Water and Wastewater Rate Study

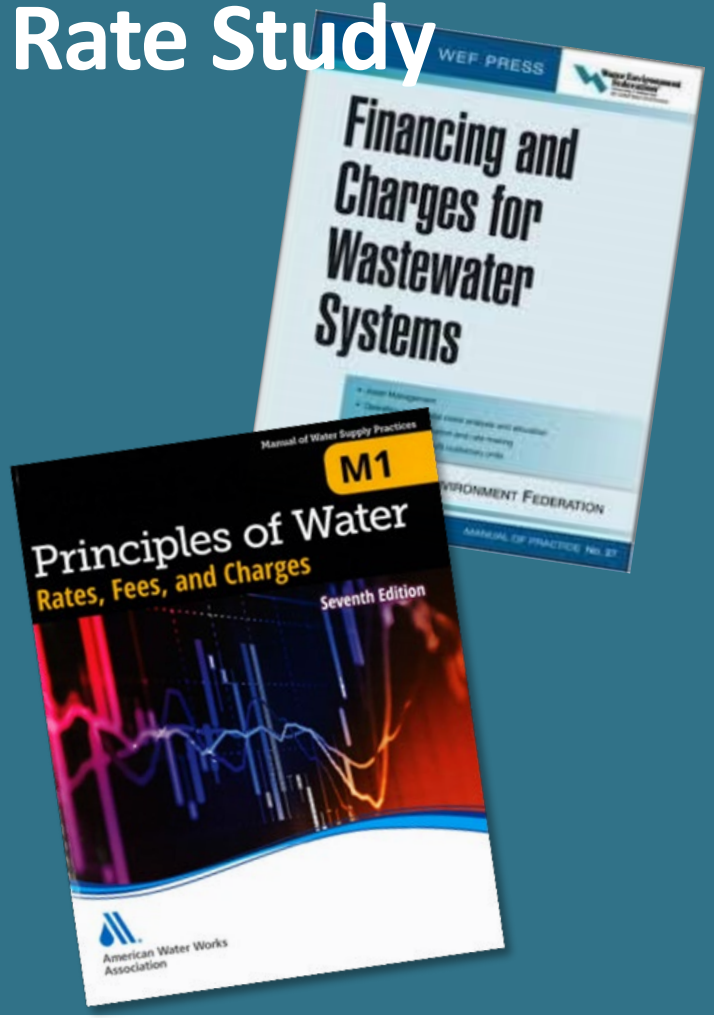
Results and Recommendations

March 14, 2022

SOLVANG

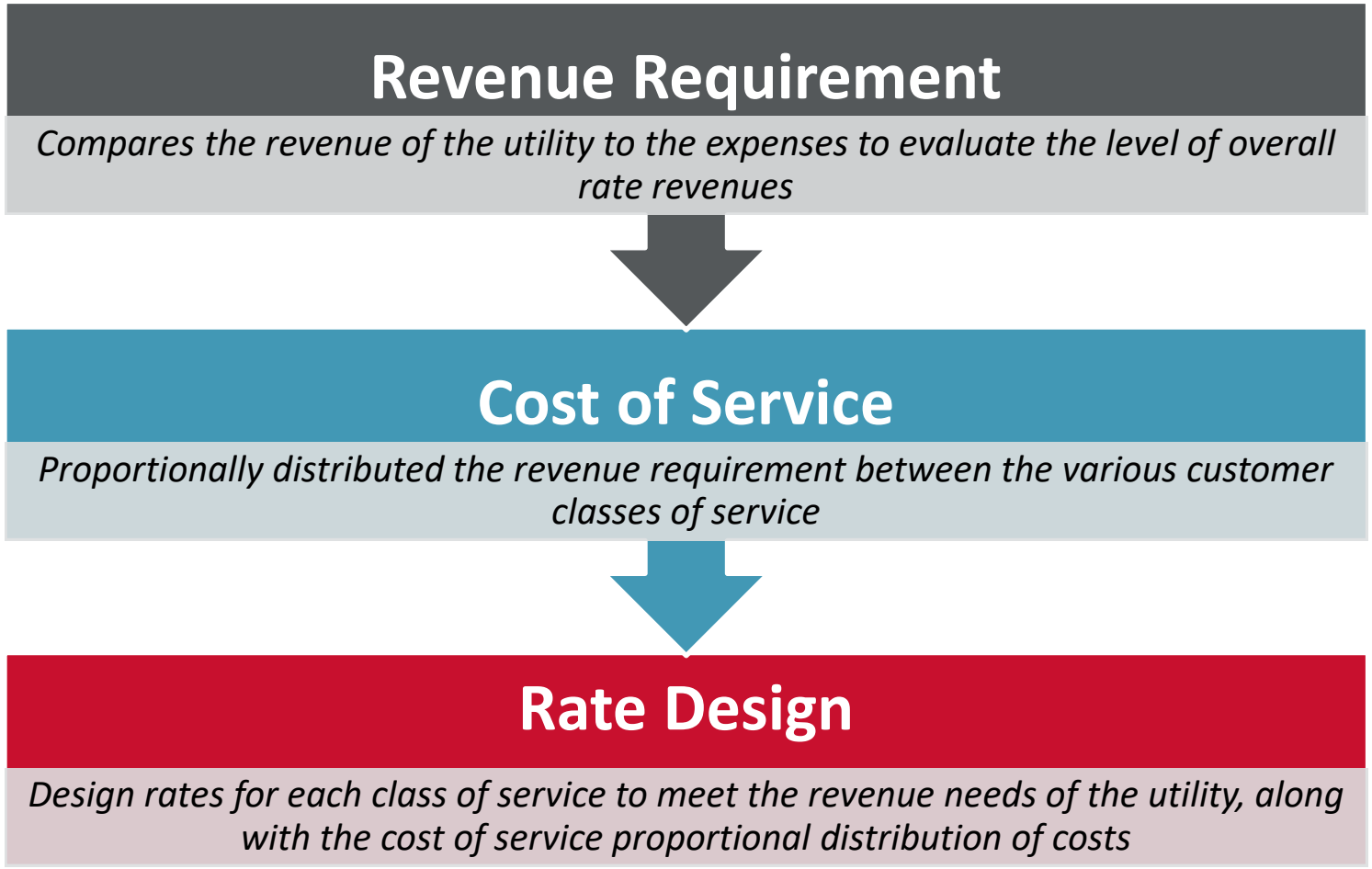
The Danish Capital of America

Purpose of the Rate Study



- Provides sufficient revenue to operate and maintain City's water and wastewater infrastructure
- Develop equitable, proportional, and cost-based water and sewer rates
  - ✓ Meet the requirements of Proposition 218
- Develop the study using generally accepted methodologies
  - ✓ Tailored to the City's systems and customer characteristics
- Reflect prudent financial planning criteria
  - ✓ Adequate rate funding of capital projects
  - ✓ Meet target reserve ending balances
  - ✓ Maintain legally required debt service coverage ratios
- Last water and wastewater rate adjustment was in 2016

Establishing Cost-Based Water and Wastewater Rates



Overview of the Presentation

- Present the final results of the water and wastewater rate study
  - ✓ Revenue requirement results
  - ✓ Cost of service results
  - ✓ Proposed rates
- Discuss feedback from the public presentation of the preliminary recommendations
- Gain Council final input and direction
- Discuss study next steps and schedule

