

# Alameda County Water District

## Financial Workshop

### Presenters

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# Workshop Overview

## Agenda

- Recap guidance provided at the July and August workshops
- Review financial planning assumptions and metrics
- Review options for drought surcharges (stage rates)
- Review the State Water Project Override Tax
- Next Steps

# Workshop Overview

## Rate-Setting Schedule

- *May 18, 2022: Budget workshop*
- *June 9, 2022: Budget adoption*
- *July 20, 2022: Rate-setting workshop*
- *August 25, 2022: Rate-setting workshop*
- **September 22, 2022: Rate-setting workshop**
  - Follow-up from August workshop
- December 8, 2022: Consider issuing a rate notice
- February 9, 2023: Consider approval of rate proposal

# Workshop Overview

## Board Guidance

- Receive Board feedback and direction regarding:
  - Approach to drought surcharges (stage rates)
  - Approach to the State Water Project Override Tax

Intent is to seek Board feedback on these key issues and then prepare the final rates proposal and have the Board consider approving a Proposition 218 notice at the regular December Board meeting

# Review of Prior Workshops

At the July 20 workshop, the Board provided the following direction for this rates process:

- Maintain the current uniform rate structure
- Maintain the same ratio between service charge and commodity charge revenue recovery
- Maintain the established approach to funding the CIP and wait until reserves are substantially spent down before considering alternatives
- Staff should prepare to 1) present options for drought surcharges, and 2) provide an overview of the State Water Project Override Tax, at the August workshop

# Review of Prior Workshops

At the August 25 workshop, the Board provided the following direction for this rates process:

- Staff should prepare to supplement existing collections processes for past due accounts by using the property tax bill for owner-occupied single-family residential accounts
- Revenue increase equal to an annual 4% water rate increase for the next two years
- Staff should prepare to 1) present additional analysis about the State Water Project Override Tax, and 2) prepare additional drought surcharge scenarios

# Alameda County Water District

## Financial Plan Assumptions and Metrics

# Financial Planning Assumptions and Metrics

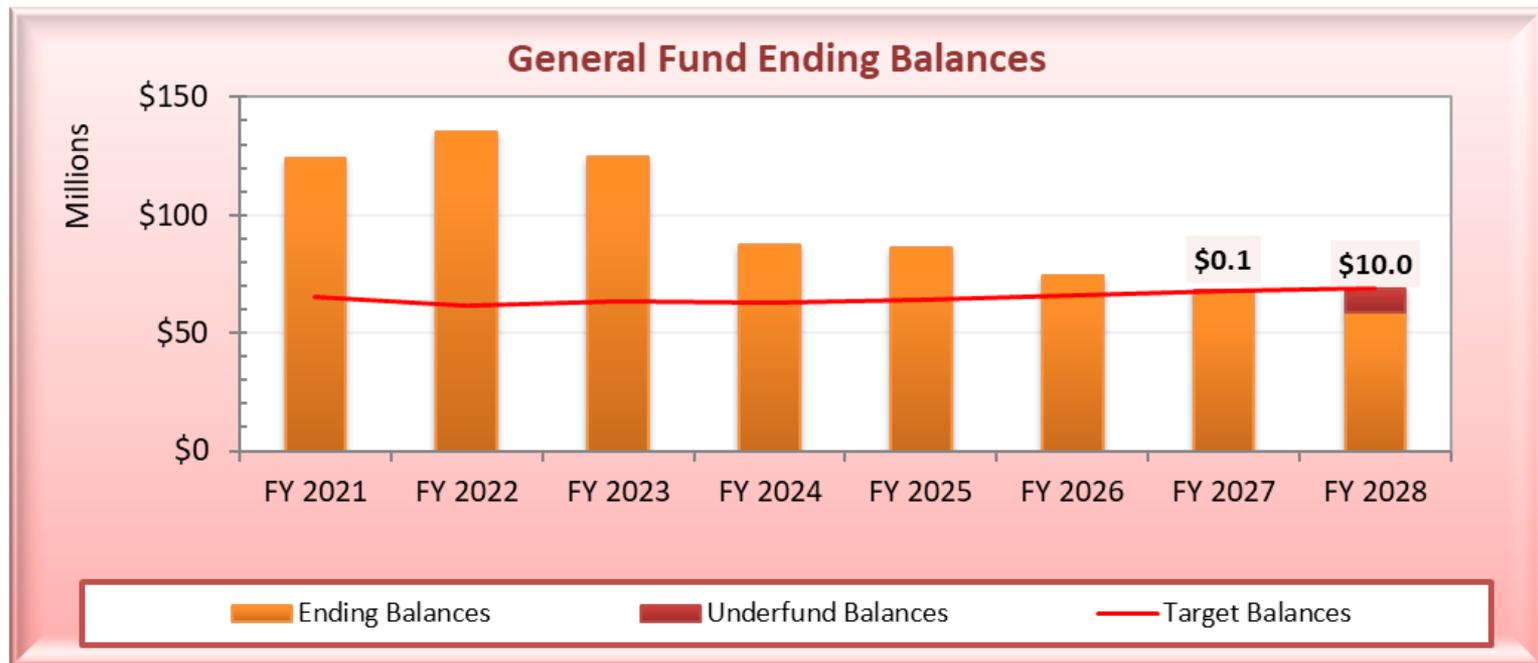
## Key Financial Planning Assumptions and Metrics

