



Board Meeting



Rate Study and Connection Fee Update

Presented by:
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June 4, 2019

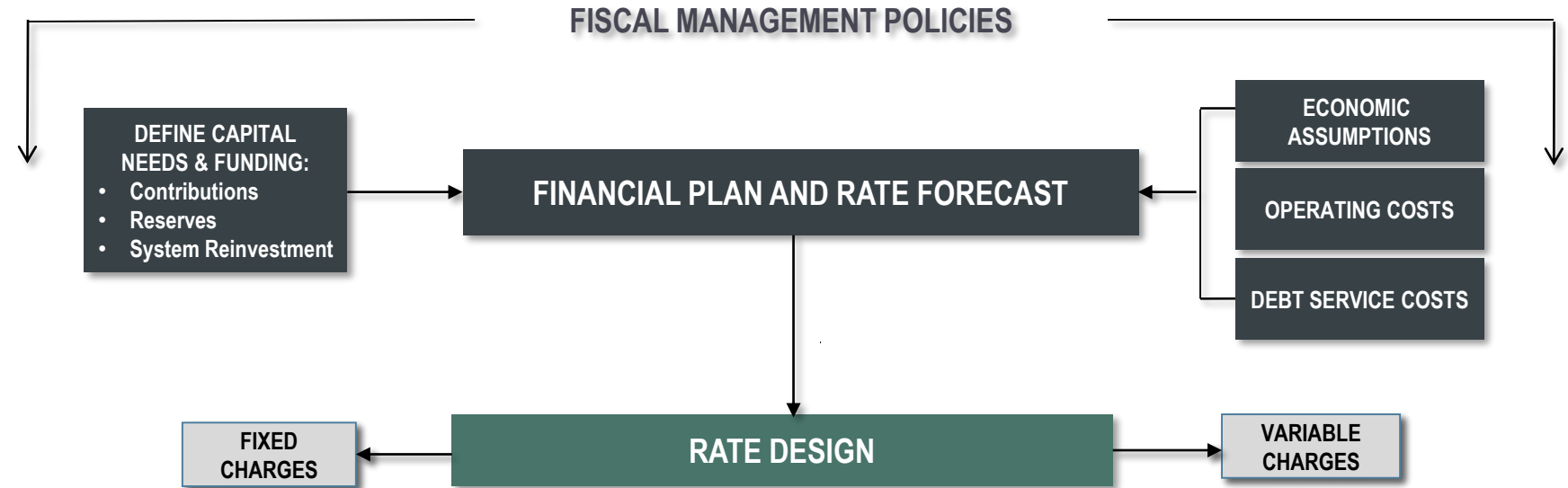


Agenda

- ◆ **Overview of rate study process**
- ◆ **Results**
 - Financial plan and rate forecast
 - Connection fee
- ◆ **Next steps**
- ◆ **Discussion/Input**



Overview of the Rate Setting Process





Financial Plan & Rate Forecast



Financial Plan Overview

- ◆ **Determine the amount of annual revenue necessary to fund all financial obligations**
 - Operating and maintenance expenses
 - Debt service (principal & interest)
 - Capital costs and funding approach
- ◆ **Meet financial parameters and targets**
 - Target debt service coverage ratios
 - Maintain target reserve balances
- ◆ **Evaluate revenue sufficiency over multi-year period**
- ◆ **Develop rate plan to balance financial needs and minimize customer impacts**