Revenue Requirement Results

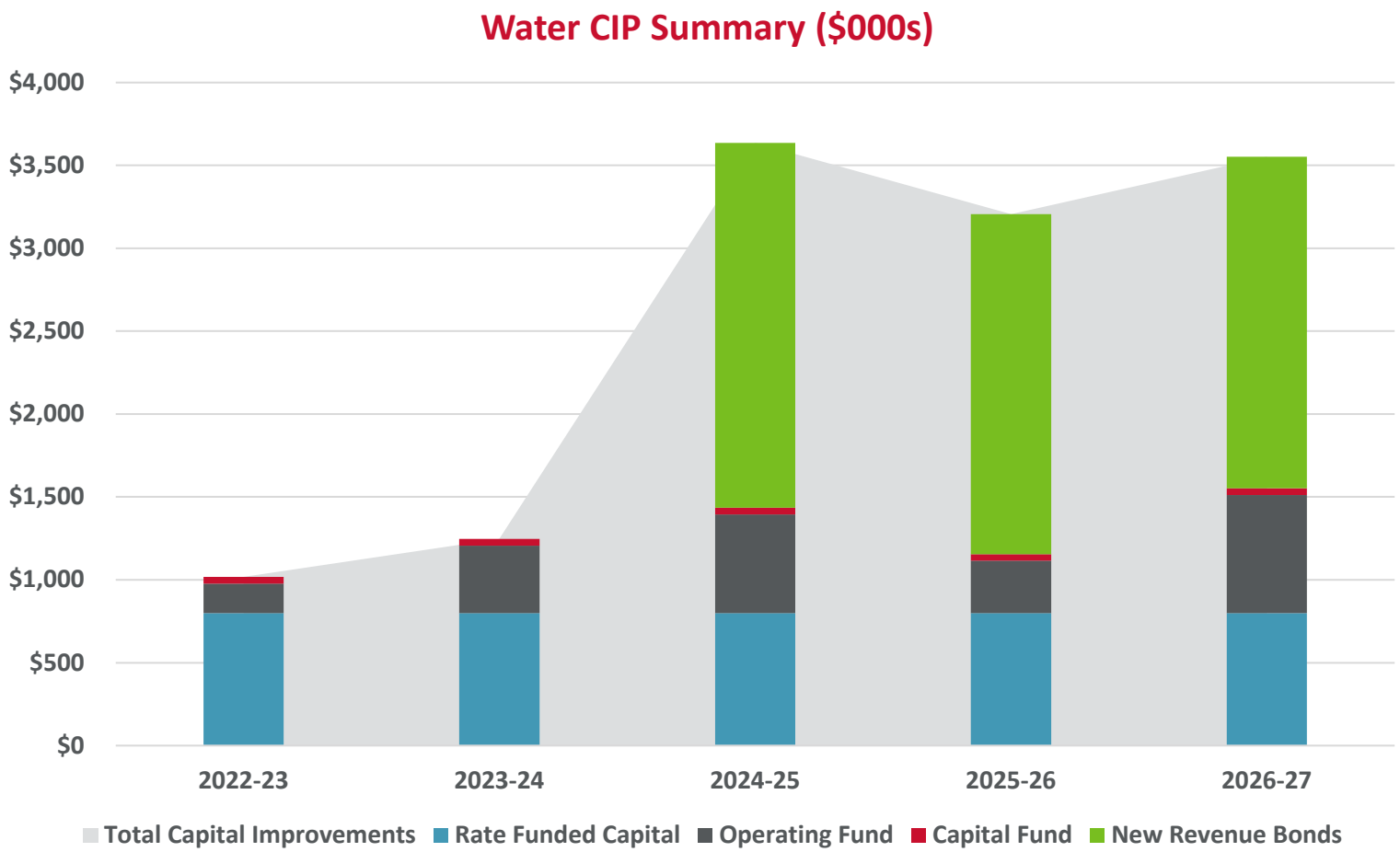
Overview of the Revenue Requirements

Compares utility revenues to expenses	• Determines the level of revenue (rate) adjustment necessary
Uses prudent financial planning criteria	• Maintaining sufficient ending reserve balances • Attaining target debt service coverage (DSC) ratio
Reviews a specific time period	• Five-year rate schedule; ten-year financial plan
Utility is analyzed on a “stand-alone basis”	• No transfer of funds from other City funds • Rates support each utility’s operations and capital
Utilizes the “cash basis” methodology	• Generally accepted method for municipal utilities

