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# **Guiding Principles for Rate-Setting**

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**Recommended by the 2010  
Cost-of-Services Study  
Advisory Panel**

**September 1, 2010**



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# Background

- **Board-adopted February 4, 2010 resolution called for**
    - **Cost-of-services study**
    - **Conducted by an independent expert**
    - **Advised by a ratepayer committee**
    - **Completed by December 31, 2010**
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# Purpose of the Study

- **Ensure that the District's rate schedules and the District's cost allocations among commodities (water, wastewater, and recycled water) are**
    - **Fair**
    - **Reasonable**
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# Advisory Panel

- Panel consists of
    - 5 individuals from communities in the District's service area
    - 5 members of the District's staff
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# Community-based Participants

- **Kim Beal, Cameron Park**
    - **Government Affairs Director of the county Realtors Association**
    - **32 years in real estate**
    - **President of El Dorado Business Alliance Governing Board**
    - **Board of Directors for Marshall Medical**
    - **Member of EID's Facility Capacity Charges Advisory Committee in 2005**
    - **BS in business; county resident since 1966**
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# Community-based Participants

- **Albert Hazbun, El Dorado Hills**
    - Civil engineer
    - 50+ years of experience in design and construction of heavy industrial and civil infrastructure projects on five continents.
    - Introduced recycled water to the Serrano Project
    - Served on several EID advisory committees related to water, wastewater, and recycled water
    - Engineering degree; county resident since 1987
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# Community-based Participants

- **Tom Heflin, Camino**
    - **PhD in Finance and Business Economics**
    - **Professor Emeritus at Sacramento State**
    - **Supervisor District III representative on the county Planning Commission**
    - **Previously on the county's Agricultural and Economic Development commissions and on state committees for insurance rate-setting.**
    - **Runs a small business in Camino; life-time county resident**
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# Community-based Participants

- **Doug Leisz, Placerville**
    - **Berkeley graduate, registered professional forester, and former Associate Chief during 32-year USFS career**
    - **Ran consulting business until 2008.**
    - **Vice President of the county Agricultural Water Quality Management Corporation**
    - **Active in water issues such as the county's small hydro study and EID's Irrigation Management Services program**
    - **Manages wine vineyard and tree farm that he established 26 years ago**
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# Community-based Participants

- **Greg Prada, Cameron Park**
    - **As COO, led financial turnarounds for two specialty health services companies**
    - **As CFO, Led financial turnaround for a manufacturing division**
    - **As CEO, led initial public offering for a health services company with three business segments**
    - **BA in business; moved to El Dorado county in 2006**
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# EID Staff

- **Jim Abercrombie**
    - General Manager and Panel Facilitator
  - **Mark Price**
    - Finance Director
  - **Deanne Kloepfer**
    - Communications Director
  - **Dana Strahan**
    - Water Operations Manager
  - **Elizabeth Wells**
    - Engineering Manager for wastewater and recycled water
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# HDR

- **Greg Clumpner, Project Manager**
    - **25 years in financial and economic analyses and management consulting with utilities**
    - **More than 100 cost-of-service water and sewer rate studies in California and other states, including Proposition 218 requirements for water, sewer, and solid waste utilities**
    - **Evaluations of new and existing development impact fees for water, wastewater, and other utilities in 60 municipalities**
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# Ground Rules

- **Role of the panel**
    - Community and staff advisors to the Board
  - **Meeting attendance**
    - Make meetings a priority
    - Meetings will be held to agenda schedule
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# Ground Rules

## ■ Consultant contact

- Consultant works for, takes direction from EID
- Committee access only at meetings

## ■ Communication

- Direct, open, and honest
  - Share time equally
  - Communications go to GM for distribution
  - Media to Communications Director
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# Ground Rules

- **Decision-making process**
    - Strive for consensus
    - If consensus not reached, majority vote prevails (including staff advisors) and the decision will identify whether the vote was unanimous or majority
    - Minority committee vote welcome to address Board
  - **General Manager facilitates**
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# Genesis of Recommended Principles