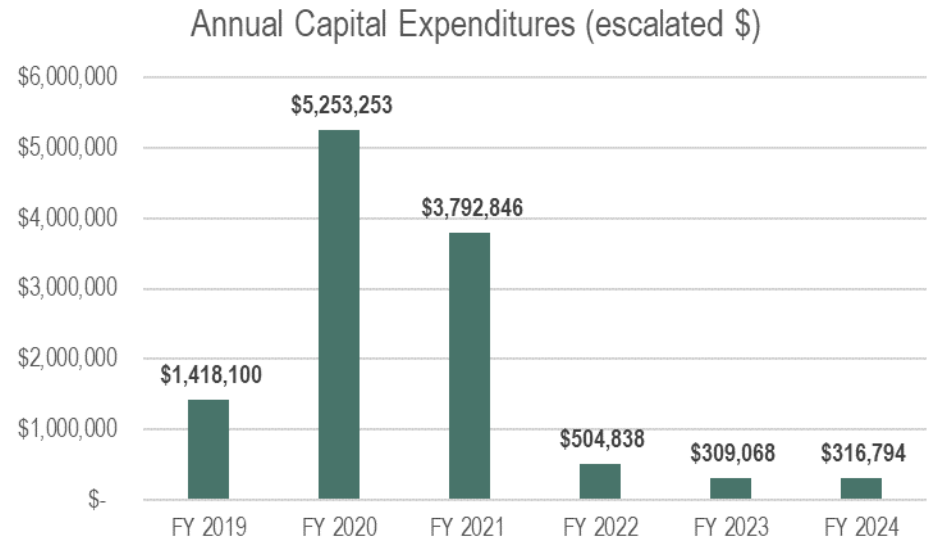


Key Assumptions

- ◆ **Study period FY 2019 – FY 2024**
- ◆ **Projected rate revenue based on FY 2019 budget**
 - Annual customer growth: 3.00% (90 new connections per year)
- ◆ **Expenses based on the FY 2019 budget, inflated with various inflation factors**
- ◆ **Fiscal policy targets:**
 - Operating reserve target: 90 days of O&M expenses
 - Capital reserve target: 1.00% original asset cost
 - System reinvestment: \$424,000 annually
- ◆ **New Debt:**
 - Department of Environmental Quality (DEQ) loan assumed in FY 2020
 - 2.75% interest
 - 20 year term
 - 2 years of interest only payments

Key Components

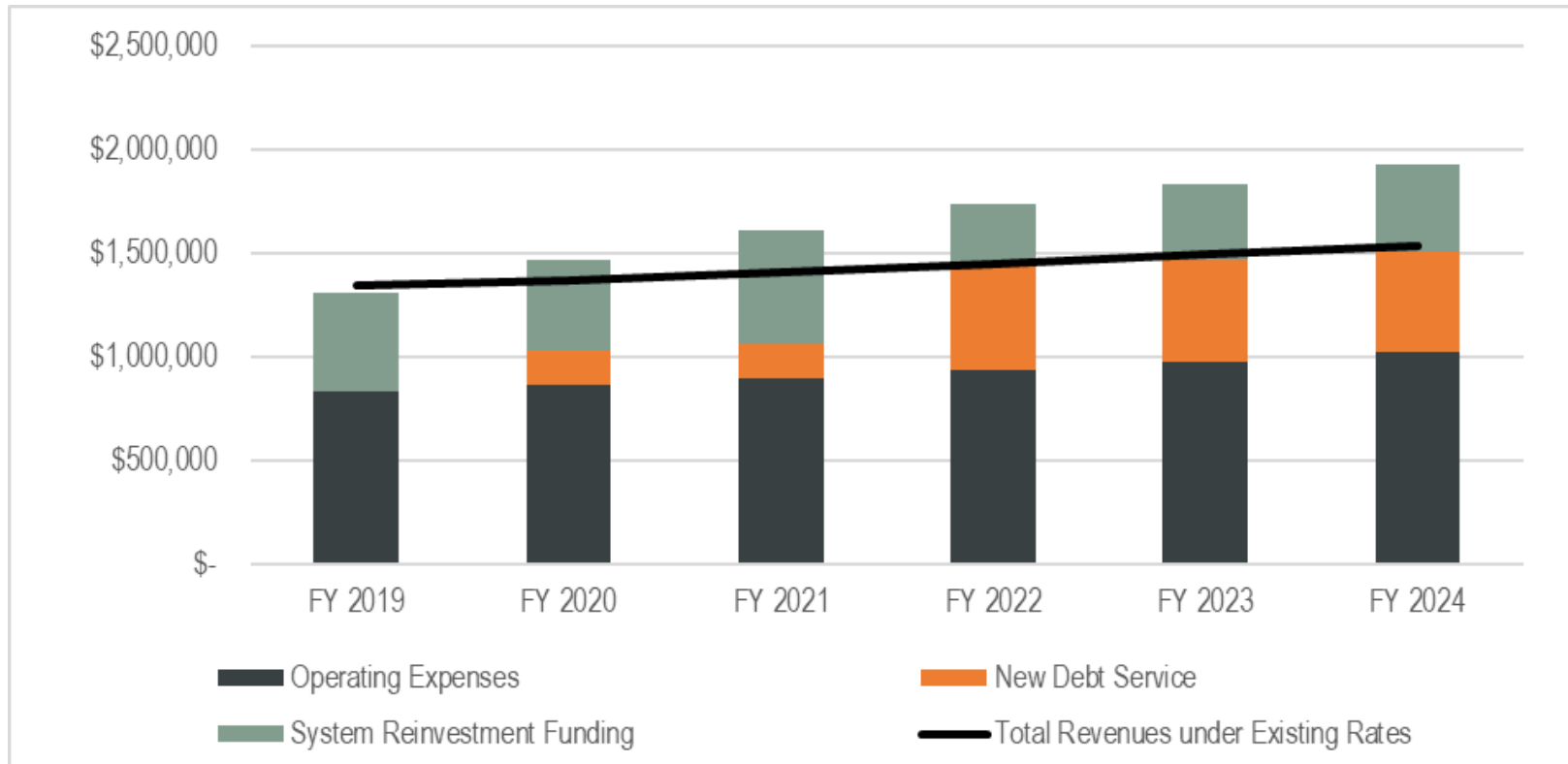
| Description | FY 2019-FY 2024 |
|-----------------------------------|-----------------------|
| Rate Revenues | \$1.3 mil - \$1.5 mil |
| Operating Expenses | \$832,000 - \$1.0 mil |
| Existing Debt Service | \$0 |
| New Debt Service | \$165,000 - \$480,000 |
| System Reinvestment | \$302,000 - \$544,000 |
| Total Capital Expenditures | \$11,594,900 |



