

A dynamic background image of water splashing, with blue and white tones, creating a sense of movement and freshness. The water is captured in mid-air, with many small droplets and larger splashes, set against a light blue background.

Draft 2024 Water Cost of Service Study

DSRSD Board of Directors Meeting

February 6, 2024



**Dublin San Ramon
Services District**

Water, wastewater, recycled water

Outline

- » **Background**
- » **Draft Study methodology and results**
- » **Proposed retail rates**
- » **Proposed wholesale pass through rates**
 - Zone 7 Cost of Water
 - Dougherty Valley Incremental State Water Project Charge
- » **Recommended Board action**
 - Set public hearing for April 16, 2024 and authorize Proposition 218 notice
- » **Next Steps**



Background

» Policy Issues

- Zone 7 Wholesale Rate Structure
- DSRSD Retail Rate Structure

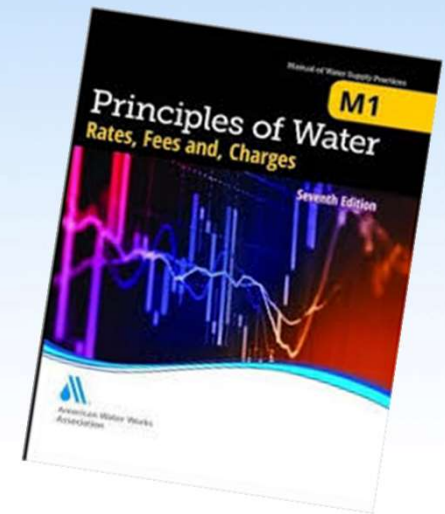
» December 19, 2023 Board Direction:

- Establish separate fixed and variable Zone 7 wholesale charges
- Continue retail fixed and variable revenue ratio 20% fixed/80% variable
- Use of Water Rate Stabilization Fund (reserves)



Overview

- » **Develop an analysis to financially sustain water operating and capital needs**
- » **Calculate proposed rates for the next five-years**
 - Reflect prudent financial planning criteria
- » **Use generally accepted methodologies**
 - Reflect the District's unique system and customer characteristics
- » **Meet the intent and requirements outlined in Proposition 218**
 - Develop proportional and cost-based rates
 - Provide administrative record



Proposition 218 – Setting Cost-Based Rates

» California Constitutional amendment

- Designed to protect taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent

» Not prescriptive in defining a “cost-based” rate

» Proposition 218 requires:

- Fees shall not exceed the **reasonable cost** of providing the service
- Fees shall not exceed the **proportional cost** of providing the service

» Cost of service analysis results (unit costs) are the foundation of the proposed rates

- Nexus between cost to provide service (expenses) and rates (fixed and variable) charged to customers (revenues)



Summary of the Rate Study Analysis

Revenue Requirement

Compares the revenue of the utility to the expenses to evaluate the level of overall rates



Cost of Service

Proportionally distributes the revenue requirement between the customer classes of service (rate schedules)



Rate Design

Design rates for each class of service to meet the revenue needs of the utility, cost of service, and rate design goals and objectives

Overview of the Revenue Requirement

Compares utility revenues to expenses

- Determines if revenue (rate) adjustments are necessary

Uses prudent financial planning criteria

- Adequate funding of renewal and replacements
- Maintaining sufficient ending reserve balances

Reviews a specific time period

- Typically a five-to-ten-year period
- Rates are established for a five-year period

Utility is analyzed on a “stand-alone basis”

- No transfer of funds from other District funds
- Rates need to support operations and capital

