

Financial Workshop

Rate-setting Workshop

Presenters

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Workshop Overview

Agenda

- Recap Board guidance provided at the July and August workshops
- Review approach to debt/treasury management
- Review rate increase percentage and amount of debt
- Review additional informational on the concept of multiple customer classes with uniform rates
- Recap of tiered rates options and review information on revenue stability
- Next Steps

Workshop Overview

Rate-Setting Schedule

- May 23, 2024: Budget workshop
- May 30, 2024: Budget workshop
- June 13, 2024: Budget adoption
- July 18, 2024: Rate-setting workshop
 - Financial planning updates and scenarios, and discussion of tiered rates
- August 22, 2024: Rate-setting workshop
 - Discussion of customer service/billing issues, fixed/variable revenues, options for drought surcharges, and option of multiple customer classes with uniform rates
- **September 26, 2024: Rate-setting workshop**
 - **Follow-up from July and August workshops, and receive input on proposal to develop**
- December 12, 2024: Consider setting date for public hearing to consider proposed rate increases and issuing a rate notice
- February 13, 2025: Potential public hearing date and consider approval of rate proposal
- March 1, 2025: New rates, if adopted, become effective

Workshop Overview

Board Guidance

- Receive Board feedback and direction regarding:
 - Approach to debt/treasury management
 - Overall rate increase percentage and amount of debt
 - Multiple customer classes with uniform rates
 - Tiered rates options

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 July Workshop

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

- No interest in capital project deferrals or minimum SFPUC purchase (and resulting increase in water hardness)
- Include additional assumptions for rate-setting (added capital projects from the engineering report (\$29.1M) and other baseline adjustments)
- Staff should prepare to 1) present options for debt financing, with baseline rate increase of 5.5% vs. 4% annual rate increase, 2) provide more information on tiered rate structure and revenue stability for two tiers vs. three tiers, and 3) present an option with multiple customer classes with uniform rates

Review of August Workshop

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

- Maintain the same ratio between the service charge and commodity charge revenue recovery
- Maintain the current approach to stage rates (uniform consumption charge)
- Provide additional data on landscape customers and more information on the concept of different uniform rates for different customer classes
- Augment delinquency collections on the property tax bill to include owner-occupied, individually-metered multi-family accounts
- Investigate billing the service charge on the property tax bill for non-residential accounts and return with a future presentation (not part of rate-setting process)

Financial Workshop

Suggested Approach to Debt/Treasury Management

Capital Projects Funding Approaches

- The District's financial planning horizon is the current fiscal year plus five years out
- Over the last six years the District issued debt once – refinancing the 2012 bonds and took out \$10 million in new money for capital projects
- Over the next six years, the financial planning assumes three debt issuances
 - With the highest amount of rate increases (5.5% and 5.5%) the debt issuance is \$140 million
 - With the lowest amount of rate increases (4% and 4%) the debt issuance is \$160 million
- Under either scenario, the District needs to reconsider its approach to debt management including use of interim financing

Debt Policy

While a change in practice, greater use of debt can still be consistent with the District's established *Debt Management and Disclosure Policy*, which includes the following:

- Key factors favoring PayGo Financing
 - Project can be adequately funded with current resources
 - Additional debt would adversely affect the District's cash flow position, operating flexibility, or compliance with existing debt covenants
- Key factors favoring Debt Financing
 - Proposed pledged revenues for debt service are sufficient and reliable
 - Additional debt would not adversely impact covenants of outstanding debt
 - Determination that it would be prudent to provide intergenerational equity
 - Project is critically important and other funding options are insufficient
- District continues to maintain strong debt capacity (coverage of 2x or more)
- Based on these factors, additional proposed debt complies with District policy

Capital Projects Funding Approaches

- Current approach
 - Mostly Pay-As-You-Go financing
 - Accumulation of capital reserves to pay for large projects
 - Requires higher rate increases near-term, but provides more flexibility and potentially lower rate increases long-term
- Proposed approach
 - A combination of Debt financing and Pay-As-You-Go financing
 - Controls accumulation of capital reserves
 - Requires moderate rate increases near term; less flexibility and higher costs long term due to interest payment on debt



Alameda County Water District

Plan of Finance

Presenter: Darren Hodge, Managing Director

September 26, 2024



FY 2024/25 and 2025/26 Plan of Finance



Preliminary Two-Year Finance Plan

- ◆ The District has identified the need for debt financing in support of its CIP delivery
- ◆ 2025 Financing Needs
 - Anticipate selling bonds in Spring 2025
 - Tax-exempt long-term fixed rate bonds
 - Size is TBD at the present time
- ◆ Future Financing Needs
 - The District is planning on developing an interim financing program to support the delivery of its capital improvement program
 - Traditionally, interim financing has taken one of the three forms which are discussed in this presentation
 - The current plan calls for the interim financing program to be in place on or around December 2025



Interim Financing

- ◆ Interim financing can allow the District to more efficiently manage its borrowing needs
 - Allows for the retention of District liquidity rather than pay-go funding with the intent of future reimbursement;
 - Interim financing can fund small, periodic capital needs with the idea of “taking out” the accumulate interim borrowing with longer-term debt in the future, saving on time and issuance expenses
 - Interim financing rates are based on the short-end of the yield curve
- ◆ However, it is important to note that interim financing can also subject the District to certain risks
 - These risks vary by form of interim financing and will be carefully considered by the District and PFM



Interim Financing Alternatives



Interim Financing Options

- ◆ Interim Financing or Short-Term Financing options may be utilized to bridge shortfalls in project construction cashflow, delay long-term issuance, and reduce negative arbitrage
- ◆ They are usually replaced by long-term debt at some point
- ◆ Three broad options may be evaluated based on flexibility, cost and risk profile