- Projected billed demands based on conservation targets and modest drought rebound
- SFPUC wholesale water rate increases
- Pension and retiree health benefits contributions maintained at levels to be fully funded by June 2032
- Labor and benefit costs consistent with labor contracts
- Fully fund the approved capital program and added costs for PFAS treatment at 6 MGD
- Debt issuance in FY 2024/25 to help fund the capital program
- Assumed revenue increase equal to an annual 4% water rate increase for the next two years and future annual increase of 3%

# General Fund Ending Balances

## August 2022 Workshop

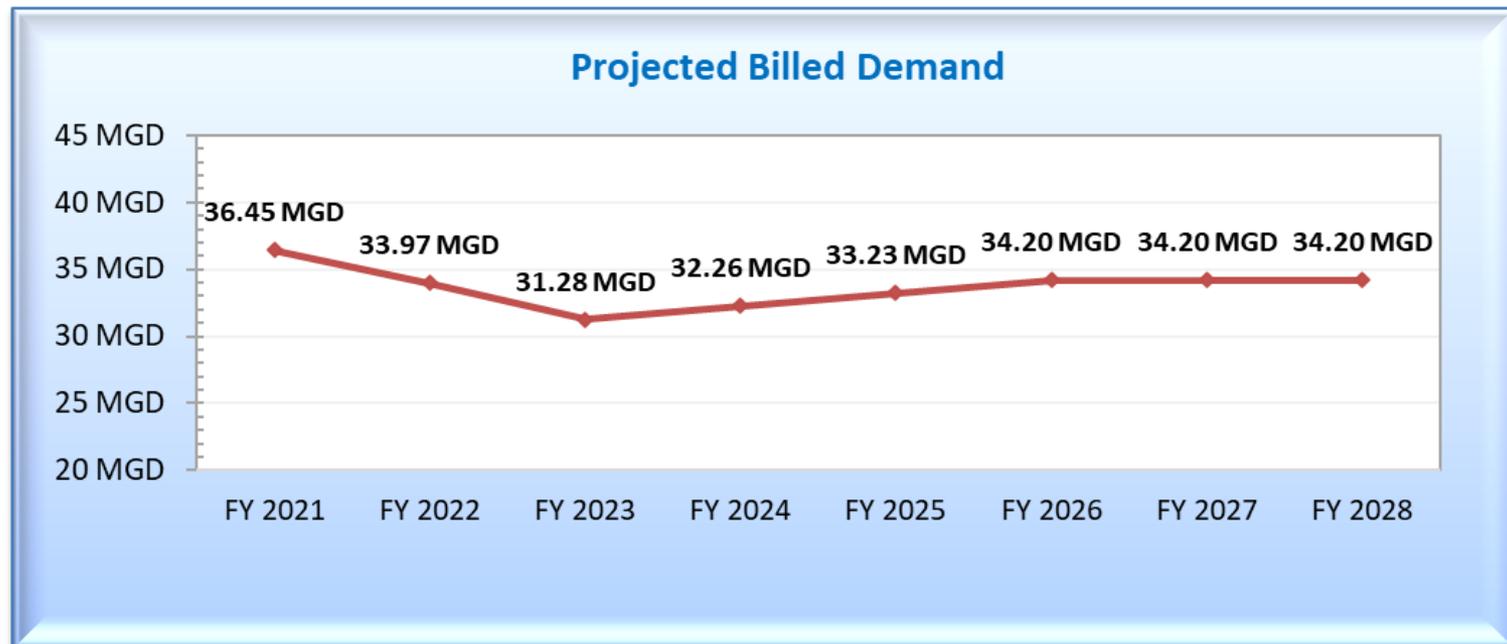
- General Fund balance projected below target within planning horizon with 6 MGD PFAS Project O&M Cost and 4% rate increase next two years:
  - Low balance of \$58.9 million (\$10.0 million below target)