Revenue Requirement Key Assumptions

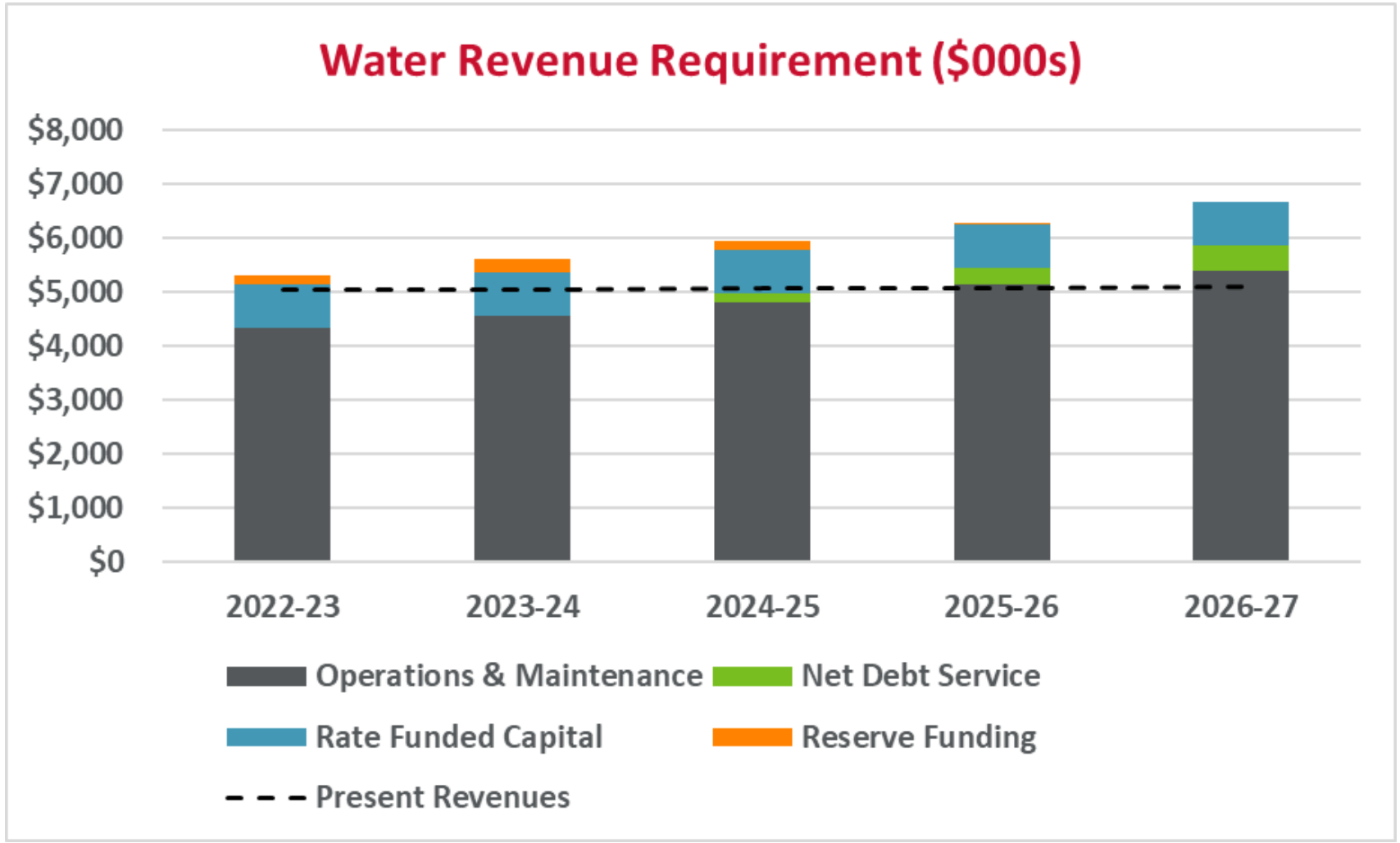
- Developed a projection of water and wastewater rate revenues
  - ✓ Based on current adopted rates and recent customer characteristics
- O&M projections are based on the 2021/22 adopted budget
  - ✓ Projected over the 10-year period using historical inflationary factors
- Capital funding analysis is based on current capital plans
  - ✓ Includes long-term borrowing to fund large capital needs and smooth annual rate impacts
  - ✓ Includes funding from annual rate funded capital to fund annual renewal and replacement needs
  - ✓ Use of available reserves to fund projects as needed
- Meet target financial planning metrics
  - ✓ Target ending reserve levels (operating and capital funds)
  - ✓ Maintain adequate debt service coverage ratios