1 LOC-Backed Commercial Paper (CP)

LOC: Letter of Credit

2 Revolving Line of Credit

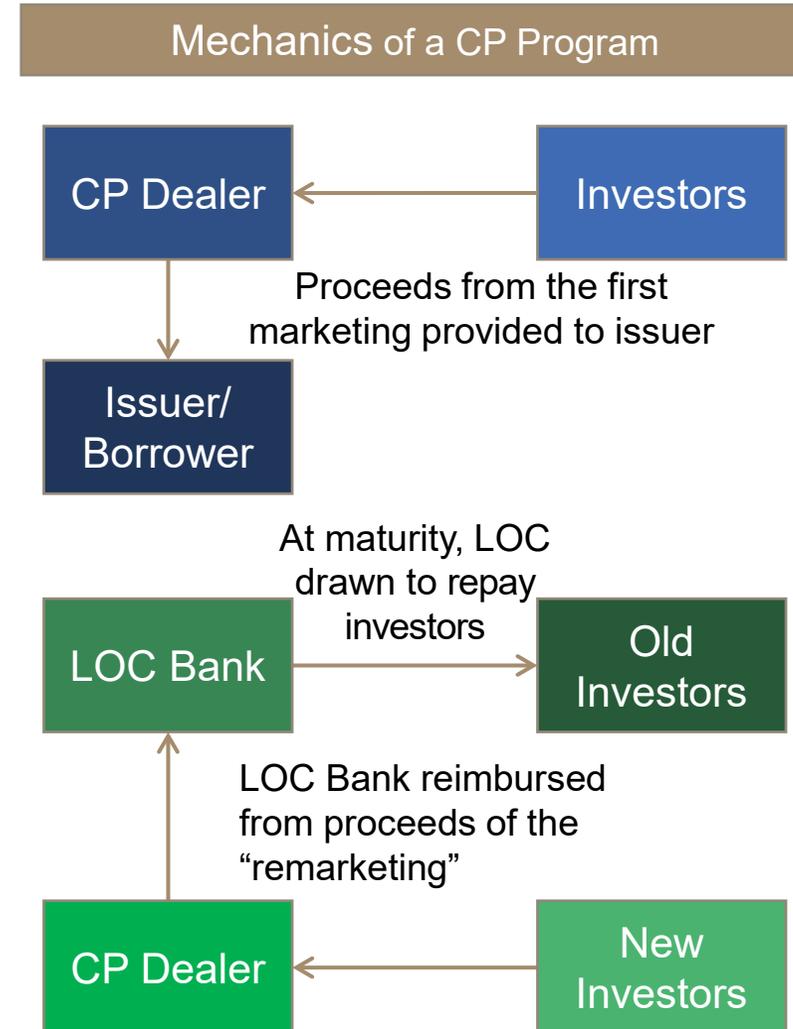
3 Short-Term Notes



Commercial Paper (CP) backed by Letter of Credit (LOC)

- A publicly traded security requiring an offering memorandum, ratings and CUSIP*
- A “program” is established at a specific size (e.g., \$100 million) and CP is issued on an as-needed basis at any amount less than the program size
- Maturity range of 1-270 days
 - Can be remarketed (“rolled”) at each maturity
 - CP Dealer acts as remarketing agent for the program
- CP trades and matures at par
 - Interest rate is set based on investor demand, market conditions, and credit quality of the letter of credit provider
- Must be supported with bank liquidity or Letter of Credit (LOC) to protect against a failed remarketing
 - Bank facilities typically have a term of 3-5 years

*CUSIP: Committee on Uniform Securities Identification Procedures





Direct Purchase Revolving Line of Credit

- ◆ Typically structured under a bank-loan agreement and is not a publicly traded security
 - No offering document or ratings required
 - Typically executed via a loan or a credit agreement
- ◆ Revolving nature of loan allows issuers to draw, repay and then draw again
 - Ability to draw funds over time reduces interest cost and/or negative arbitrage on project funds
 - Interest rate is set by formula: e.g. 80% of SOFR + 50 bps (fixed spread)
 - Minimum commitment fee: e.g. 0.2% on undrawn balance
- ◆ Under the loan agreement, bank cannot “put” loan back to issuer periodically
 - Therefore, does not require bank liquidity or LOC
- ◆ Negotiable covenants



Short-Term Notes

- ◆ A publicly traded security requiring an offering memorandum, ratings and CUSIP similar to a bond sale
- ◆ Maturity ranges typically between 2-5 years
 - Can be “rolled” by issuing new notes to replace the old notes at each maturity date
- ◆ Interest rate is negotiated at issuance and is fixed for the entire term
- ◆ No put feature, therefore does not require bank liquidity or LOC
- ◆ Can structure with a call option for additional flexibility, if needed



Interim Finance Product Summary

Comparison of Interim Financing Products

Feature	LOC-Backed CP	Direct Purchase Revolving Line of Credit	Bond Anticipation Notes (BANs)
Interest Rate	Variable Rate	Variable Rate	Fixed Rate
Cost	Ongoing: Interest, CP Dealer Fees, LOC Fees Upfront: One-time set-up cost	Ongoing: Interest, Commitment Fee Upfront: One-time setup cost	Ongoing: Interest Upfront: Issuance cost (each issuance)
Liquidity Facility	Required	Not required	N/A
Maturity	Up to 270 days	Negotiated	1-5 years
Call Flexibility	Callable on each roll date	Early termination provisions can be negotiated	Call provisions may be negotiated
Extension Feature; Nature of Put Feature	Term out of credit facility upon failed remarketing	Term out of loan if unable to renew or repay at expiration	None. Notes are typically repaid at maturity or taken out by longer term debt



Interim Finance Product Summary (cont.)

Comparison of Interim Financing Products

Feature	LOC-Backed CP	Direct Purchase Revolving Line of Credit	Bond Anticipation Notes (BANs)
Money Market Fund Eligible	Yes	N/A	N/A
Major Documents Required	1. Offering Document for Investors 2. Remarketing Agrmt. with the CP Dealer 3. Reimbursement Agrmt. with LOC provider	Credit or Loan Agrmt.	1. Offering Document for Investors 2. Note Purchase Agrmt. with the Underwriter



Interim Finance Product Summary (cont.)

Comparison of Interim Financing Products			
Feature	LOC-Backed CP	Direct Purchase Revolving Line of Credit	Bond Anticipation Notes (BANs)
Pros	<ol style="list-style-type: none"> 1. Proven market structure 2. Flexible draws reduces interest cost 3. Can serve as bridge financing 4. Flexibility to lock in interest rate for a period of up to 270 days 5. Access to large spectrum of municipal money market funds 	<ol style="list-style-type: none"> 1. No liquidity facility required, no commercial bank credit exposure 2. Flexible draws reduces interest cost 3. No ratings required 4. No remarketing agent 5. Reduced public disclosure 	<ol style="list-style-type: none"> 1. Proven market structure 2. Reduces market risk by locking in current market rates 3. No commercial bank exposure 4. Minimal administration once BANs are issued 5. Access to retail and institutional investors
Cons	<ol style="list-style-type: none"> 1. Requires bank credit facility 2. Requires administration in monitoring rolls and repayment 3. Commercial bank exposure 4. Higher costs to set-up 	<ol style="list-style-type: none"> 1. Could include more restrictive covenants and terms 2. Program size limited by single bank's appetite for issuer's credit 	<ol style="list-style-type: none"> 1. Ratings are required 2. Public disclosure documents 3. No flexible draw schedule



Letter of Credit (LOC)

- ◆ A liquidity facility offered by commercial banks often used to support CP programs and variable rate bonds.
- ◆ When CP matures, LOC is drawn upon to repay the investors. Simultaneously the new paper is remarketed to new investors and those proceeds are utilized to reimburse the LOC Bank.
- ◆ Should there be a failed remarketing, the onus falls on the issuer to reimburse the LOC Bank in accordance with certain “Term out” provisions defined in the **Reimbursement Agreement** between the issuer and the LOC provider.