- **Panel and consultant**
    - **Principles are the foundation of the study**
    - **Draft principles provided by consultant and General Manager**
    - **Principles were drafted based on the concerns expressed at the August 4 Cost-of-Services Advisory meeting**
    - **Panel discussed the principles**
      - **Adopted 10 unanimously**
      - **Adopted 2 on 7 to 1 votes**
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# Principle 1

- **Establish rates in compliance with all applicable Federal, State, and local laws and regulations.**
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## Principle 2

- **Establish rates that are fair and equitable within the limitations of reasonable and attainable data and the District's administrative systems, personnel, and finances.**
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## Principle 3

- **Attempt to make rates simple to understand for the public and reasonable to administer.**
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# Principle 4

- **Establish stable and predictable rates over time to the extent possible within the District's overall financial plan.**
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# Principle 5

- **Make rates cost based to the extent possible.**
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# Principle 6

- **Set rates to promote efficient customer use.**
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# Principle 8

- **Calculate water, sewer, and recycled water rates independently, without subsidies where practicable.**
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# Principle 9

- **Establish agricultural irrigation rates that recognize agriculture's role in the District's formation and development, the quality of water required to serve these customers, and the level of service provided.**
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# Principle 10

- **Establish recycled water rates that encourage efficient use and recognize the resource benefits of reuse.**
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# Principle 12

- **Consider financial tests, such as debt service coverage, in all District financial planning and rate adjustments.**
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## Principle 7

- **Establish uniform rates within a service class; do not differentiate by area, within a service class, nor by pumped versus gravity water service.**
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# Principle 7

## ■ Policy Statement

- Rates for the District shall be uniform for all customers within a class of service and shall not be differentiated by service area or, in the case of water, by pumped versus gravity-delivered service.
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# Principle 7

## ■ Discussion

- Most commonly used by utilities across the United States
  - Cost differences for service do exist within a customer class of service, but a uniform rate structure has advantages
  - Policymakers may accept some level of inherent inequities to gain the advantages and benefits of uniform rates by class of service
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# Principle 7

## ■ Advantages

- ❑ Perceived by customers as fair and equitable
  - ❑ More cost efficient to administer
  - ❑ Minimizes dramatic differences in rates when areas need costly infrastructure improvements
  - ❑ Helps to eliminate the perception of “two or more Districts” within EID’s service area
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# Principle 7