Water Capital Funding Plan

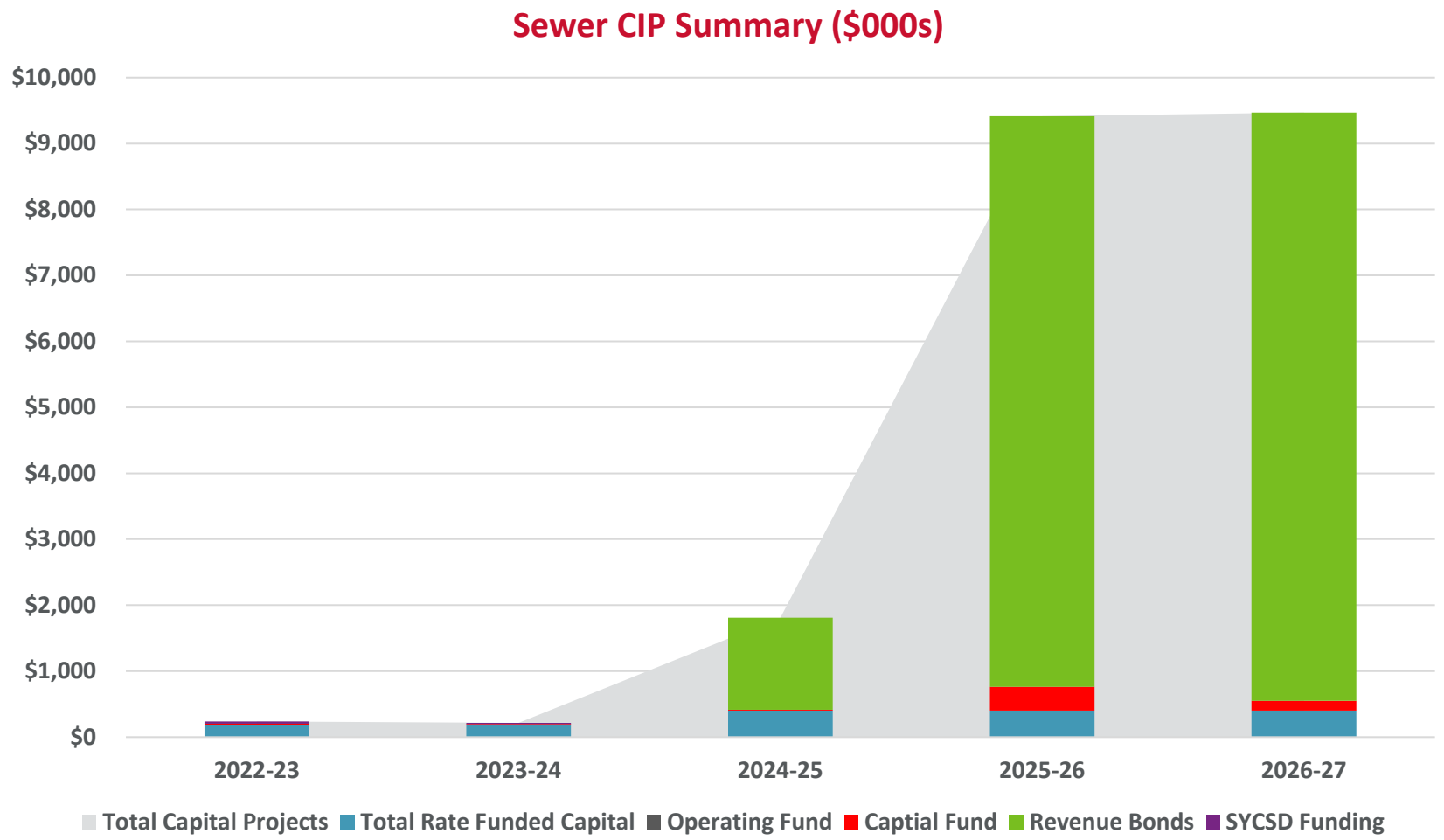


Long-term borrowing for the river wells project and reservoir 1 expansion
Rate funded capital for annual main replacement program