Letter of Credit (LOC) (cont.)

Common Legal Terms for Liquidity Facilities	
LOC Commitment Fee	Minimum annual fee the issuer pays to the bank for the liquidity facility (e.g. 50 bps)
Termination Fee	The cost to the issuer for terminating or reducing the LOC size prior to the expiration date (usually is a make-whole provision)
Term / Expiration Date	Date on which the LOC expires (can be anywhere from 1-5 years)
Bank Bonds	When the commercial paper cannot be remarketed successfully to investors and are put back to the LOC Bank
Term Loan	When bonds become Bank Bonds, and the issuer has a set period to pay back the liquidity bank
Term out Provisions	Provisions of the Term Loan, timing and period in which the issuer must pay back the liquidity bank (usually paid in equal semiannual payments ranging from 2-5 years)
Bank Bond Rate or Bank Rate	Interest rate on the Term Loan (typically very high) – only if no event of default has occurred (usually a step-up structure after 90-180 days)
Default Rate	If an event of default occurs, the bonds would be immediately due at this rate
Downgrade Provisions	Increases to the liquidity fee if the issuer is downgraded below certain thresholds



Board Deliberation & Questions

Financial Workshop

Rate Increase Percentage and Amount of Debt

Financial Planning Model Updates

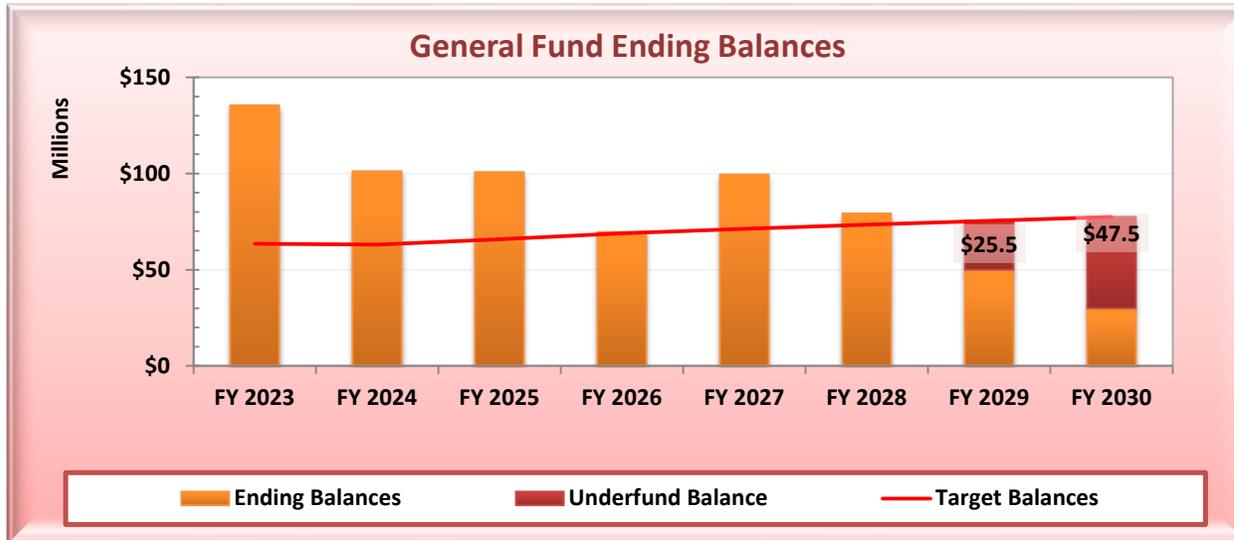
Baseline Assumptions

- Preliminary actual activity for FY 2023/24
- Assumptions included in the adopted midcycle budget
- Additional assumptions for rate-setting, including adding capital projects identified in the draft engineering report (\$29.1 million) and other baseline adjustments such as updated medical cost inflation based on CalPERS health premium rates for 2025
- Water rate increase 5.5% in FY 2024/25 and again in FY 2025/26 (subject to change during these rates workshops). Increase of 5% in FY 2026/27 and then 4% annually
- Includes \$85 million of new revenue bonds over the planning horizon

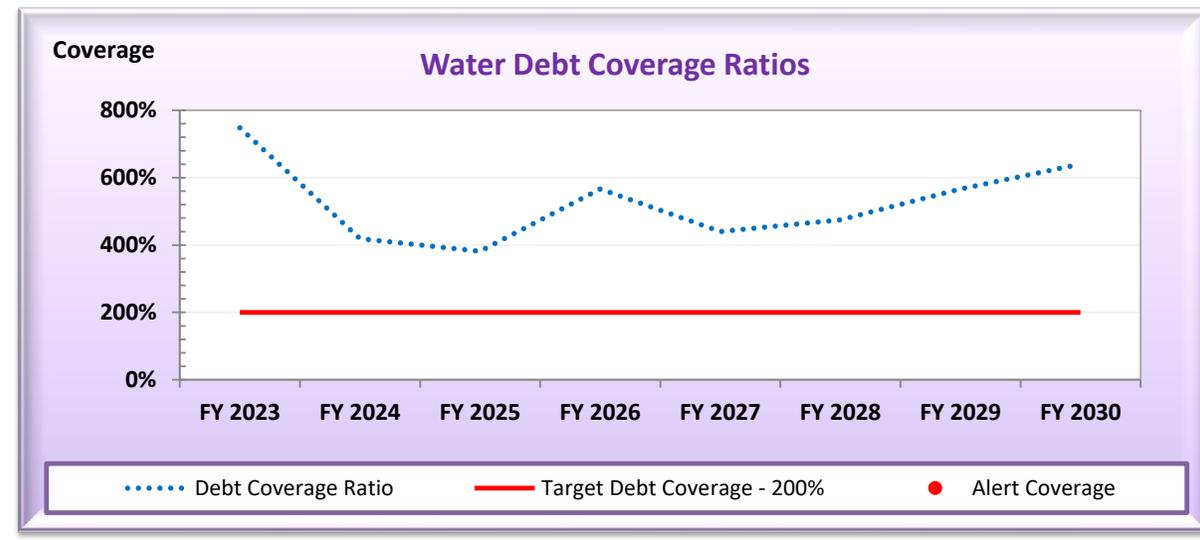
Financial Planning Model Updates

Baseline Assumptions

- General Fund ending balances projected to go below target level within planning horizon



- District continues to maintain strong debt coverage ratios within planning horizon