# Billed Demand

## August 2022 Workshop

- Projected billed demands based on conservation targets and modest drought rebound

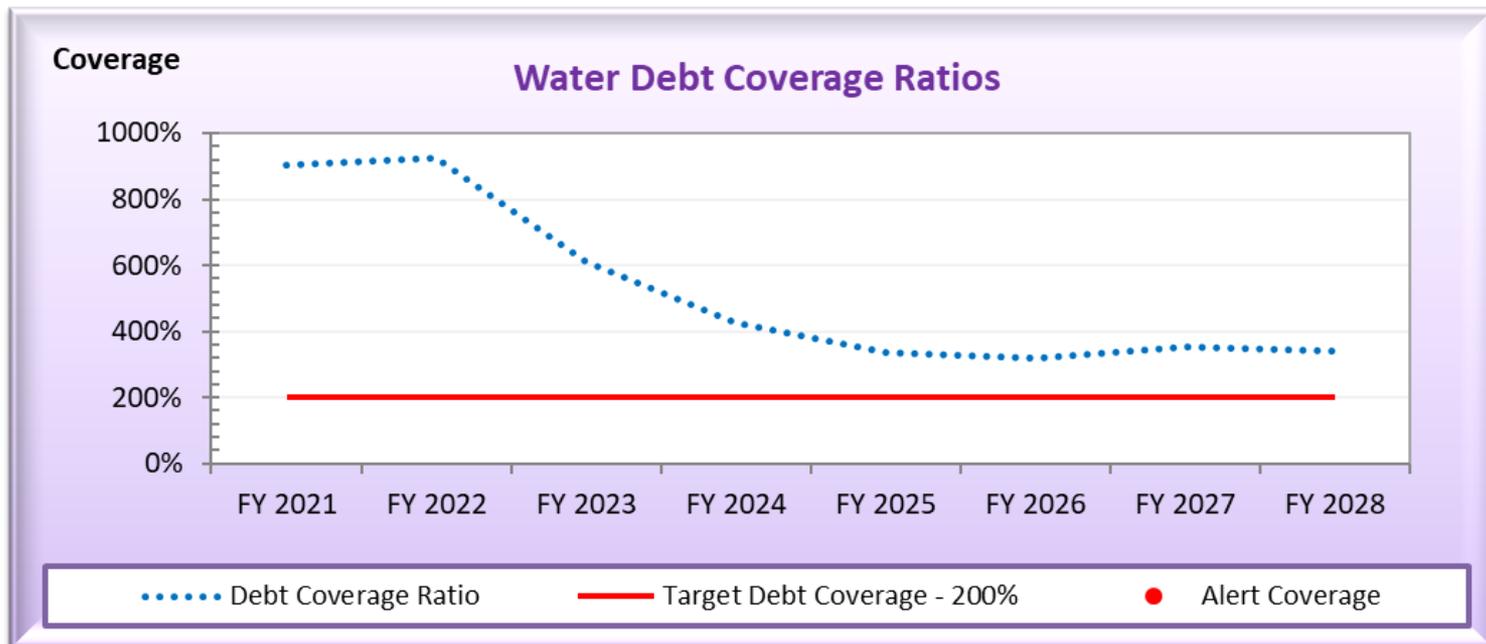


MGD = Million Gallons per Day