Utilizes the “cash basis” methodology

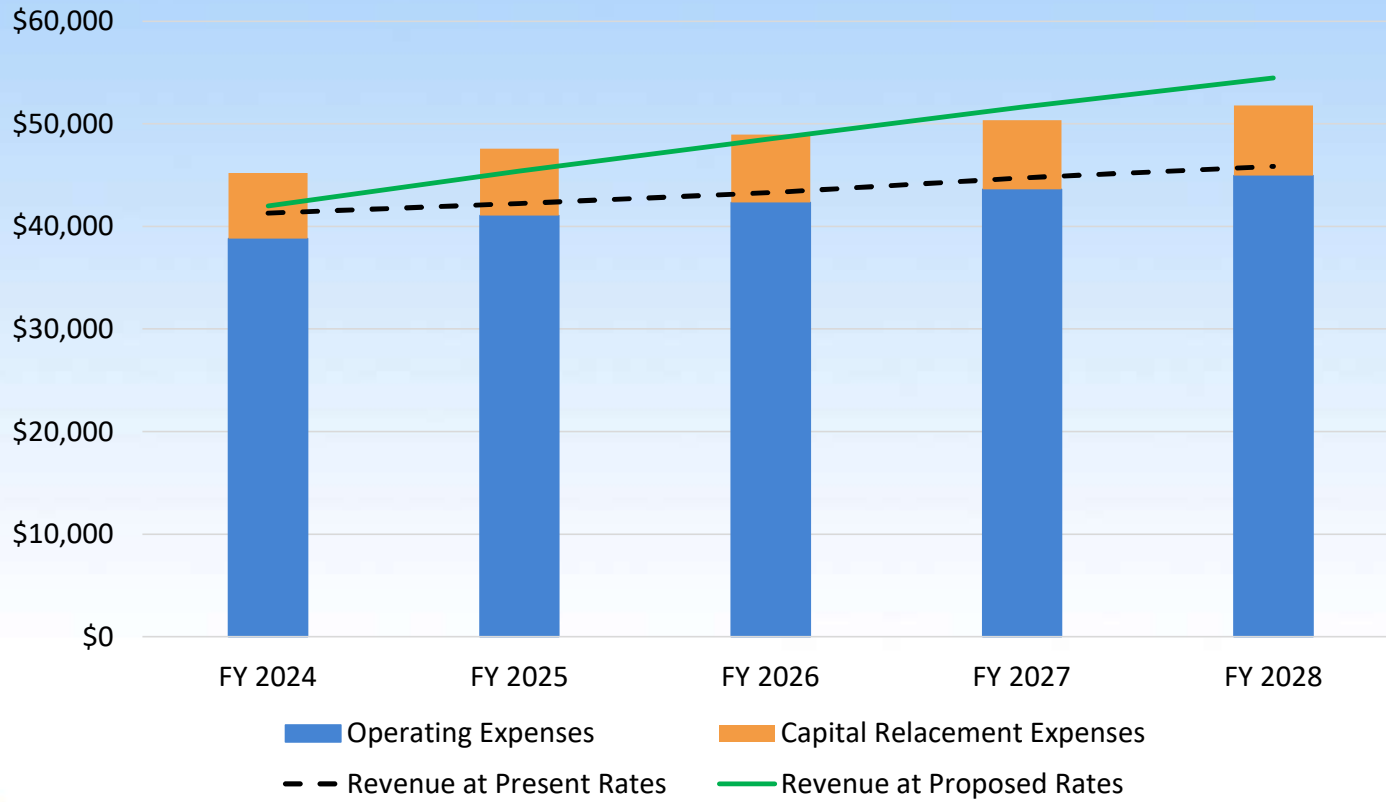
- Generally accepted method for municipal utilities

