capital needs in next 5 years
 - District does not have revenues sufficient to fund these projects

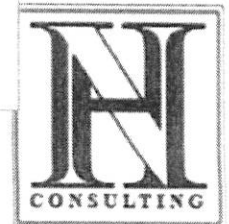


Driving Forces Expense Summary



FY2019 Total Expense = \$4,246,755

69% of expenses are associated with debt and operations contract.



Specific Issues Considered

1. Annual Revenue Requirements
2. Sources of revenue
3. Rate design



Revenue Requirements

- Includes annual rehabilitation and replacement funding
- Includes Capital Project Funding:
 - \$13M in CIP Projects, includes replacement of only 6% (\$6M) of aging water system
- Includes projection of future cost of securing additional water supplies
- Does **not** Include:
 - Profit
 - Funding for replacement of remaining 94% of aging water system
 - Additional Items

	FY20	FY21	FY22	FY23	FY24
Total District Revenue Requirements	\$ 4,232,465	\$ 4,422,790	\$ 4,702,171	\$ 4,975,002	\$ 5,058,563

*2019 estimated actual revenues \$4,042,205



Revenue Source Alternatives

- Property Taxes (includes both debt and O&M elements)
- Water Rates (base fees plus volumetric charges)



Revenue Source Alternatives

- Current Fee Structure

	Current Rate/Fee	FY 2019 Projected Revenues
Minimum Charge	\$24.58	\$ 1,019,994
Volumetric Charge	\$11.40-60.11	1,812,918
Property Taxes (Debt Portion)	\$1.9681	655,681
Property Taxes (O&M Portion)	\$2.3919	<u>553,612</u>
Total Recovery		\$4,042,205



Rate Design

- Considered four alternatives:
 1. Achieve increased revenues from property taxes
 2. Achieve increased revenues from base monthly fees
 3. Achieve increased revenues from volumetric fees
 4. Utilize a combination of the above
- Recommended rates incorporate option 4 – a combination of increases in base fees, volumetric fees and possible property tax increases



Rate Design

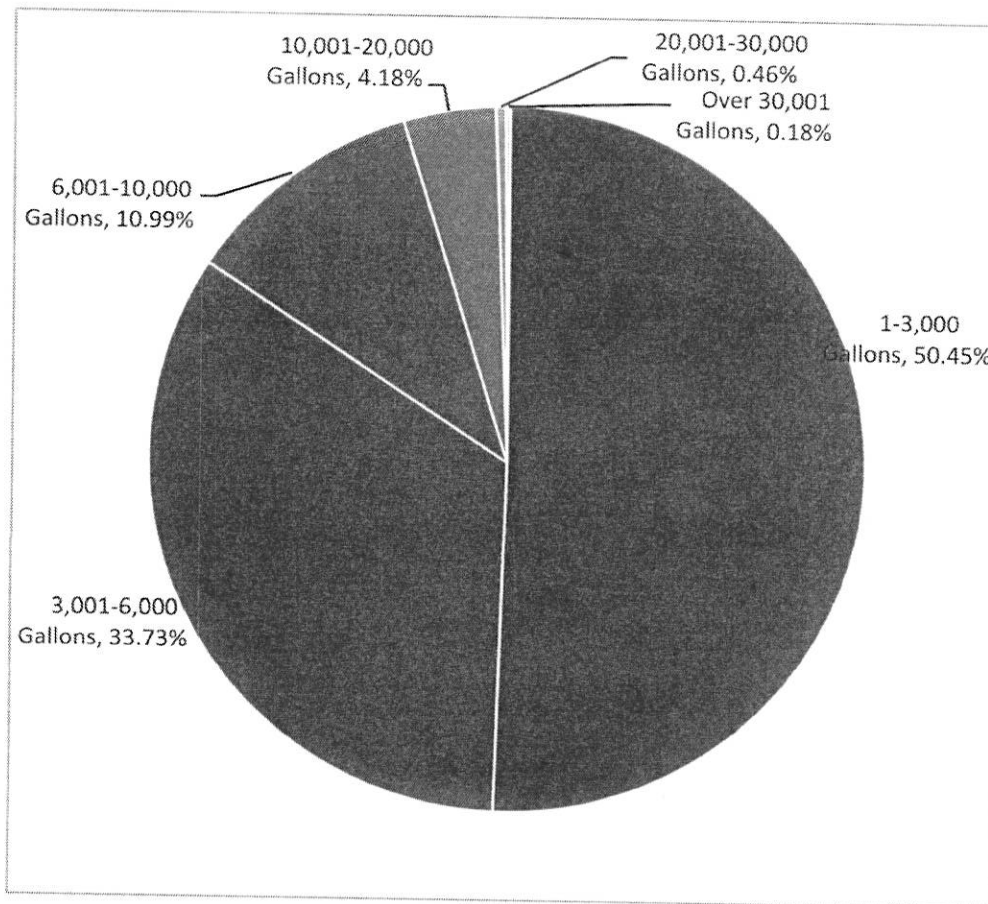
	Current	FY20	FY21	FY22	FY23	FY24
Minimum Charge	\$24.58	\$25.56	\$26.59	\$27.65	\$28.76	\$29.91
Volumetric Charge						
1-3,000 Gallons	\$11.40	\$11.40	\$11.40	\$11.86	\$12.33	\$12.82
3,001-6,000 Gallons	\$14.25	\$14.25	\$14.25	\$14.82	\$15.41	\$16.03
6,001-10,000 Gallons	\$17.81	\$17.81	\$17.81	\$19.06	\$20.39	\$21.82
10,001-20,000 Gallons	\$26.71	\$28.58	\$30.58	\$32.72	\$35.01	\$37.46
20,001-30,000 Gallons	\$40.07	\$44.08	\$48.48	\$53.33	\$58.67	\$64.53
Over 30,001 Gallons	\$60.11	\$66.12	\$72.73	\$80.01	\$88.01	\$96.81

Proposed rates combined with current property taxes are not projected to achieve the revenue requirements outlined. Absent additional capital funding via grants or other sources, the District will either need to adjust property taxes and/or adjust capital spending.