- **Disadvantages**

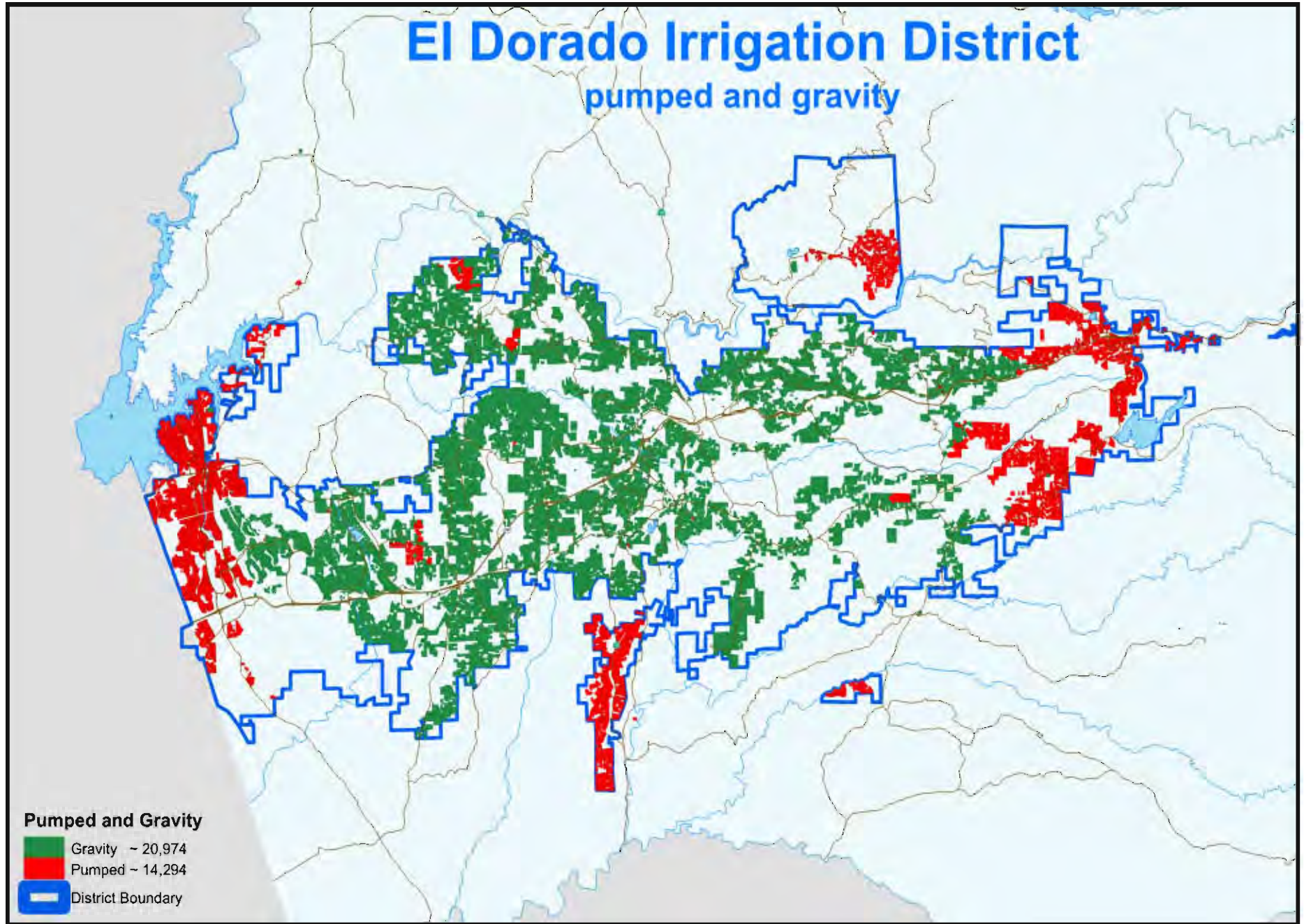
- **Doesn't recognize cost differences in serving different areas of the District**
  - **Customers who believe rates should be defined to the greatest extent possible may object to this principle**
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# El Dorado Irrigation District

pumped and gravity

## Pumped and Gravity

- Gravity ~ 20,974
- Pumped ~ 14,294
- District Boundary



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# System-Wide Costs of Pumped and Gravity-fed Water

**Total water customers**      **Pumped accounts**  
**38,249**                                      **16,851**

	<u>Uniform</u>	<u>Gravity</u>	<u>Pumped</u>
<b>Annual</b>	<b>\$371.84</b>	<b>\$317.16</b>	<b>\$441.26</b>
<b>Bi-monthly</b>	<b>\$ 61.97</b>	<b>\$ 52.86</b>	<b>\$ 73.54</b>

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# Cost to Customers of Temperature Control Device