Rate Increase and Debt Scenarios

- Scenario 1
 - Water rate increase: 4% in FY 2024/25 and again in FY 2025/26
 - Total new debt amount: \$160 million
- Scenario 2
 - Water rate increase: 5% in FY 2024/25 and again in FY 2025/26
 - Total new debt amount: \$150 million
- Scenario 3
 - Water rate increase: 5.5% in FY 2024/25 and again in FY 2025/26
 - Total new debt amount: \$140 million

Capital Projects by Funding Source

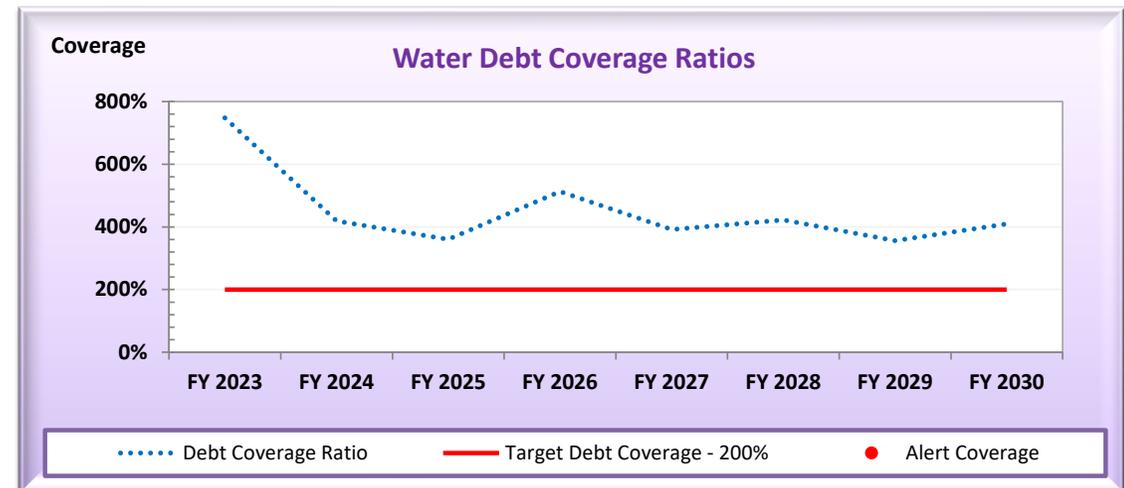
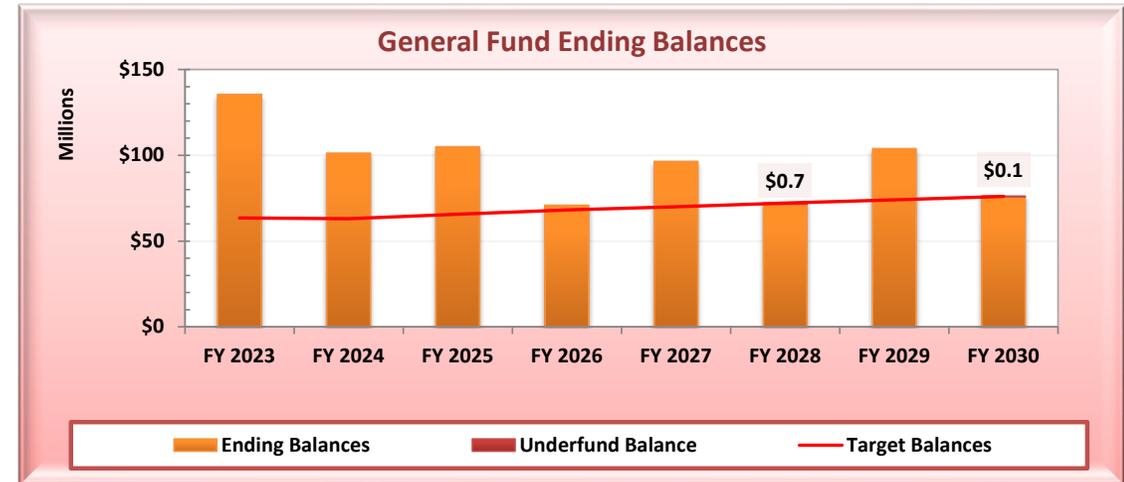
	FYE 24 Actual	FYE 25 Amended Budget	FYE 26 Projected Budget	FYE 27 Projected Budget	FYE 28 Projected Budget	FYE 29 Projected Budget	FYE 30 Projected Budget	Total
(\$ thousands)								
Facilities Improvement Fund	9,034	9,567	15,233	13,408	13,600	16,456	21,552	98,850
Facilities Renewal Fund	1,913	2,679	2,781	3,216	3,313	3,412	3,515	20,829
Grants/ Reimbursements	645	2,938	6,078	10,000	6,000	1,000	1,000	27,661
Bonds	0	30,000	0	50,000	5,000	0	0	85,000
General Fund								
PayGo	48,071	17,200	59,858	2,735	45,659	61,114	58,458	293,093
Total	59,663	62,383	83,950	79,359	73,572	81,982	84,525	525,433

Rate Increase and Debt Scenario 1

Rate Increases: 4% and 4%

- New debt amount: \$160 million
- New debt service total (30 years): \$287 million

	(\$ thousands)			
	FY 2025	FY 2027	FY 2029	Total
New Bond Proceeds	\$35,000	\$55,000	\$70,000	\$160,000
New Debt Service:				Total (30 Years)
2025 Issue	\$2,024	\$2,024	\$2,024	\$62,746
2027 Issue		\$3,181	\$3,181	\$98,600
2029 Issue			\$4,048	\$125,491
New Debt Service	\$2,024	\$5,205	\$9,253	\$286,837
Current Debt Service	\$5,911	\$5,905	\$4,303	\$86,980
Total Debt Service	\$7,935	\$11,110	\$13,556	\$373,817
Net Revenues	\$28,554	\$43,517	\$48,098	
Debt Coverage	360%	392%	355%	