# Debt Coverage

## August 2022 Workshop

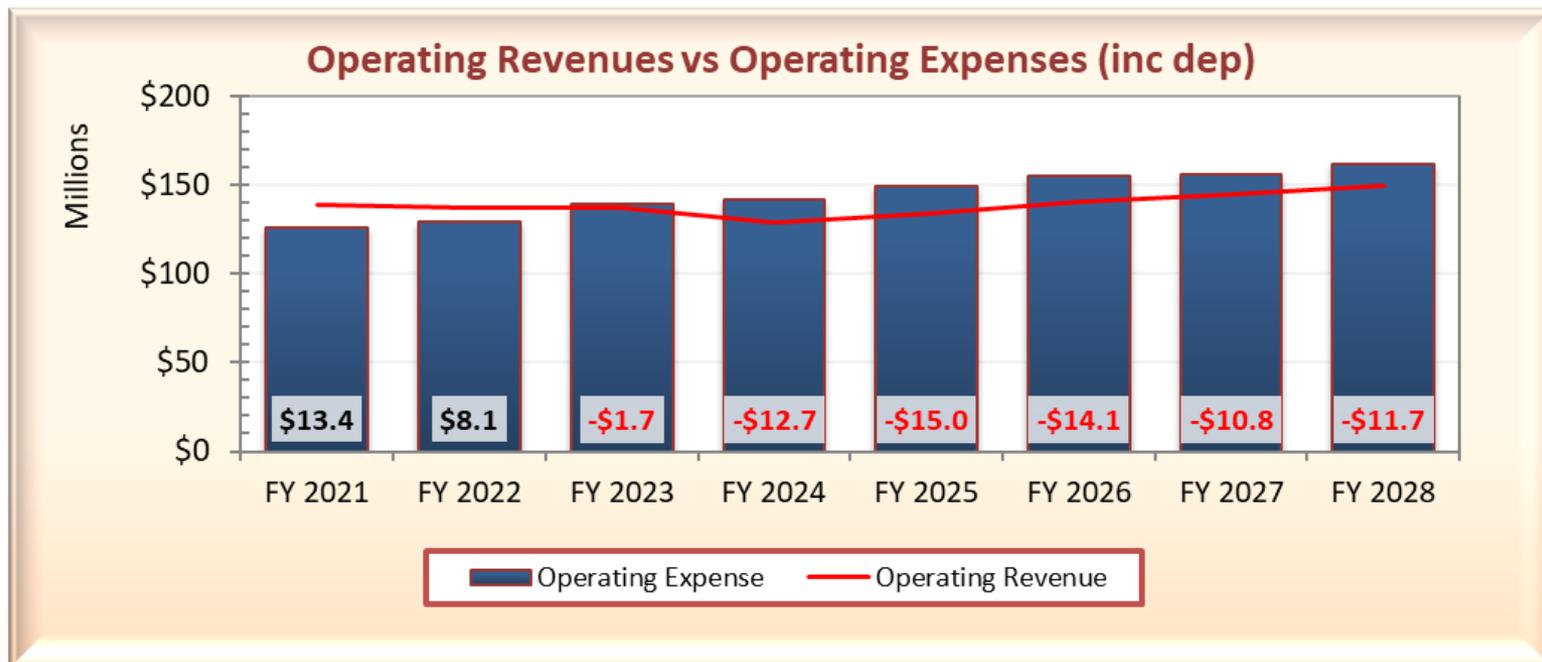
- District continues to maintain strong debt coverage ratios and its credit ratings are very strong (AAA by S&P; Aa1 by Moody's)