**Debt of \$40 million      25 years at 6% (interest only)**

**Total water customers      EDH only customers**  
**38,249                              16,851**

## Payments

**Annual              \$62.75**  
**Bi-monthly      \$10.46**

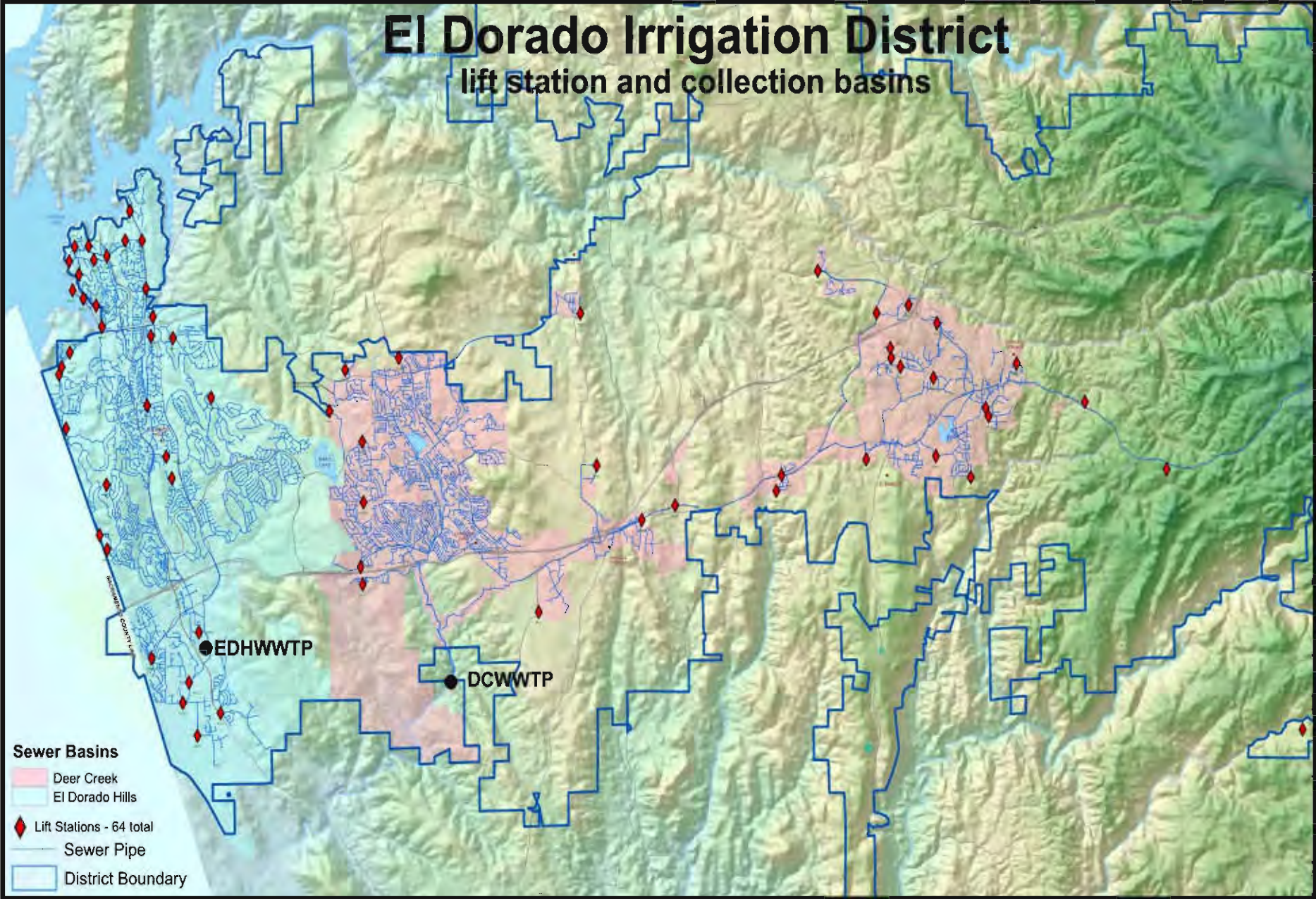
## Payments

**Annual              \$142.42**  
**Bi-monthly      \$ 23.74**

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# El Dorado Irrigation District

lift station and collection basins



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# Wastewater Collections

Allocation of 2010 Operating Budget      \$2.834 million

	<u>Annual/customer</u>	<u>Bi-monthly/customer</u>
<u>Prorated by customers</u>		
All customers	\$137.91	\$22.99
 <u>Prorated by # lift stations</u>		
EDH    34 stations	\$135.94	\$22.66
DC     30 stations	\$140.22	\$23.37
 <u>Prorated by miles of pipe</u>		
EDH    220.2 miles	\$132.05	\$22.01
DC     206.5 miles	\$144.76	\$24.13