Overview of the Revenue Requirement

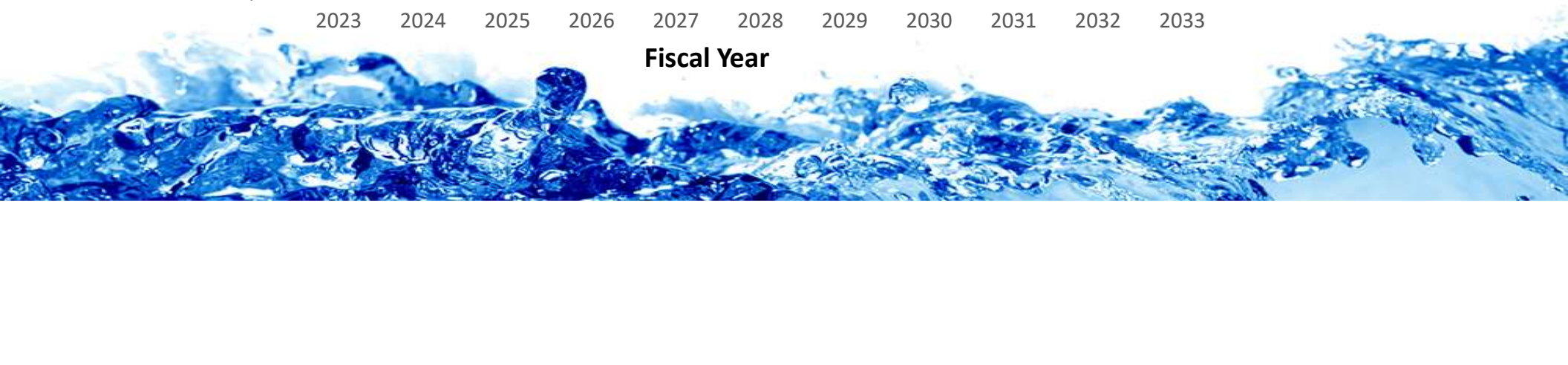
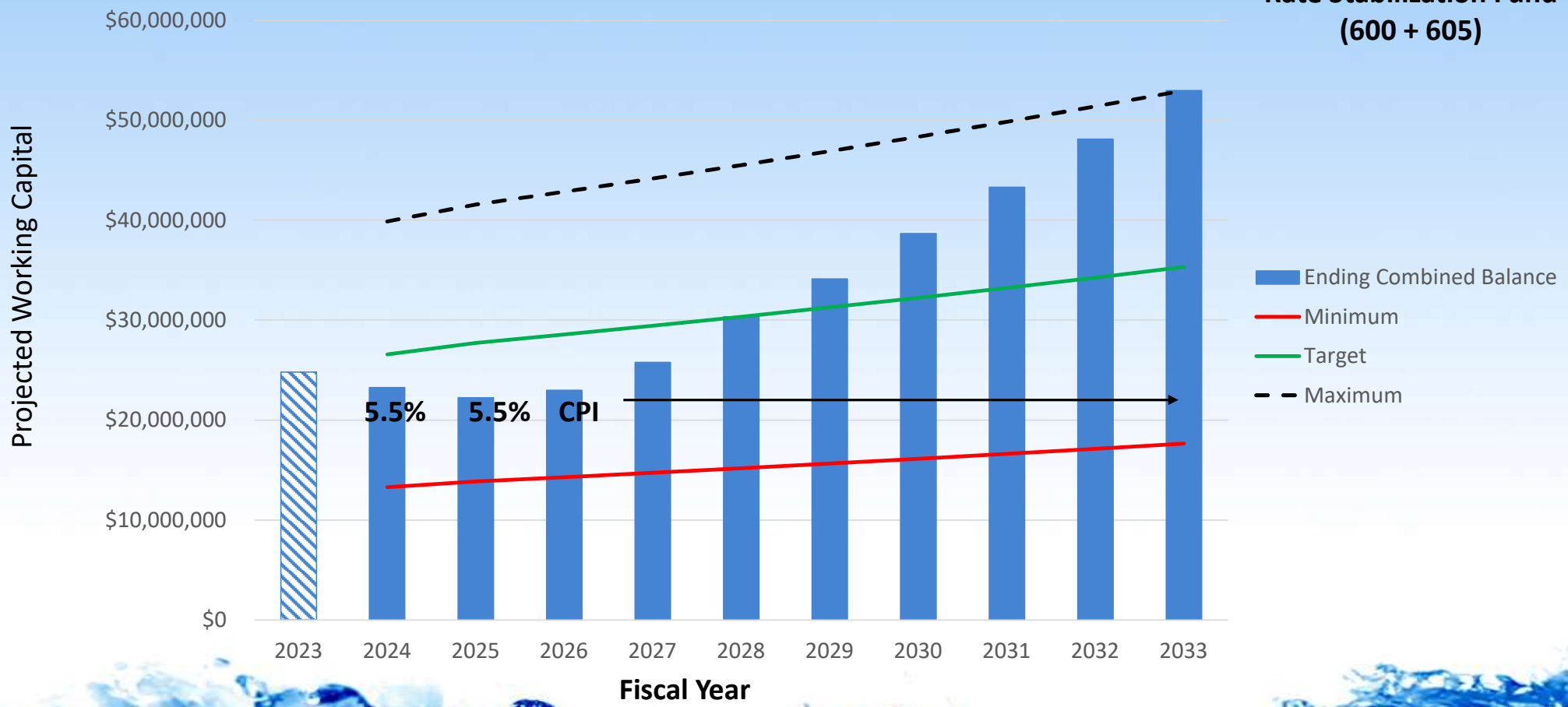
- » **Revenue projections based on current rates and customer characteristics**
 - Number of customers and metered consumption
 - Customer growth
- » **O&M expenses based on Adopted FY 2024 and FY 2025 Operating Budget**
 - Projected through FY 2033 based on historical inflationary levels
 - Additional UAL payment is only expense included above budgeted levels
- » **Capital funding through transfers to the replacement fund**