- ◆ **\$11.6 million in capital projects to be funded through cash from rates, connection fee revenue and new debt**
- ◆ **DEQ loan of \$6.0 million assumed in FY 2020**

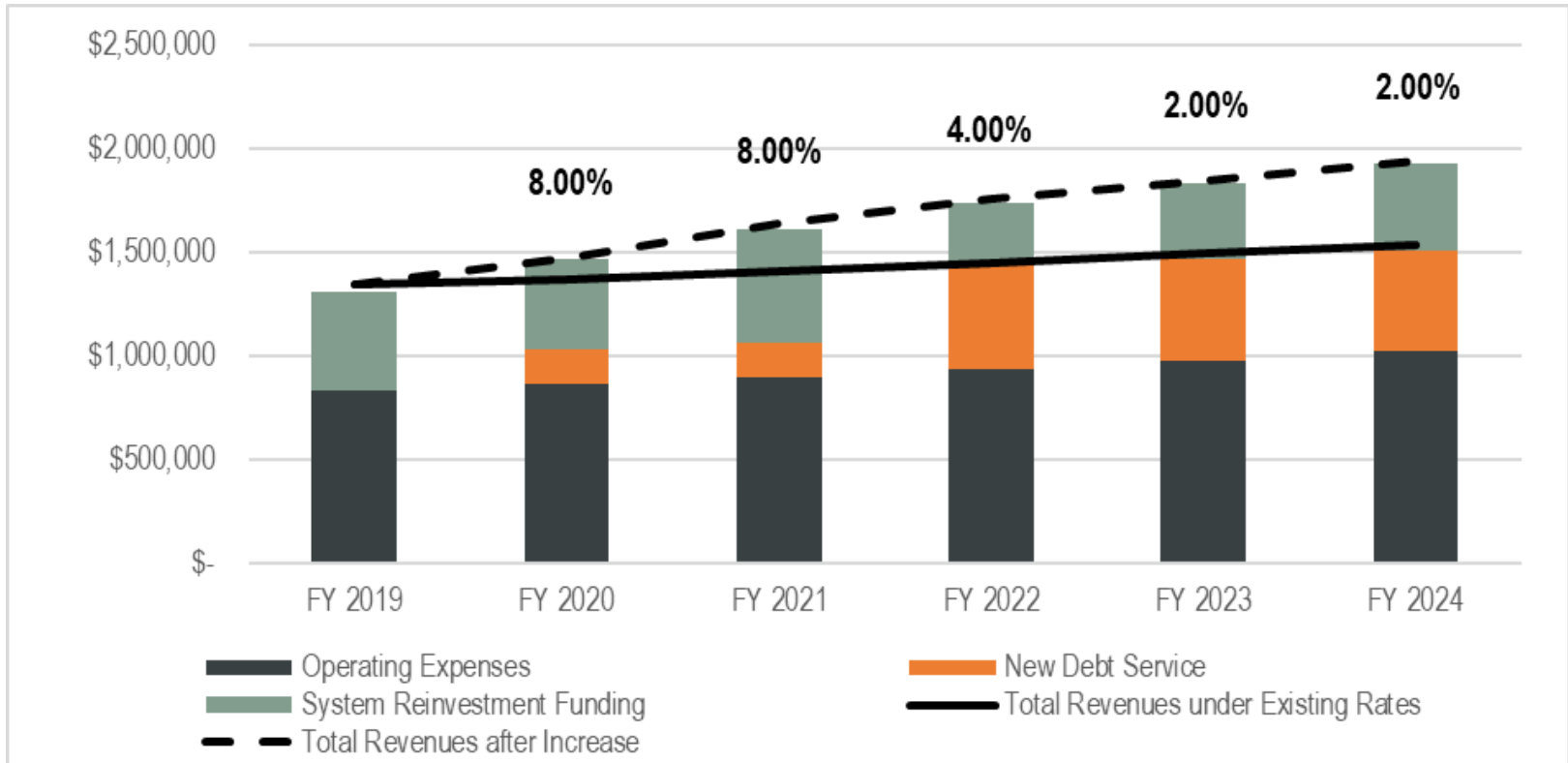


Rate Forecast





Proposed Rate Strategy





Proposed Rate Schedule

| Recommended Rate Schedule | Existing | | | Proposed | | |
|--|-----------|--------------|--------------|--------------|--------------|--------------|
| | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
| Annual System-Wide Rate Increase | | 8.00% | 8.00% | 4.00% | 2.00% | 2.00% |
| Annual Irrigation Assessment | \$ 93.00 | \$ 100.44 | \$ 108.48 | \$ 112.81 | \$ 115.07 | \$ 117.37 |
| <i>\$ Difference</i> | | \$ 7.44 | \$ 8.04 | \$ 4.34 | \$ 2.26 | \$ 2.30 |
| Quarterly Domestic Rates | \$ 61.00 | \$ 65.88 | \$ 71.15 | \$ 74.00 | \$ 75.48 | \$ 76.99 |
| <i>\$ Difference</i> | | \$ 4.88 | \$ 5.27 | \$ 2.85 | \$ 1.48 | \$ 1.51 |