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## Allocation of 2000-2009 Certificates of Participation, Water and Wastewater

- Total proceeds of new money issues
  - \$283 million

Water utility	\$ 167.8
Wastewater utility	<u>115.2</u>
	\$ 283.0

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# Allocation of 2000-2009 Certificates of Participation, Wastewater Only

- **Wastewater proceeds of COPs**

- \$115.2 million

- **Total wastewater accounts**

- El Dorado Hills      11,075

- Deer Creek              9,474

- Other                      101

**20,650**

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# Wastewater Utility Construction

- **Capital construction 2000-2009**

- **\$138.9 million**

- **Facility construction**

- **El Dorado Hills    \$ 88.8 million    63.93%**

- **Deer Creek                      50.1 million        36.07%**

- \$138.9 million    100.0%**

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# 2010 Allocation of Debt Payments, Wastewater Only

- Allocation of 2010 debt payments **\$7.3 million**

	<u>% per capita cost</u>	<u>Annual /customer</u>	<u>Bi-monthly/customer</u>
<b>Total</b>	<b>100.00%</b>	<b>\$352.03</b>	<b>\$58.67</b>
<b>EDH</b>	<b>63.93%</b>	<b>\$419.65</b>	<b>\$69.94</b>
<b>DC</b>	<b>36.07%</b>	<b>\$276.74</b>	<b>\$46.12</b>

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# 2011 Allocation of Debt Payments, Wastewater Only

- Allocation of 2011 debt payments      \$9.8 million

<u>% per capita cost</u>	<u>Annual /customer</u>	<u>Bimonthly/customer</u>
<b>Total 100.00%</b>	<b>\$475.47</b>	<b>\$79.25</b>
<b>EDH 63.93%</b>	<b>\$566.80</b>	<b>\$94.47</b>
<b>DC 36.07%</b>	<b>\$373.78</b>	<b>\$62.29</b>