Revenue Requirement (\$000's)



Combined Enterprise & Rate Stabilization Fund (600 + 605)



Cost of Service - Key Assumptions

- » **Industry standard approaches (i.e., AWWA M1 Manual)**
 - Reflects DSRSD's specific system and customer characteristics
- » **Proportionally distributes costs (revenue requirement) to the customer classes of service**
 - Residential/commercial, irrigation, recycled water
- » **Results in average unit costs by rate component**
 - Fixed charge
 - Consumption charge (residential/commercial)
 - Zone 7 charge
 - Recycled water charge



Cost of Service - Results

Cost differences exist (customer class and rate component)

Proposed FY 2024 rate adjustment includes revenue adjustments *and* rebalancing

Proposed FY 2025 – FY 2028 rate adjustments reflect annual revenue adjustments



Overview of Rate Design

Reflect findings of the revenue requirement and cost of service analyses

Meet the rate design goals and objectives of the District

Produce sufficient revenues to meet target revenues

Design rates which are cost-based and proportional

Current and Proposed Retail Rates

Consumption Rates (\$/CCF)	Current	Effective 5/1/2024	Effective 1/1/2025
Residential/Commercial	\$1.45	\$1.59	\$1.67
Potable Irrigation	1.86	2.02	2.13
Recycled Water	4.45	5.23	5.51
Power	0.29	0.43	0.45

Bimonthly Charge by Meter Size	Current	Effective 5/1/2024	Effective 1/1/2025
5/8"	\$39.37	\$40.68	\$42.92
3/4"	54.88	59.62	62.90
1"	85.93	97.50	102.87
1-1/2"	163.53	192.21	202.78
2"	256.67	305.85	322.68
3"	683.51	826.73	872.20
4"	1,172.45	1,423.36	1,501.65
6"	2,491.79	3,033.33	3,200.17
8"	4,354.40	5,306.23	5,598.07
10"	6,527.43	7,957.95	8,395.63

Adjustments for 2026, 2027, and 2028 will be calculated annually based on the August-to-August change in CPI – All Urban Consumers for San Francisco/Oakland/Hayward and take effect January 1 of each year.



Current and Proposed Wholesale Pass Through Rates

Consumption Rates (\$/CCF)	Current	Effective 5/1/2024
Zone 7	\$4.45	\$3.83

Adjustments for 2025, 2026, 2027, and 2028 will be calculated annually based on the actual changes in wholesale rates charged by Zone 7 and take effect January 1 of each year.

