

# Tahoe City Public Utility District Financial Policy

## Establishing Water and Sewer Rates and Fees Policy

**Policy Number: 2050**

### I. PURPOSE

This policy is established to set forth guidelines for the prudent and transparent development of water and sewer rates and ensure that the District will comply with all applicable laws and regulations in the process of reviewing and setting rates.

### II. POLICY OVERVIEW

The establishment of the this policy outlines the approaches necessary so the District sets rates based on industry recognized generally accepted rate setting methodologies as outlined in the AWWA M1 Manual, Principles of Water Rates Fees and Charges and the WEF Manual of Practice No. 27, Financing and Charges for Wastewater Systems. This policy will provide the District with consistency in its ratemaking process, while also establishing rates which are legally defensible. The Water and Sewer Funds shall be self-supporting, where current rate revenue fully funds current operating and annual renewal and replacement capital projects, including Board approved appropriations of property tax to the Water or Sewer Funds. At a minimum, the Board shall conduct a comprehensive rate study once every five (5) years to update assumptions, establish cost of service and determine financial sustainability.

### III. DEFINITIONS

As used in this policy, the following terms shall have the meanings specified below:

- a. American Water Works Association - The American Water Works Association (AWWA) is the industry recognized scientific and educational association for the water utility industry. The AWWA Standards Program provides scientific and management reference resources for the water community. The AWWA M1 Manual, Principles of Water Rates, Fees and Charges is the rate manual most commonly referenced for water rate setting methodologies and approaches.
- b. Board – The lawfully elected or appointed governing body of the TCPUD.
- c. Cash basis – This in a rate-making perspective refers to total revenues required by the utility to meet its annual cash expenditures. Not to be confused with the accounting term cash basis which refers to revenue being recognized as earned when cash is received and expenses charges when cash is disbursed. The rate making perspective of cash basis can be measured on a cash, accrual, or modified accrual basis of accounting.
- d. Connection charge – An amount of money charged for connection to the District utility system (sewer or water) pursuant to District Ordinance.
- e. Constituents - Residents, property owners, ratepayers, customers, beneficiaries of services, business owners, and voters within the District’s boundaries.
- f. District – The Tahoe City Public Utility District (District or TCPUD).
- g. ENR CCI – The Engineering News Record (ENR) publishes both a Construction Cost Index (CCI) and Building Cost index (BCI) that are widely used in the construction industry. The ENR website contains an explanation of the indexes methodology and a complete history of the 20-city national average for the CCI and BCI. Both indexes have

a materials and labor component.

- h. Long-Term Financial Planning Process – A highly interactive annual process of aligning financial capacity with long-term service objectives over an extended period of time.
- i. Policy – This “Establishing Water and Sewer Rates and Fees Policy.”
- j. Proposition 218 - In November 1996, California voters passed Proposition 218, the “Right to Vote on Taxes Act”. This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent.
- k. WEF - The Water Environment Federation (WEF) is the industry recognized technical and educational organization for the wastewater utility industry. WEF’s Manual of Practice No. 27, Financing and Charges for Wastewater Systems, is the rate manual most commonly referenced for water rate setting methodologies and approaches.
- l. Working capital/rate stabilization – a specific reserve account that has been established by the Board to offset unforeseen cash flow issues and minimize, or transition, water or sewer rates to cost-based levels over a specified time period.

#### **IV. PROCESS**

The District’s policies on establishing the water and sewer rates and fees, and the general methodologies to be utilized, are as follows:

##### **1. Revenue Requirement Analysis**

The revenue requirement analysis provides a projection of the District’s revenues and expenditures for a defined time period. The revenue requirement analysis shall provide the Board with the information and cost-basis to determine the size and timing of any proposed rate adjustments. The District’s revenue requirement analysis methodology shall consider the following:

- The revenue requirement analysis will be developed for a projected five-year, or longer, time period such as that used for the District’s Long-Term Financial Planning Process.
- Revenue requirements will be established using the cash basis methodology. The “cash basis” methodology includes operations and maintenance (O&M), expenses, taxes/transfer payments, debt service (principal and interest) and capital improvements (renewal and replacement) funded from rates. The revenue requirements may include a component for change in working capital/rate stabilization funds to manage reserve balances and mitigate rate impacts.
- The revenue requirement analysis shall fully incorporate the Board’s reserve, debt, appropriation of property tax, and any other financial/budgeting policies as applicable.