| Quarterly Commercial Rates | | | | | | |
| CR1 | \$ 83.64 | \$ 90.33 | \$ 97.56 | \$ 101.46 | \$ 103.49 | \$ 105.56 |
| <i>\$ Difference</i> | | \$ 6.69 | \$ 7.23 | \$ 3.90 | \$ 2.03 | \$ 2.07 |
| CR2 | \$ 123.20 | \$ 133.06 | \$ 143.70 | \$ 149.45 | \$ 152.44 | \$ 155.49 |
| <i>\$ Difference</i> | | \$ 9.86 | \$ 10.64 | \$ 5.75 | \$ 2.99 | \$ 3.05 |
| CR3 | \$ 163.01 | \$ 176.05 | \$ 190.13 | \$ 197.74 | \$ 201.70 | \$ 205.73 |
| <i>\$ Difference</i> | | \$ 13.04 | \$ 14.08 | \$ 7.61 | \$ 3.95 | \$ 4.03 |
| CR4 | \$ 202.57 | \$ 218.78 | \$ 236.28 | \$ 245.73 | \$ 250.64 | \$ 255.66 |
| <i>\$ Difference</i> | | \$ 16.21 | \$ 17.50 | \$ 9.45 | \$ 4.91 | \$ 5.01 |
| Variable Charge per 1,000 Gallons Overage | | | | | | |
| All Classes | \$ 1.50 | \$ 1.62 | \$ 1.75 | \$ 1.82 | \$ 1.86 | \$ 1.89 |
| <i>\$ Difference</i> | | \$ 0.12 | \$ 0.13 | \$ 0.07 | \$ 0.04 | \$ 0.04 |