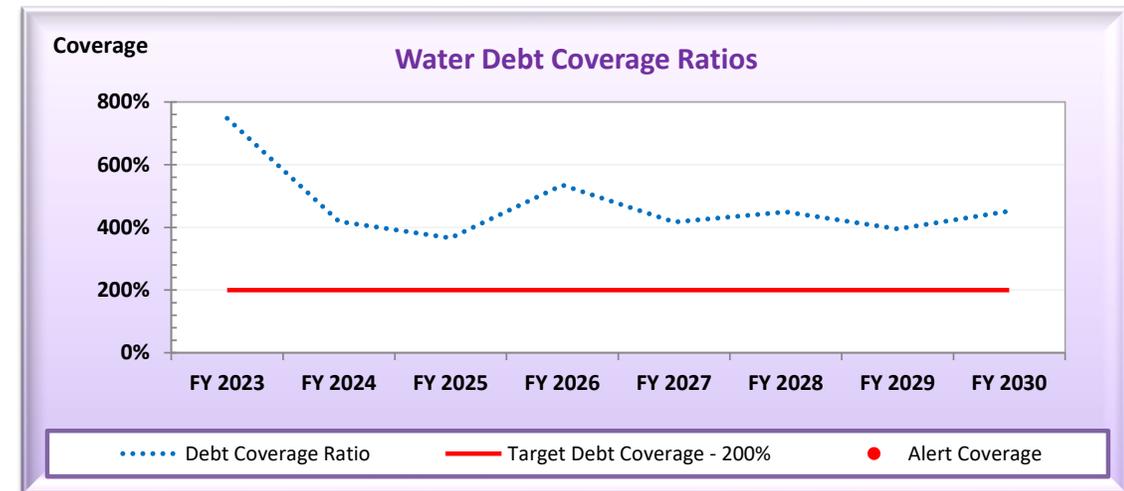
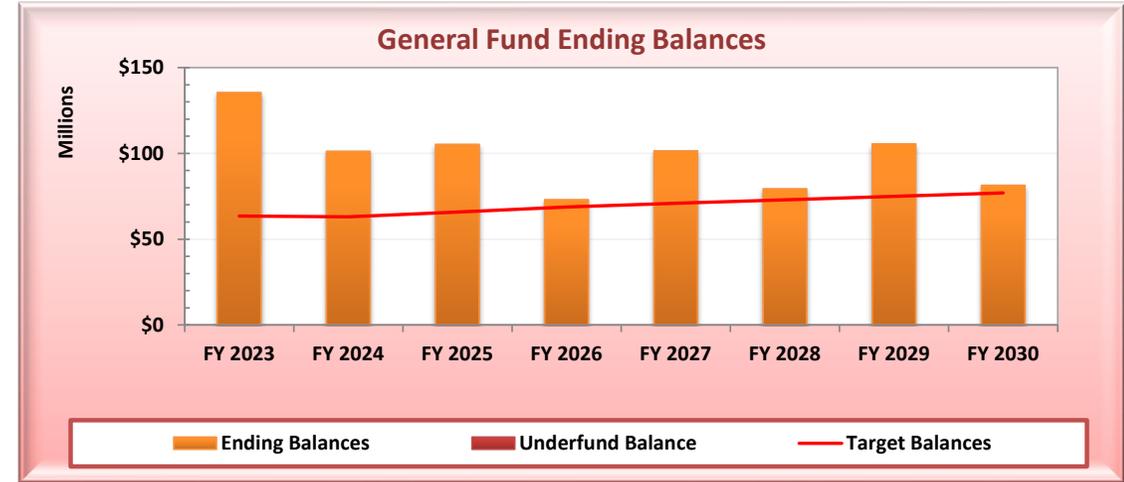


Rate Increase and Debt Scenario 2

Rate Increases: 5% and 5%

- New debt amount: \$150 million
- New debt service total (30 years): \$269 million

	(\$ thousands)			
	FY 2025	FY 2027	FY 2029	Total
New Bond Proceeds	\$35,000	\$55,000	\$60,000	\$150,000
				Total
New Debt Service:				(30 Years)
2025 Issue	\$2,024	\$2,024	\$2,024	\$62,746
2027 Issue		\$3,181	\$3,181	\$98,600
2029 Issue			\$3,470	\$107,564
New Debt Service	\$2,024	\$5,205	\$8,675	\$268,910
Current Debt Service	\$5,911	\$5,905	\$4,303	\$86,980
Total Debt Service	\$7,935	\$11,110	\$12,978	\$355,890
Net Revenues	\$28,972	\$46,316	\$51,182	
Debt Coverage	365%	417%	394%	

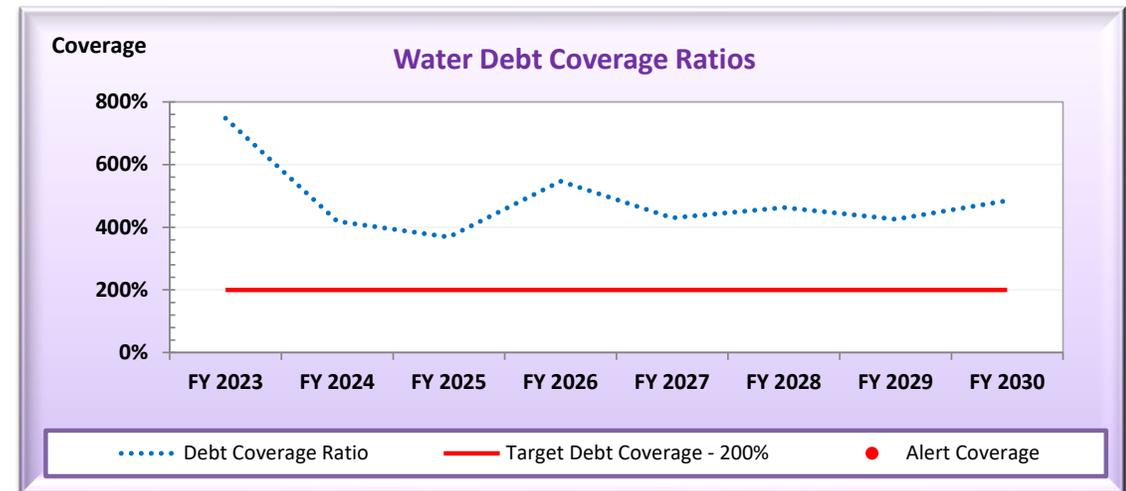
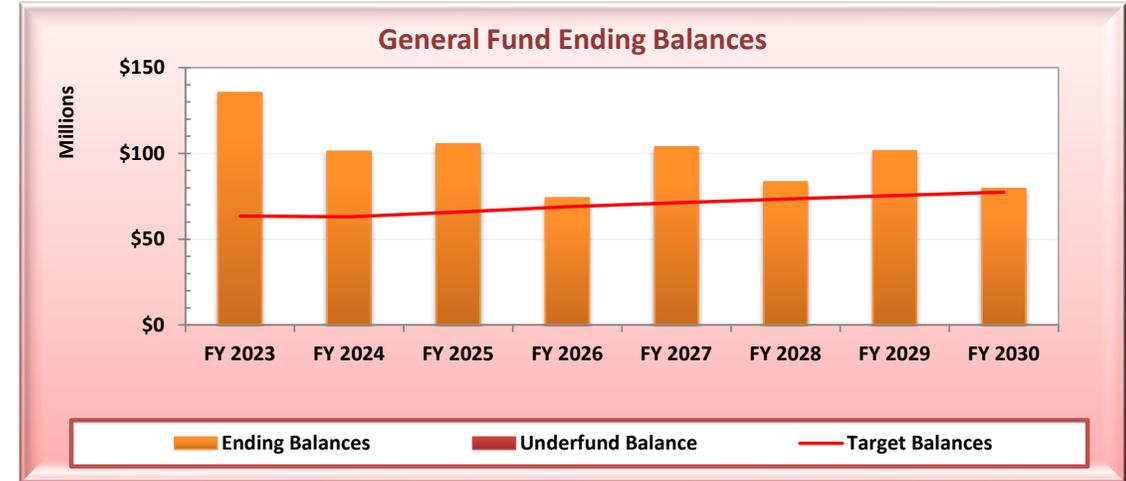