Zone 7 Bimonthly Charge by Meter Size	Current	Effective 5/1/2024
5/8"	n/a	\$12.93
3/4"	n/a	19.39
1"	n/a	32.32
1-1/2"	n/a	64.64
2"	n/a	103.42
3"	n/a	281.17
4"	n/a	484.78
6"	n/a	1,034.19
8"	n/a	1,809.84
10"	n/a	2,714.76



Water Shortage Condition Rates

Stage	Water Reduction Goal		Current (Per CCF)	Proposed (Per CCF)
	Current	Revised		
1	10%	10%	\$1.62	\$1.81
2	20%	20%	\$1.83	\$2.11
3	35%	30%	\$2.24	\$2.54
4	50%	40%	\$2.92	\$3.17
5	n/a	50%	n/a	\$4.22
6	n/a	>50%	n/a	\$6.33

» Effective in a declared water shortage emergency **ONLY**

» **Aligns to Water Shortage Contingency Plan**

- Current: 4 stages
- Proposed: 6 stages

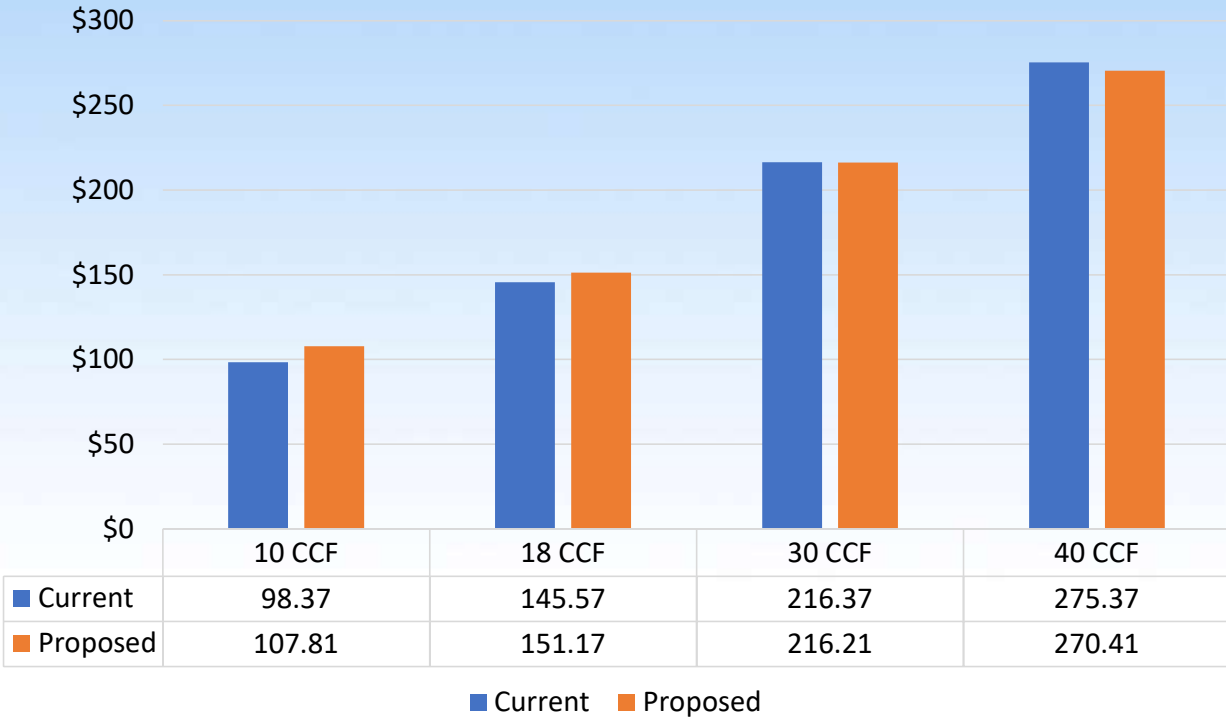
» **Baseline Usage – Residential/Commercial**