Connection Fee



Connection Fee Overview

- ◆ **One-time fee for new connections, not ongoing rates**
 - Properties which are already connected do not pay cap fees unless they “redevelop” and require increased capacity
- ◆ **Fee represents the value of the share of system capacity that the new user, or redeveloping user, will utilize**
- ◆ **Fees to be used for capital related obligations only**

Methodology

- ◆ Follows methodology identified in Idaho Supreme Court ruling

| NIBCA v. City of Hayden Methodology | |
|-------------------------------------|---|
| | Gross Present Day Replacement Value of System |
| Less: | Bond Principal |
| Less: | Unfunded Depreciation |
| = | Net System Replacement Value for the Current Year |
| ÷ | Number of Users Current System Can Support (MCEs) |
| = | Total Connection Fee per MCE |

Notes: NIBCA = North Idaho Building Contractors Association



Key Calculations

- ◆ **Net present day replacement value of system**
 - Inventory of assets from District's accounting system
- ◆ **Less: outstanding bond principal**
 - Represents the unpaid value of the system
 - No outstanding bond principals for the District
- ◆ **Less: unfunded depreciation**
 - Calculation not provided in Supreme Court decision
 - District elected to use original cost accumulated depreciation
 - Most conservative (largest deduction)



System Capacity

- ◆ **System capacity determines the number of users the system can support**
- ◆ **District has 2,948 existing MCE's connected to the system**
- ◆ **Engineer's estimate that existing system is at capacity**
- ◆ **System capacity = 2,948 MCEs**

Notes: MCE = Meter Capacity Equivalent



Connection Fee

| System Replacement Value | Total | Fire Share |
|---|---------------------|--------------------|
| Utility Plant in Service - Replacement Cost | \$44,437,258 | \$9,767,528 |
| less: Meters & Services | -\$1,173,419 | \$0 |
| Total Gross Replacement Value | \$43,263,839 | \$9,767,528 |
| Less: Bond Principal (outstanding) | \$0 | \$0 |
| Less: Original Cost Accumulated Depreciation | -\$19,529,013 | -\$4,408,998 |
| Net System Present Day Replacement Value | \$23,734,826 | \$5,358,530 |
| System MCE Capacity | 2,948 | 2,948 |
| Total Connection Fee per MCE | \$8,051 | \$1,818 |

- ◆ **Isolates the fire share of the existing connection fee:**
 - Allows for capacity buy-in for stand-alone fire lines
- ◆ **Current fee = \$2,613 per MCE**
- ◆ **District may charge anything up to the maximum calculated**



Proposed Connection Fee by Meter Size

| Meter | Existing Connection Fee | Proposed Connection Fee | | \$ Difference |
|-------|-------------------------|-------------------------|----------|---------------|
| | | Fire Portion | Total | |
| 3/4" | \$ 2,613 | | \$ 8,051 | \$ 5,438 |
| 1" | 2,833 | | 13,445 | 10,613 |
| 1.5" | 3,460 | | 26,810 | 23,350 |
| 2" | 4,339 | \$ 9,688 | 42,913 | 38,573 |
| 3" | 6,841 | 19,395 | 85,906 | 79,064 |
| 4" | 10,366 | 30,301 | 134,213 | 123,847 |
| 6" | 20,410 | 60,583 | 268,345 | 247,935 |
| 8" | 34,472 | 96,937 | 429,368 | 394,897 |
| 10" | 52,551 | 139,362 | 617,283 | 564,732 |



Next Steps

- ◆ **Incorporate feedback from Board**
- ◆ **Develop consumption-based full cost rate design scenario per DEQ facility plan review**
- ◆ **Billing frequency – monthly?**
- ◆ **Rate increases effective October 1, 2019**



Questions/Discussion