Rate Increase and Debt Scenario 3

Rate Increases: 5.5% and 5.5%

- New debt amount: \$140 million
- New debt service total (30 years): \$251 million

	(\$ thousands)			
	FY 2025	FY 2027	FY 2029	Total
New Bond Proceeds	\$35,000	\$55,000	\$50,000	\$140,000
				Total
New Debt Service:				(30 Years)
2025 Issue	\$2,024	\$2,024	\$2,024	\$62,746
2027 Issue		\$3,181	\$3,181	\$98,600
2029 Issue			\$2,892	\$89,637
New Debt Service	\$2,024	\$5,205	\$8,096	\$250,983
Current Debt Service	\$5,911	\$5,905	\$4,303	\$86,980
Total Debt Service	\$7,935	\$11,110	\$12,399	\$337,963
Net Revenues	\$29,182	\$47,726	\$52,683	
Debt Coverage	368%	430%	425%	



Financial Workshop

Follow Up Item Different Uniform Rates for Each Customer Class

Customer Class Follow-up

In response to Board feedback at the July Workshop, staff presented in August a concept that would:

1. Separate District customers into three distinct classes:
 - a. Single-family residential
 - b. Dedicated landscape irrigation
 - c. All other customers (hereafter referred to as 'Urban')

2. Develop a unique uniform rate for each customer class based on the cost of serving customers with their water demand patterns

In August, the Board asked for more information about this concept; particularly for more data about dedicated landscape accounts and water consumption by cities and other public agencies

Customer Class Follow-up

The draft proposed uniform rate for treating all customers as one group is \$5.24 per hundred cubic feet (HCF). Developing customer classes:

1. Single-family Residential: \$5.22/HCF
2. Dedicated Landscape Irrigation: \$5.86/HCF
3. Urban: \$5.14/HCF

Customer Class Summary Data:

1. Single-family: 75,357 accounts; 44.5% of consumption in FYE 24
2. Landscape: 2,623 accounts; 12.4% of consumption in FYE 24
3. Urban: 9,366 accounts; 43.1% of consumption in FYE 24

Customer Class Follow-up

Dedicated landscape accounts can be broken into four subgroups:

1. Residential (744 accounts): multi-family/HOA irrigation
2. Industrial (360 accounts): outdoor irrigation for industrial sites such as manufacturing
3. Business (515 accounts): outdoor irrigation for typical commercial accounts, such as restaurants, hotels, strip malls, etc.
4. Institutional/Other (1004 accounts): cities, schools, parks, etc.

Landscape Account Consumption (FY 2023/24)					
	Residential	Industrial	Business	Institutional	Total
Consumption (HCF)	654,702	339,371	451,256	494,218	1,939,547
Percent (landscape)	33.8%	17.5%	23.3%	25.5%	100.0%
Percent (total)	4.2%	2.2%	2.9%	3.2%	12.4%

Customer Class Follow-up

Institutional Landscape Consumption Data (FY 2023/24)				
Customer	Consumption	Percent XDLI ¹	Percent DLI ²	Percent Total
City of Fremont	162,397	32.9%	8.4%	1.0%
East Bay Regional Parks	94,386	19.1%	4.9%	0.6%
City of Newark	76,558	15.5%	3.9%	0.5%
City of Union City	33,516	6.8%	1.7%	0.2%
Fremont Unified	20,727	4.2%	1.1%	0.1%
New Haven Unified	16,889	3.4%	0.9%	0.1%
Newark Unified	10,118	2.0%	0.5%	0.1%
Ohlone College	9,863	2.0%	0.5%	0.1%
Other	69,764	14.1%	3.6%	0.4%
Total:	494,218	100.0%	25.5%	3.2%

1. XDLI stands for institutional dedicated landscape irrigation

2. DLI stands for dedicated landscape irrigation

Customer Class Follow-up

Considerations related to this rate-setting concept:

1. Many landscape accounts are attached to an Urban account such as an apartment complex or office building. These customers receive their bills on the same cycle and are unlikely to see a substantial overall change
2. The overall change is a relatively modest \$0.10/HCF for Urban and \$0.02/HCF for single-family; representing 97% of District customers and 87.6% of consumption. The change for dedicated landscape accounts is \$0.62/HCF
3. The overall conservation potential is unclear since most customers representing most consumption would experience a rate decrease
4. Dedicated landscape accounts include parks and school playing fields, which provide broader community benefits (particularly as more residential customers remove turf)

Based on these factors, staff does not suggest pursuing these changes

Financial Workshop

Tiered Rates Options and Revenue Stability



ALAMEDA COUNTY WATER DISTRICT

RATE DESIGN AND FINANCIAL ADVISORY SERVICES

Board Workshop

September 26, 2024



HF&H Consultants

APPROACH TO RATE STRUCTURE

Issue:	Uniform or Tiered Consumption Charges
Current practice	<ul style="list-style-type: none"> - ACWD charges one uniform rate to all customers
Rationale	<ul style="list-style-type: none"> - Easiest to maintain compared to other consumption charge structures (except flat rates) - Easiest for customers to understand
Options	<ul style="list-style-type: none"> - Maintain current policy - Or, introduce additional classes with uniform or tiered rates <ul style="list-style-type: none"> - Single family residential – 2 or 3 tiers <ul style="list-style-type: none"> - Tiered rates are best suited for classes with homogeneous demand patterns (i.e., single family residential) - Base size of tiers on actual demand patterns, not on water budgets - All Other – remain uniform charge (no tiers)
Outcomes	<ul style="list-style-type: none"> - Tiered rates allocate higher costs to customers who generate higher costs - Uniform rates may be appropriate for certain classes

APPROACH TO RATE STRUCTURE

- Tiered rates are used by many California jurisdictions to recognize the higher costs (e.g., water supply costs, conservation programs) to high water users.
- Tiered rates must be based on a calculation of the actual cost of providing water service at each tier given the usage level.
- Tiered rates presented for discussion are based solely on assignment of more expensive sources of water to the higher tier(s).