# Revenues vs Expenses

## August 2022 Workshop

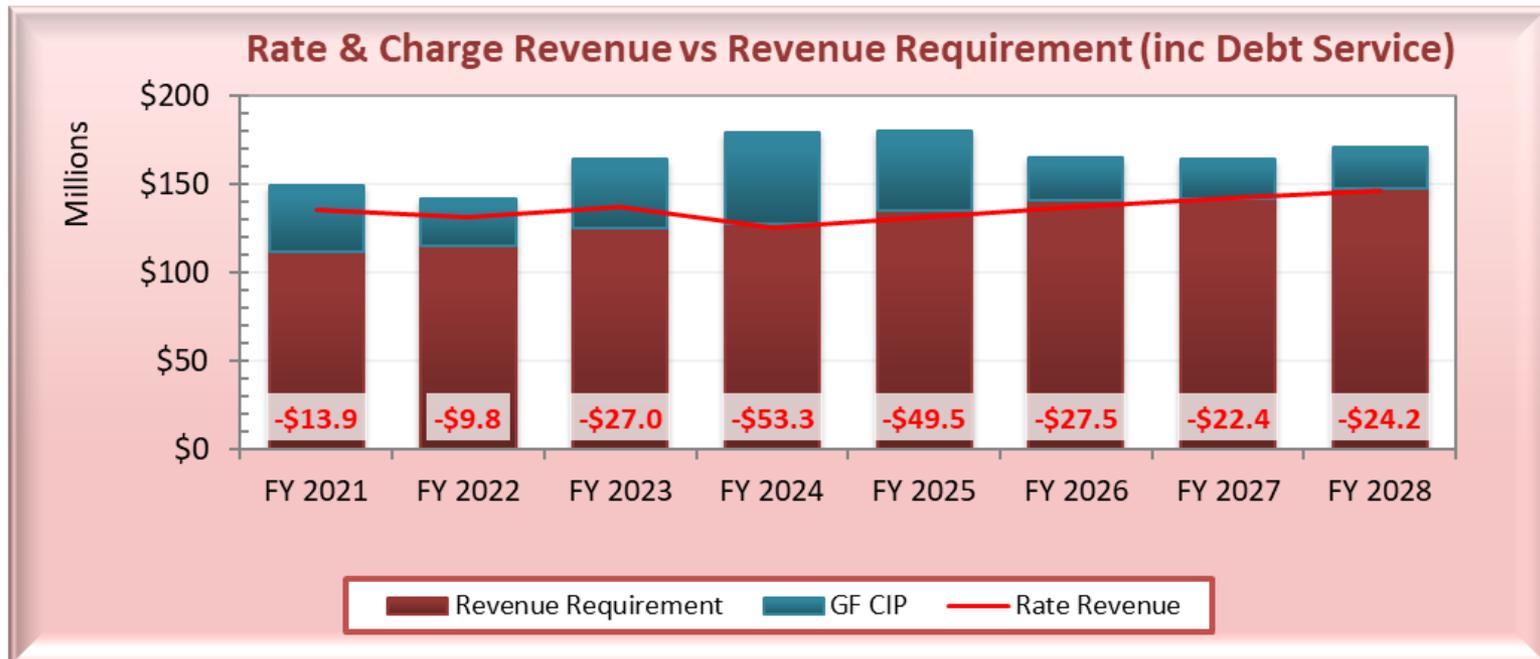
- District relies on non-operating revenues (property taxes, interest income, etc.) to cover operating expenses starting in FYE 2023