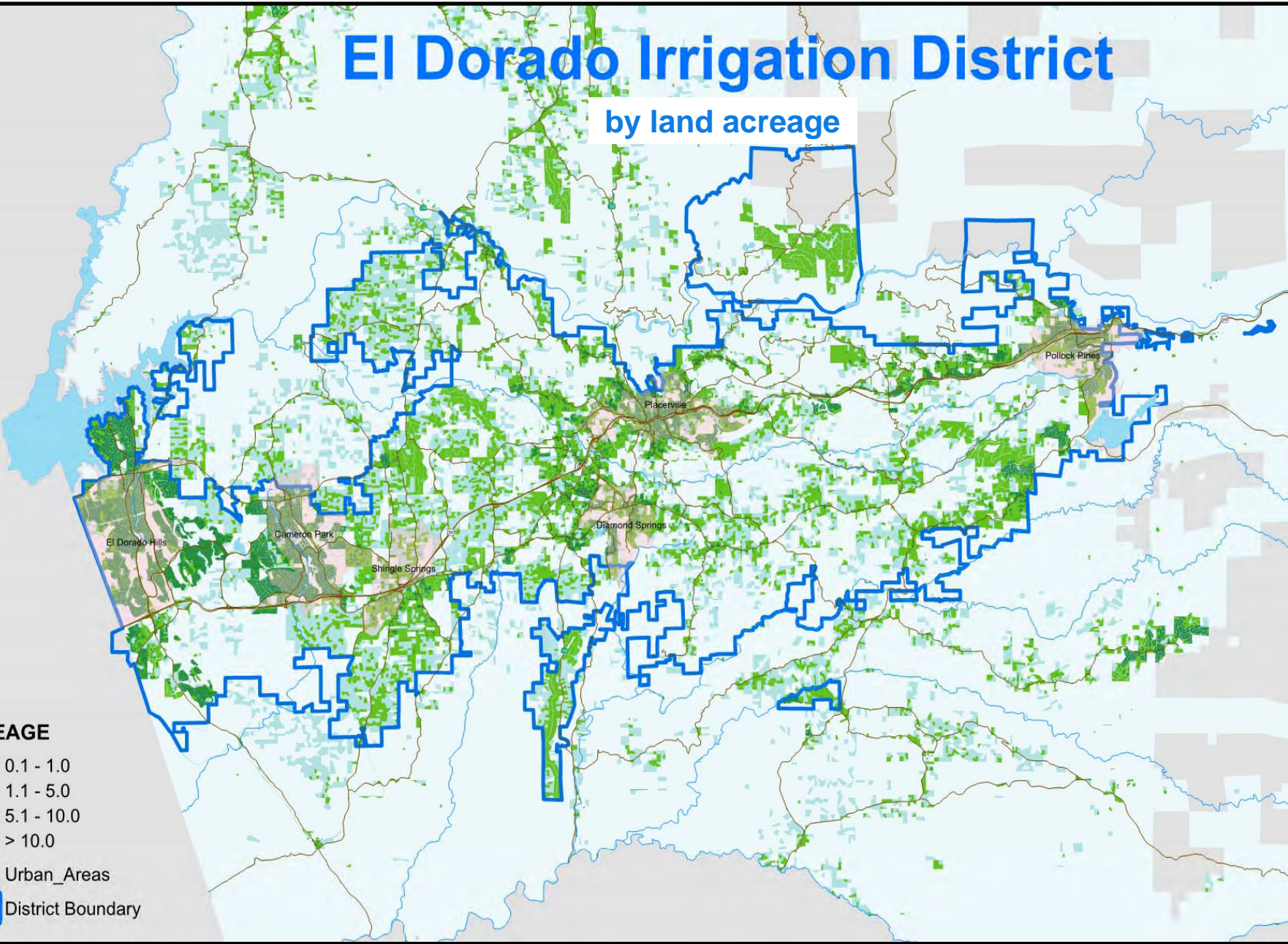
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# El Dorado Irrigation District