APPROACH TO RATE STRUCTURE

■ Current Approach to Rate Structure

- One customer class
- All customers pay the same fixed service charge (by meter size)
- All customers pay the same consumption charge for water use
 - Current = \$4.97 per HCF
 - Projected Rate (eff. 3/1/2025) = \$5.24 per HCF (5.5% increase)

■ Potential Approach to Rate Structure

- Create two customer classes
 - Single Family - Increasing block (tiered) consumption charges
 - All Others - Uniform consumption charges

SINGLE FAMILY RATE ANALYSIS

- We analyzed the District's Single Family customer demand patterns to determine appropriate number of tiers and breakpoints
 - Scenario #1 – Two Tiers with a breakpoint at winter water demand (proxy for indoor water use)
 - All water use up to 13 HCF would be charged the Tier 1 rate
 - All water use at 14 HCF and above would be charged the Tier 2 rate
 - Scenario #2 – Three Tiers with breakpoints at winter water demand and peak day demand
 - All water use up to 13 HCF would be charged the Tier 1 rate
 - All water use from 14 to 23 HCF would be charged the Tier 2 rate
 - All water use at 24 HCF and above would be charged the Tier 3 rate

SINGLE FAMILY RATE ANALYSIS

- Continue Uniform Charge for all Water Use = \$5.24 per HCF

■ Tiered Consumption Charge Rates

■ Scenario #1 – Two Tiers

Bi-Monthly Water Use	\$/HCF
Tier 1 (0-13 HCF)	\$4.52
Tier 2 (14+ HCF)	\$6.61

■ Tier 2 rate includes:

- Water Conservation Program costs
- Water supply costs from the most-expensive source (i.e., SFPUC / Groundwater blend, and Semitropic)

■ Scenario #2 – Three Tiers

Bi-Monthly Water Use	\$/HCF
Tier 1 (0-13 HCF)	\$4.52
Tier 2 (14-23 HCF)	\$5.85
Tier 3 (24+ HCF)	\$7.63

■ Tier 2 rate includes:

- Water supply costs from the most-expensive source (i.e., SFPUC / Groundwater blend)

■ Tier 3 rate includes:

- Water Conservation Program costs
- Water supply costs from the most-expensive source (i.e., SFPUC / Groundwater blend, and Semitropic)

SAMPLE BILL IMPACTS – UNIFORM

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Current Rates				
Service charge (5/8" Meter)	\$63.75	\$63.75	\$63.75	\$63.75
Volume Charges	\$39.76	\$79.52	\$159.04	\$238.56
Total Bill	\$103.51	\$143.27	\$222.79	\$302.31
Bills at Proposed Uniform Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$41.92	\$83.84	\$167.68	\$251.52
Total Bi-Monthly Bill	\$109.18	\$151.10	\$234.94	\$318.78
\$ Difference	\$5.67	\$7.83	\$12.15	\$16.47
% Difference	5.5%	5.5%	5.5%	5.4%

Note: Preliminary proposed rates include 5.5% revenue increase

SAMPLE BILL IMPACTS – TWO TIERS

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Current Rates				
Service charge (5/8" Meter)	\$63.75	\$63.75	\$63.75	\$63.75
Volume Charges	\$39.76	\$79.52	\$159.04	\$238.56
Total Bill	\$103.51	\$143.27	\$222.79	\$302.31
Bills at Proposed Tiered Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$36.17	\$78.59	\$184.30	\$290.01
Total Bi-Monthly Bill	\$103.43	\$145.85	\$251.56	\$357.27
\$ Difference	(\$0.08)	\$2.58	\$28.77	\$54.96
% Difference	-0.1%	1.8%	12.9%	18.2%

Note: Preliminary proposed rates include 5.5% revenue increase

SAMPLE BILL IMPACTS – THREE TIERS

Single Family Residential Customers				
	Low	Average	High	Very High
Demand Assumptions				
hcf/bi-monthly period	8	16	32	48
gallons per day	100	199	399	598
% of bills up to flow assumption	27%	65%	93%	98%
Bills at Current Rates				
Service charge (5/8" Meter)	\$63.75	\$63.75	\$63.75	\$63.75
Volume Charges	\$39.76	\$79.52	\$159.04	\$238.56
Total Bill	\$103.51	\$143.27	\$222.79	\$302.31
Bills at Proposed Tiered Rates				
Service charge (5/8" Meter)	\$67.26	\$67.26	\$67.26	\$67.26
Volume Charges	\$36.17	\$76.32	\$185.97	\$308.09
Total Bi-Monthly Bill	\$103.43	\$143.58	\$253.23	\$375.35
\$ Difference	(\$0.08)	\$0.31	\$30.44	\$73.04
% Difference	-0.1%	0.2%	13.7%	24.2%

Note: Preliminary proposed rates include 5.5% revenue increase

REVENUE STABILITY

- Rate structure options can also be evaluated against the backdrop of revenue stability
- What proportion of overall water rates revenue originates from commodity charge revenues from single-family customers?
- Under 5 scenarios, how does the percentage of commodity charge revenue from single family residential customers change based on rate structure and consumption?

REVENUE STABILITY

- 5 scenarios: Baseline (CY 2023 actual water use), 10% decrease, 20% decrease, 10% increase, 20% increase
- Assumptions:
 - Baseline revenues assume 5.5% increase proposed
 - Comparison relies on CY 2023 water use
 - Change in water demand percentages applies to all customers

REVENUE STABILITY

- **Volatility of Revenues Increases with Number of Tiered Rates**
- Uniform Rates yield the smallest change in revenues relative to consumption
- **If water usage drops:**
 - Uniform rates result in the lowest decrease in revenue
 - Three Tiers results in the highest decrease in revenue
- **If water usage increases:**
 - Uniform rates result in the lowest increase in revenue
 - Three Tiers results in the highest increase in revenue
- **Maximum revenue loss differential is for three tiers compared to uniform rates with 20% water usage reduction at about \$1.1 million. That is about 1% of water revenues**