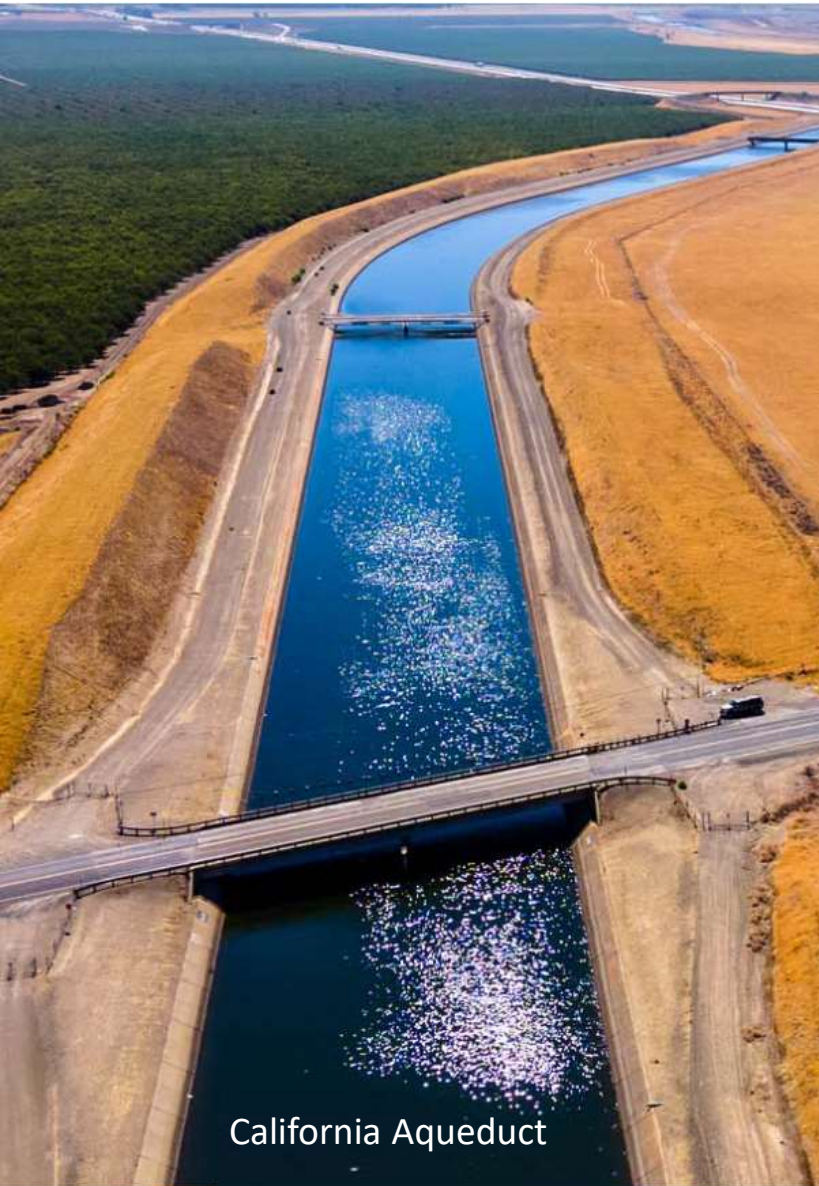
- First 5 CCF/billing period = no change
- Certain water uses are essential
- Recognizes conservation limitations



Total Bimonthly Bill Impacts

Single Family Residential
5/8" Meter





California Aqueduct

Dougherty Valley Incremental State Water Project Charge

» **Zone 7 recovers SWP costs through:**

- Wholesale water charges
- Property taxes

Alameda County
(Dublin)

- Ad valorem

Contra Costa County
(Dougherty Valley)

- Standby District Charge
- SWP Incremental Charge



Dougherty Valley Incremental State Water Project Charge

Bimonthly, \$/dwelling unit equivalent

Current	Proposed (7/1/24)
\$19.51	\$21.61



Lake Oroville, which is part of the State Water Project, provides 90% of your drinking water.



Next Steps

- » **Staff recommends the Board of Directors set a Public Hearing and authorize the Proposition 218 notice**
- » **Public outreach**
- » **Consider adoption of rates on April 16, 2024**
- » **Retail & Zone 7 wholesale pass through rates become effective May 1, 2024**
 - Annual adjustments on January 1 of subsequent years (2025-2028)
- » **Dougherty Valley Incremental SWP Charge becomes effective July 1, 2024**
 - Annual adjustments on July 1 of subsequent years (2025-2028)





Questions?