by land acreage

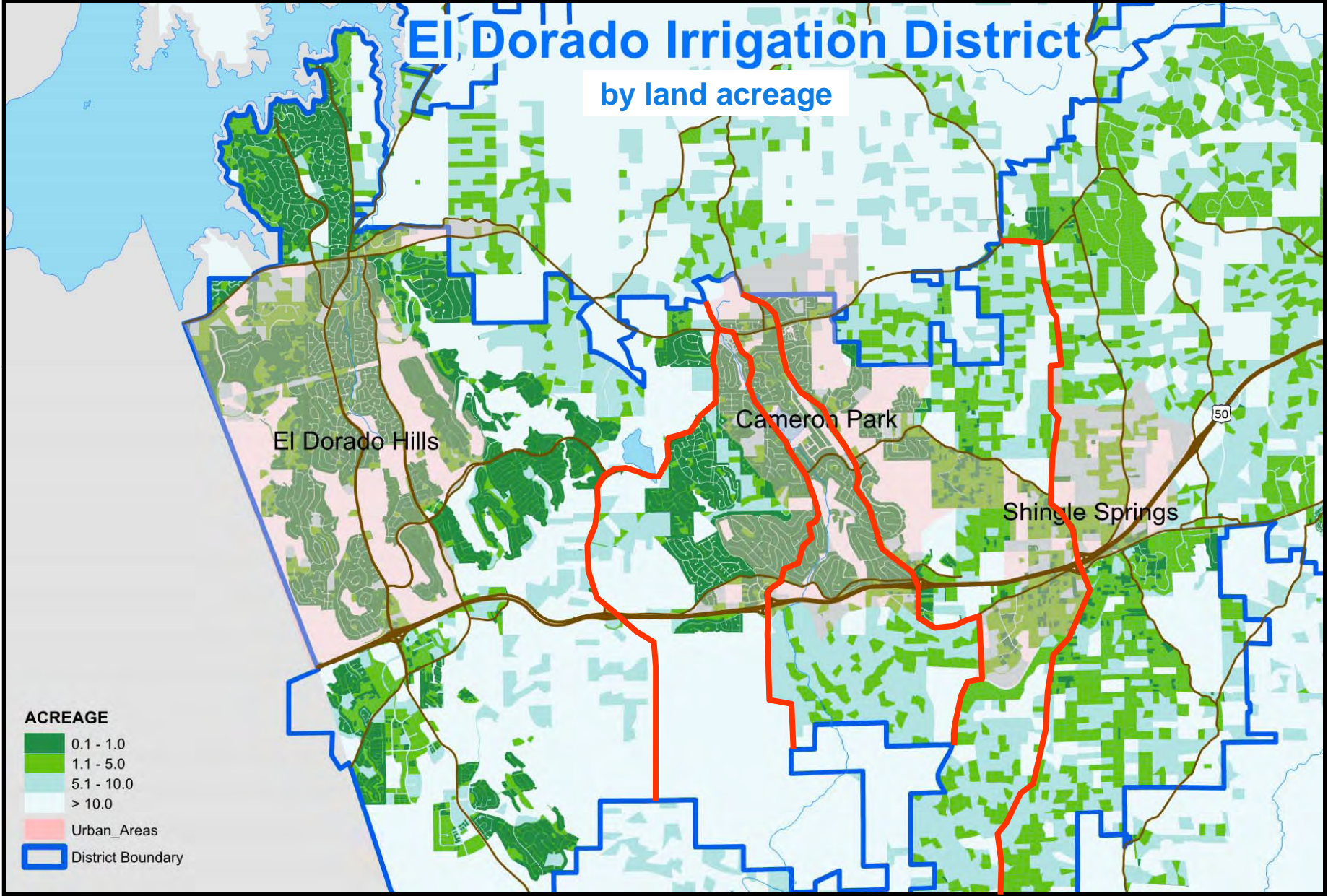
**ACREAGE**

- 0.1 - 1.0
- 1.1 - 5.0
- 5.1 - 10.0
- > 10.0
- Urban\_Areas
- District Boundary



# El Dorado Irrigation District

by land acreage



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# Principle 11

- **Allocate property tax revenues reasonably among commodities.**
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# Principle 11

## ■ Policy Statement

- **Allocate all property tax revenues received to support EID operations across the board. In this way the tax income will support all program efforts in direct proportion to the total District program needs. The specific allocation will be decided during the budget process and final adjustment made at the audit review and approval.**
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# Principle 11

## ■ Discussion

- ❑ District reasonably allocates property tax revenue between water and wastewater commodities based on the number of accounts
  - ❑ District maintains a degree of flexibility to meet broad financial objectives.
  - ❑ District has used tax revenue to ensure each enterprise fund meets financial goals and debt coverage tests
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# Principle 11

- **Advantages**

- **Benefits customers by helping each enterprise fund meet debt coverage tests, thus minimizing**
  - **Debt service costs**
  - **Rate volatility**



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# Principle 11

- **Disadvantages**
    - **Does not mathematically allocate tax revenues to enterprise funds based on**
      - **Dollars paid by taxpayers**
      - **Number and type of services provided to each taxpayer**
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# Property Tax Information

**2010 budgeted property tax collections \$10.429 million**

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b># Accounts</b>	<b>38,249 (64.9%)</b>	<b>20,650 (35.1%)</b>	<b>58,899 (100.0%)</b>
<b>Property tax budget</b>	<b>\$6.329 (60.7%)</b>	<b>\$4.100 (39.3%)</b>	<b>\$10.429 (100.0%)</b>

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# Board Options

- **Option 1. Adopt Board policies to guide rate-setting, as recommended by the 2010 Cost-of-Services Study Advisory Panel.**
  - **Option 2. Take other action.**
  - **Option 3. Take no action.**
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# **Recommendation of Staff/ General Manager/ Cost-of-Services Study Advisory Panel**

- **Option 1**
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Questions?