REVENUE STABILITY

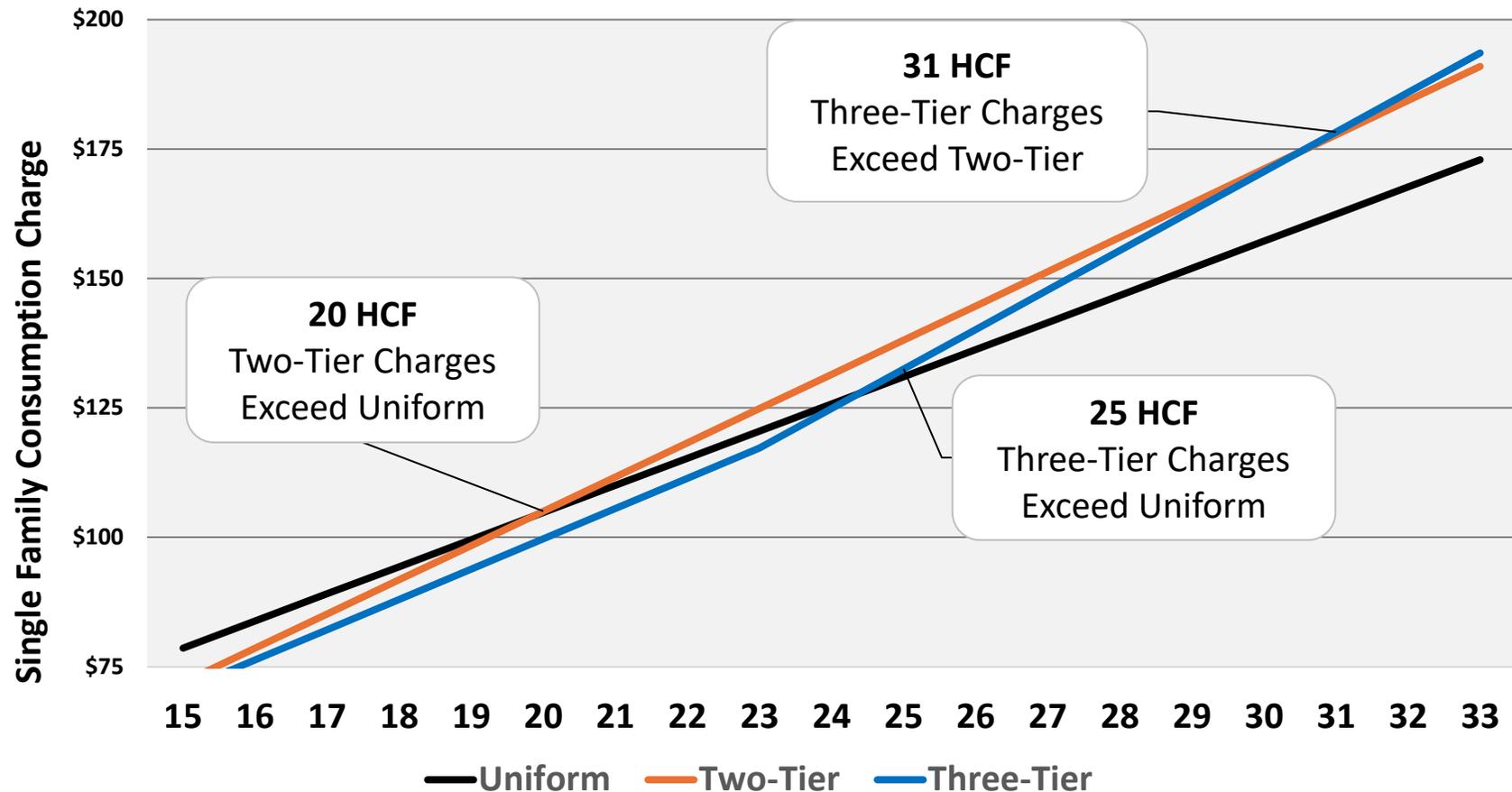
Water Usage vs. Baseline	Overall Rate Revenue from Commodity Charge		
	Uniform	Two-Tiers	Three-Tiers
	<i>\$ Difference vs Baseline</i>	<i>\$ Difference vs Baseline</i>	<i>\$ Difference vs Baseline</i>
-20%	(\$16.3M)	(\$17.3M)	(\$17.4M)
-10%	(\$8.1M)	(\$8.7M)	(\$8.8M)
Baseline (0%)	\$0	\$0	\$0
10%	\$8.1M	\$8.8M	\$8.9M
20%	\$16.3M	\$17.6M	\$17.9M

Water Usage vs. Baseline	Overall Rate Revenue from Commodity Charge		
	Uniform	Two-Tiers	Three-Tiers
	<i>% of Rate Rev.</i>	<i>% of Rate Rev.</i>	<i>% of Rate Rev.</i>
-20%	25.14%	24.53%	24.46%
-10%	26.36%	26.08%	26.05%
Baseline (0%)	27.43%	27.47%	27.50%
10%	28.38%	28.73%	28.83%
20%	29.21%	29.86%	30.04%

Commodity
Charge
Volatility

BREAKEVEN ANALYSIS – COMMODITY CHARGES

Tiered Rates Reduce Bills for Lower Water Use



BOARD DISCUSSION

■ Which option for Single family residential commodity charge?

■ Uniform (with 5.5% revenue increase):

Bi-Monthly Water Use	\$/HCF
All Water Use	\$5.24

■ Two-Tiers (with 5.5% revenue increase):

Bi-Monthly Water Use	\$/HCF
Tier 1 (0-13 HCF)	\$4.52
Tier 2 (14+ HCF)	\$6.61

■ Three-Tiers (with 5.5% revenue increase):

Bi-Monthly Water Use	\$/HCF
Tier 1 (0-13 HCF)	\$4.52
Tier 2 (14-23 HCF)	\$5.85
Tier 3 (24+ HCF)	\$7.63

Conclusion

Recap Board guidance

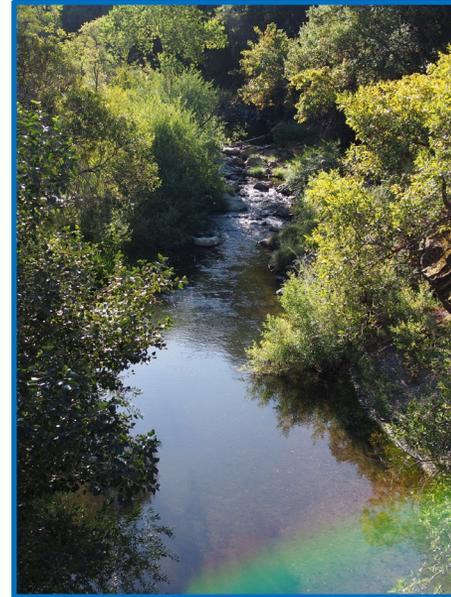
- Rate increase amount and duration of notice
- New debt amount
- Tiered rates options or maintain current uniform rate structure

Next Steps

- HF&H Consultants will prepare a report for the proposed water rate increases
- At the December 12 Board meeting, consider setting date for public hearing to consider proposed rate increases and approval to issue a rate notice
- Potential public hearing date and consider rate adoption at the February 13, 2025, Board meeting
- If adopted, new rates become effective March 1, 2025

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Questions?