The District's goal is to keep property taxes at current levels.



Historical Billing Analysis – Number of Bills Sent

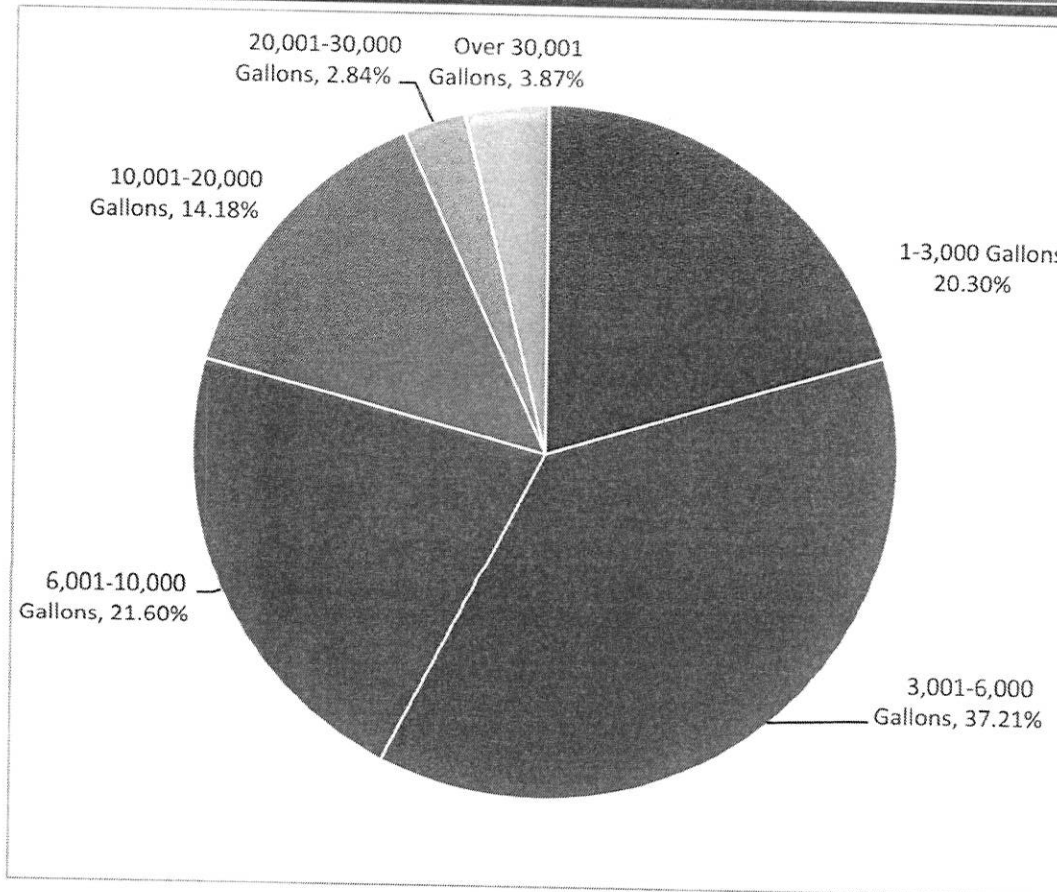


	% of Bills
1-3,000 Gallons	50.45%
3,001-6,000 Gallons	33.73%
6,001-10,000 Gallons	10.99%
10,001-20,000 Gallons	4.18%
20,001-30,000 Gallons	0.46%
Over 30,001 Gallons	0.18%

**Approximately 95%
of bills are for use
of less than 10,000
gallons.**



Historical Billing Analysis – Consumption Billed



	% of Consumption
1-3,000 Gallons	20.30%
3,001-6,000 Gallons	37.21%
6,001-10,000 Gallons	21.60%
10,001-20,000 Gallons	14.18%
20,001-30,000 Gallons	2.84%
Over 30,001 Gallons	3.87%

Approximately 5% of bills for use above 10,000 gallons use approximately 20% of the water use on the system.



Effect on Bill at Various Use Levels

Sample Bills	Current	FY20	FY21	FY22	FY23	FY24
3,000 Gallons	\$58.78	\$59.76	\$60.79	\$63.22	\$65.75	\$68.38
3,800 Gallons	\$70.18	\$71.16	\$72.19	\$75.07	\$78.08	\$81.20
10,000 Gallons	\$172.77	\$173.75	\$174.78	\$183.90	\$193.55	\$203.74
20,000 Gallons	\$439.87	\$459.55	\$480.58	\$511.11	\$543.66	\$578.36

District average customer, average annual use is approximately 3,800 gallons per month



Recommendations

- Proceed with adoption and implementation of base fees and volumetric rates as outlined
- Monitor operating results annually
- Review need for changes to revenue requirements/budget based upon actual operating and financial conditions each year
- Review need for change in property taxes annually based upon actual operating and financial conditions each year
- Monitor operating results annually
- Continually evaluate Capital Project needs
- Update analysis every 3-5 Years (minimum)