# Rate Revenue vs Revenue Requirement

## August 2022 Workshop

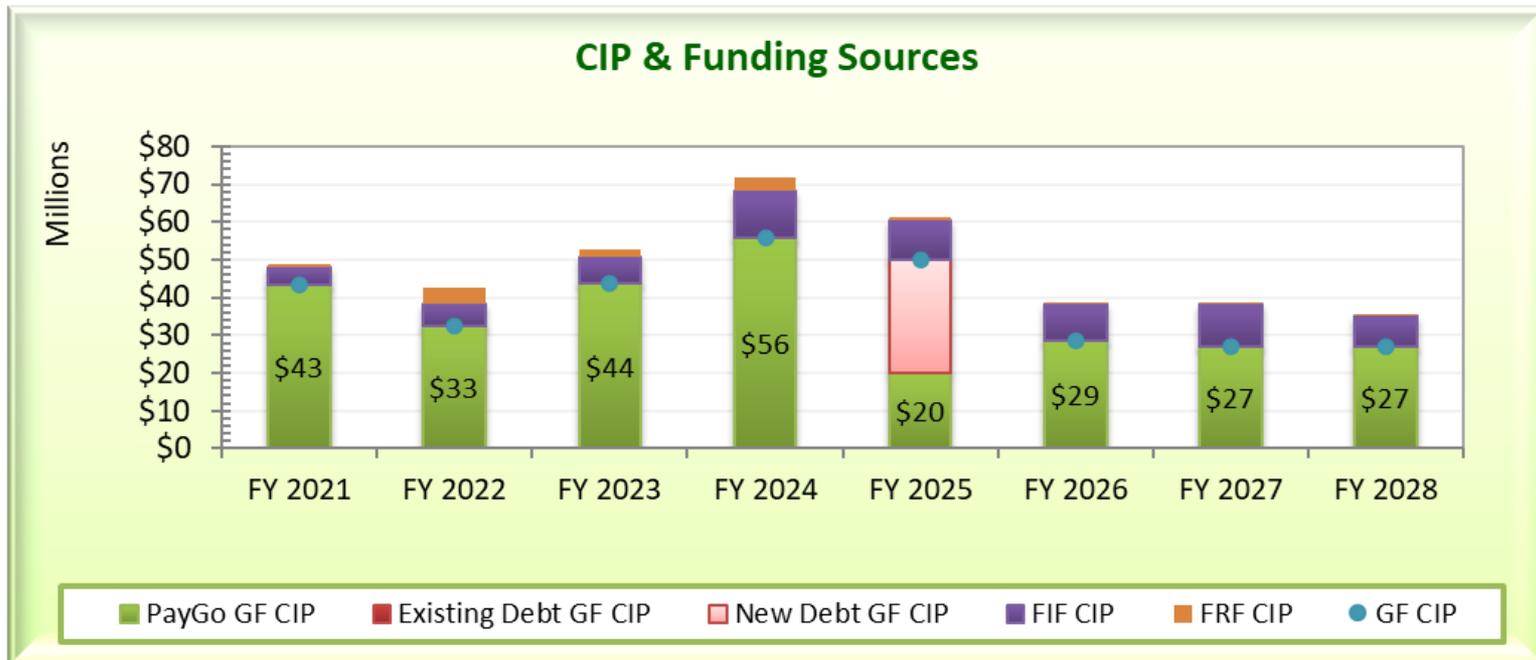
- District relies on other funding sources (accumulated reserves, property taxes, grants, interest income, etc.) in addition to water rate and charge revenue to fully fund its annual operations, debt service payments, and capital program



# Capital Improvement Program (CIP)

## August 2022 Workshop

- PayGo GF CIP totals \$203 million for FYE 2023-2028
- Assumed \$30 million debt issuance in FYE 2025 to help fund the CIP



# Alameda County Water District

## Drought Surcharge Alternatives

# 2023 Drought Stage Outlook

- 2023 Outlook Considerations
  - Forecasts indicate likely 4<sup>th</sup> dry year ahead
  - Imported water supplies remain limited, but available and accessible
  - Groundwater levels trending similar to last year
  - Customer water demands currently meeting conservation targets
  - Statewide Drought Emergency and State requirement to activate Stage 2 of Water Shortage Contingency Plans remain in place
- Given current information and forecasts, staff anticipates Stage 2, 15% conservation target will continue to be sufficient for 2023
- Dramatic changes to any of the above considerations could change the outlook, but not anticipated at this time

ALAMEDA COUNTY WATER DISTRICT

# ALAMEDA COUNTY WATER DISTRICT

RATE DESIGN AND FINANCIAL ADVISORY SERVICES

**Board Workshop**

**September 22, 2022**



**HF&H Consultants**

# PRESENTATION OUTLINE

- Recap direction from August meeting
- Stage rates alternatives
  - Two options
  - Examples
  - Bill impacts
- Board direction

# STAGE RATE OPTIONS PRESENTED IN AUGUST

- Option 1: Fixed surcharge
  - Option 1A - Equal charge per account
  - Option 1B - Graduated charge per account based on meter size
- Option 2: Uniform per HCF surcharge to consumption rate
  - ACWD's current methodology
  - Applied to all water use
- Option 3: Tiered per HCF surcharge to consumption rate
  - For water use above a threshold (e.g., no increase in the rate per HCF until water use exceeds 12 HCF)

# DIRECTION FROM AUGUST MEETING

- Majority can support Option 2 for commercial
  - Same as current
  - Uniform surcharge per HCF
- Majority wants to see additional Option 3 scenarios for residential
  - Two tiers
  - Breakpoint at 12 HCF (55 gpd for a household of 3)
  - Would like to see examples with and without Tier 1 being charged
  - Would like to see an example where the breakpoint diminishes as the stages progress