##### **2. Cost of Service Analysis**

A cost of service analysis provides a proportional and equitable method to allocate the water and sewer revenue requirement to the customers utilizing the service. The cost of service analysis shall use generally accepted (i.e., AWWA, WEF) cost of service methodologies. The cost of service shall be developed to provide an equitable allocation of the water and sewer costs by taking into consideration a customer group’s (e.g., residential and commercial) facility requirements and usage characteristics. The specific cost of service policies are as follows:

- The cost of service shall be developed for a projected one-year time period or the period over which rates will be set, utilizing the revenue requirements as developed.
- The cost of service analysis shall be designed and developed to consider the unique and specific circumstances of

the District's water and sewer systems.

- The costs shall be equitably and proportionally allocated to customer class of service based upon each customer class's facility requirements and usage characteristics.

### 3. Rate Design Analysis

The development of cost-based rate designs concludes the rate setting process. The development of rate designs utilizes the results from the revenue requirement and cost of service analysis to establish the target level of revenues for each customer class of service. The rate design analysis is primarily focused on the structure of the rates. The rate design analysis policies are as follows:

- The results of the revenue requirement analysis and cost of service analysis in the development of final proposed rate designs shall be utilized to meet the requirements of Proposition 218.
- Rates shall be designed to collect the overall target level of revenues for each customer class of service.
- Collection of billing data provides information for rate design analysis. District staff should collect billing data to provide necessary information in the rate design process and to assure accurate revenue recovery. It is important to track billed units and revenue by class, by month, and by year. The billing data collected should be formulated into the current rate structure. Revenues at present rates should be easily calculated based on the billing data collected and the current rate structure. The collection of billing data ensures the rate structure currently in place is collecting the appropriate amount of revenues. The collection of billing data is important for rate study purposes and to account for the current rate structure and revenues being collected. Billing data should:
  1. Provide for the ability to reconcile with production data and to track losses.
  2. Provide for the ability to track revenue billed against total budget revenues.
  3. Be collected by rate structure and customer class taking into consideration the number of meters, by size, by class and the amount of water billed, by block, by class.
- The rate designs shall be reflective of the Board's rate design goals and objectives, while also being reflective of the community and legal requirements (i.e., Proposition 218).
- Both fixed and variable costs in the development of final proposed rates shall be taken into consideration. The average unit costs calculated within the cost of service analysis provides the cost-information related to fixed and variable costs to establish the proposed rates.
- Average bill comparisons shall be developed for proposed rate designs to illustrate the general impacts to customers across a range of consumption levels.
- In establishing the final water and sewer utilities rates, the Board may take into consideration neighboring utility rate comparisons, but not to the financial detriment of the District.

### 4. Water and Sewer Connection Charges

Connection charges are related to new customers connecting to the water and sewer systems. A Connection charge is intended to provide equity between existing customers and new customers connecting to the systems or existing customers expanding capacity. To develop cost-based Connection charges, the policies are as follow:

- The Board shall establish Connection charges to be compliant with any State or legal requirements.
- Use generally accepted Connection charge methodologies, as described by the AWWA, WEF, or other industry standard approaches to determine cost-based Connection charges.
- The Connection charges shall consider the systems specific facilities and any unique situations in the calculation of

the cost-based Connection charges.

- The final adopted Connection charges shall be established taking into consideration the cost-based levels and the District's policy or philosophy as it relates to the sharing of growth-related costs between existing rate payers and new customers connecting to the water or sewer systems. At no time shall the Board establish or adopt Connection charges greater than the calculated cost-based Connection charges.
- Connection charge revenues will not be used to pay for O&M expenses. Connection charges will be used for growth-related capital improvements, or replacement capital projects (i.e., existing "buy-in" component facilities).
- Connection charges may be annually adjusted to reflect cost changes. The change in the current August ENR CCI may be used to annually adjust the Connection charges.
- To capture changes in planning assumptions, infrastructure and capital financing, the Board will evaluate, and update as necessary, the Connection charge studies when comprehensive system (master) plans are completed.

#### 5. Miscellaneous Fee Analysis

Service fees and charges for special services shall be updated periodically, to keep charges reasonably equal to the cost of such services (meter installation, turn on/turn off fees, new account setup charges, etc.). To develop cost based miscellaneous fees, the policies are as follow:

- The miscellaneous fee shall consider specific special services and any unique situations in the calculation of the cost-based miscellaneous fees.
- These miscellaneous fees may be reviewed annually, and as appropriate, adjustments made to reflect inflation and avoid major periodic increases. Fees may be adjusted annually by the change in the current August ENR CCI.
- Generally accepted costing practices and methodologies for calculation of miscellaneous fees shall be used.