# OPTION 2 EXAMPLE - COMMERCIAL

- All consumption pays surcharge

Stage	Demand Reduction	Surcharge per HCF
0	0%	\$0.00
1	10%	\$0.50
2a	15%	\$0.79
2b	20%	\$1.11
3a	25%	\$1.49
3b	30%	\$1.92
4	40%	\$3.00
5	50%	\$4.44
6	60%	\$6.64

## OPTION 3. TIERED SURCHARGE PER HCF

- Similar to Option 2 but includes a higher surcharge on higher, potentially discretionary water use
- Sub-options explored:
  - Option 3A: all consumption pays surcharge; consumption below 12 pays lower rate at all stages
  - Option 3B: only consumption above 12 pays surcharge at all stages
  - Option 3C: all consumption pays surcharge; consumption below 12 pays lower rate, breakpoint diminishes as stages progress
  - Option 3D: only consumption above breakpoint pays surcharge, breakpoint diminishes as stages progress

# OPTION 3A EXAMPLE

- All consumption pays surcharge; consumption below 12 pays lower rate

Demand					
Stage	Reduction	Breakpoint		Surcharge per HCF	
				Tier 1	Tier 2
0	0%			n/a	n/a
1	10%	12	hcf	\$0.12	\$1.13
2a	15%	12	hcf	\$0.19	\$1.91
2b	20%	12	hcf	\$0.28	\$2.92
3a	25%	12	hcf	\$0.37	\$4.26
3b	30%	12	hcf	\$0.52	\$5.99
4	40%	12	hcf	\$0.89	\$11.83
5	50%	12	hcf	\$1.41	\$26.81
6	60%	12	hcf	\$2.51	\$58.18

# OPTION 3B EXAMPLE

- Only Consumption above I2 pays surcharge

Demand					
Stage	Reduction	Breakpoint		Surcharge per HCF	
				<u>Tier 1</u>	<u>Tier 2</u>
0	0%			n/a	n/a
1	10%	12	hcf	\$0.00	\$1.33
2a	15%	12	hcf	\$0.00	\$2.28
2b	20%	12	hcf	\$0.00	\$3.52
3a	25%	12	hcf	\$0.00	\$5.19
3b	30%	12	hcf	\$0.00	\$7.48
4	40%	12	hcf	\$0.00	\$15.57
5	50%	12	hcf	\$0.00	\$37.24
6	60%	12	hcf	\$0.00	\$89.50

# OPTION 3C EXAMPLE

- All consumption pays surcharge; consumption below 12 pays lower rate, breakpoint diminishes as stages progress

Demand						
Stage	Reduction	Breakpoint		Surcharge per HCF		
				<u>Tier 1</u>	<u>Tier 2</u>	
0	0%			n/a	n/a	
1	10%	12	hcf	\$0.12	\$1.13	
2a	15%	12	hcf	\$0.19	\$1.91	
2b	20%	10	hcf	\$0.28	\$2.38	
3a	25%	8	hcf	\$0.39	\$2.72	
3b	30%	6	hcf	\$0.43	\$3.14	
4	40%	4	hcf	\$0.76	\$4.24	
5	50%	2	hcf	\$0.45	\$5.76	
6	60%	0	hcf	\$0.00	\$6.64	

# OPTION 3D EXAMPLE

- Only Consumption above breakpoint pays surcharge, breakpoint diminishes as stages progress

Demand					
Stage	Reduction	Breakpoint		Surcharge per HCF	
				<u>Tier 1</u>	<u>Tier 2</u>
0	0%			n/a	n/a
1	10%	12	hcf	\$0.00	\$1.33
2a	15%	12	hcf	\$0.00	\$2.28
2b	20%	10	hcf	\$0.00	\$2.80
3a	25%	8	hcf	\$0.00	\$3.16
3b	30%	6	hcf	\$0.00	\$3.48
4	40%	4	hcf	\$0.00	\$4.66
5	50%	2	hcf	\$0.00	\$6.00
6	60%	0	hcf	\$0.00	\$6.64

# SUMMARY OF CUSTOMER IMPACTS

- Impacts per account at various consumption levels at Stages 2a, 3a, and 4
- Impacts are in addition to non-stage-rate bills
- Option 3 calculations apply to Single Family customers only

Customer Impact - Stage 2a (3/4" meter)						
Stage Rate Option		8 HCF	16 HCF	32 HCF	Tiers	Breakpoint
Current →	Option 2	\$6.30	\$12.59	\$25.18	1	n/a
	Option 3A	\$1.54	\$9.96	\$40.58	2	fixed at 12
	Option 3B	\$0.00	\$9.11	\$45.56	2	fixed at 12
	Option 3C	\$1.54	\$9.96	\$40.58	2	diminishing
	Option 3D	\$0.00	\$9.11	\$45.56	2	diminishing

Customer Impact - Stage 3a (3/4" meter)						
Stage Rate Option		8 HCF	16 HCF	32 HCF	Tiers	Breakpoint
Current →	Option 2	\$11.89	\$23.78	\$47.57	1	n/a
	Option 3A	\$3.00	\$21.53	\$89.67	2	fixed at 12
	Option 3B	\$0.00	\$20.77	\$103.87	2	fixed at 12
	Option 3C	\$3.14	\$24.88	\$68.36	2	diminishing
	Option 3D	\$0.00	\$25.28	\$75.83	2	diminishing

# SUMMARY OF CUSTOMER IMPACTS

- Impacts per account at various consumption levels at Stages 2a, 3a, and 4
- Impacts are in addition to non-stage-rate bills
- Option 3 calculations apply to Single Family customers only

Customer Impact - Stage 4 (3/4" meter)					
Stage Rate Option	8 HCF	16 HCF	32 HCF	Tiers	Breakpoint
Current → Option 2	\$24.01	\$48.01	\$96.02	1	n/a
Option 3A	\$7.14	\$58.02	\$247.30	2	fixed at 12
Option 3B	\$0.00	\$62.26	\$209.50	2	fixed at 12
Option 3C	\$19.99	\$53.88	\$121.68	2	diminishing
Option 3D	\$18.62	\$55.87	\$130.37	2	diminishing

# SUMMARY OF OPTIONS – BOARD DIRECTION

## ■ Commercial

- Option 2 (current practice) per August Board workshop

## ■ Single-Family Residential

- Option 2 (current practice)
- Option 3A: all consumption pays surcharge; consumption below 12 pays lower rate at all stages
- Option 3B: only consumption above 12 pays surcharge at all stages
- Option 3C: all consumption pays surcharge; consumption below 12 pays lower rate, breakpoint diminishes as stages progress
- Option 3D: only consumption above breakpoint pays surcharge, breakpoint diminishes as stages progress
- Other (different breakpoint?)

# Alameda County Water District

## State Water Project Override Tax

# State Water Project Override Tax

## Overview of current District Practice

- The District recovers State Water Project (SWP) costs through a property tax assessment according to the following methodology:
  - Fixed Costs are recovered from the override tax based on the nominal design capacity of the District's groundwater and surface water production facilities; excluding SFPUC take-off capacity.
  - Variable Costs are recovered from the override tax based on the percentage of state water deliveries used to directly recharge the groundwater basin (as opposed to being delivered directly for surface water treatment).
- This methodology appears to have been in place since 1993 with fixed cost allocation percentages revised in 2001 and 2017.
- In total, about 60% of SWP costs are recovered through the property tax

# State Water Project Override Tax

## Result of Staff Analysis

- Staff recommends not increasing the SWP Override Tax for the following reasons:
  - The current SWP Override Tax meets the District's current policy objectives
  - By not increasing the tax, the District retains an option for financial stability in the event there is a majority protest against a proposed rate increase
  - In current drought conditions, a stronger price signal on the water bill is beneficial
- Staff will continue to follow established substantive and procedural steps in relation to the SWP Override Tax

# Conclusion

## Recap Board guidance

- State Water Project Override Tax
- Approach to drought surcharges (stage rates)

## Next Steps

- Staff will prepare a draft financial report and a draft Proposition 218 notice
- At the December 8 Board meeting, consider approval to issue a rate notice
- Consider rate adoption at the February 9, 2023 Board meeting

# Alameda County Water District

Questions?