Summary of the Water Revenue Requirement

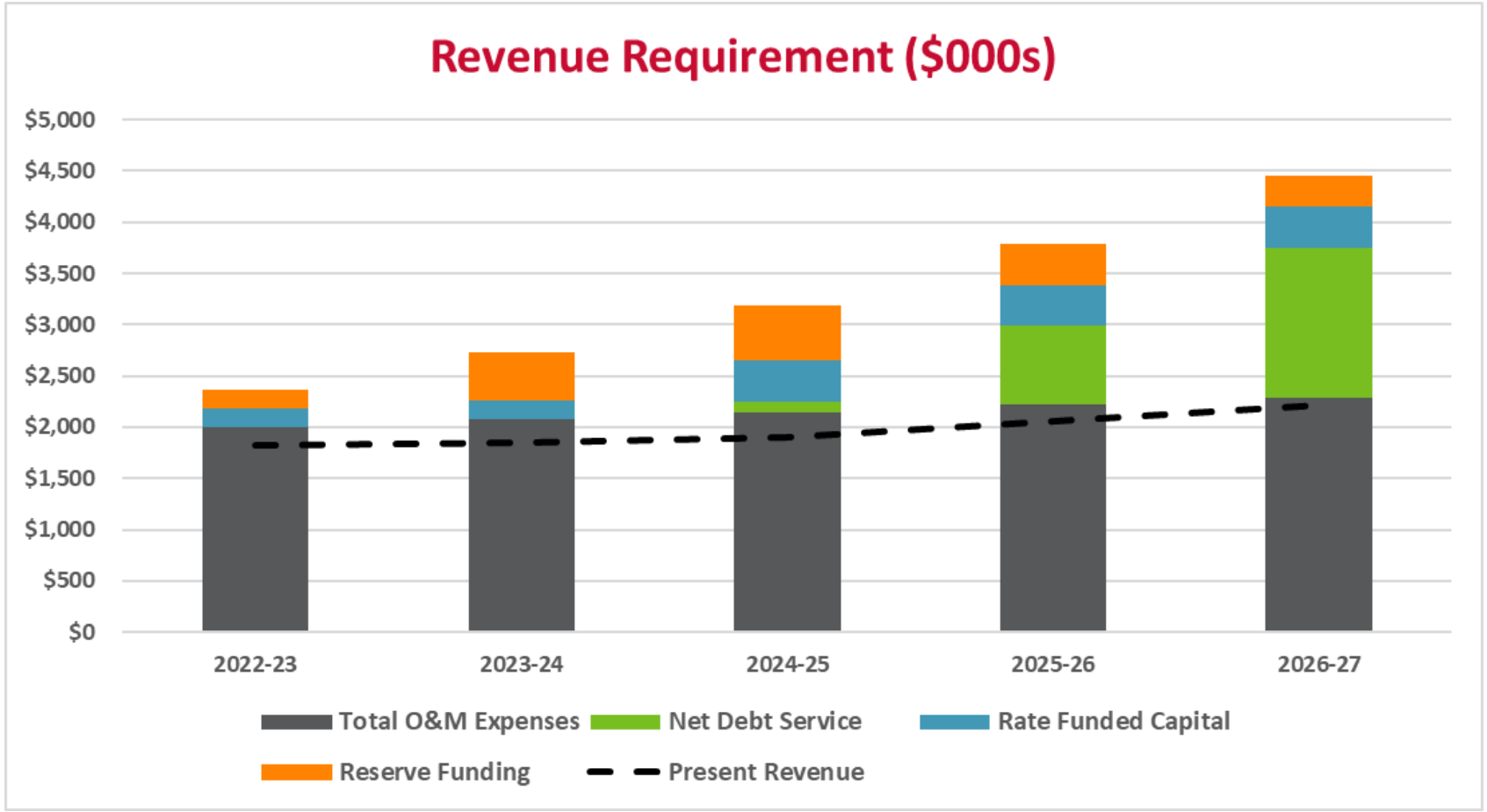


Wastewater Capital Funding Plan



Long-term borrowing for the WWTP Quality Project
Annual rate funded capital for annual main and manhole replacement, etc.

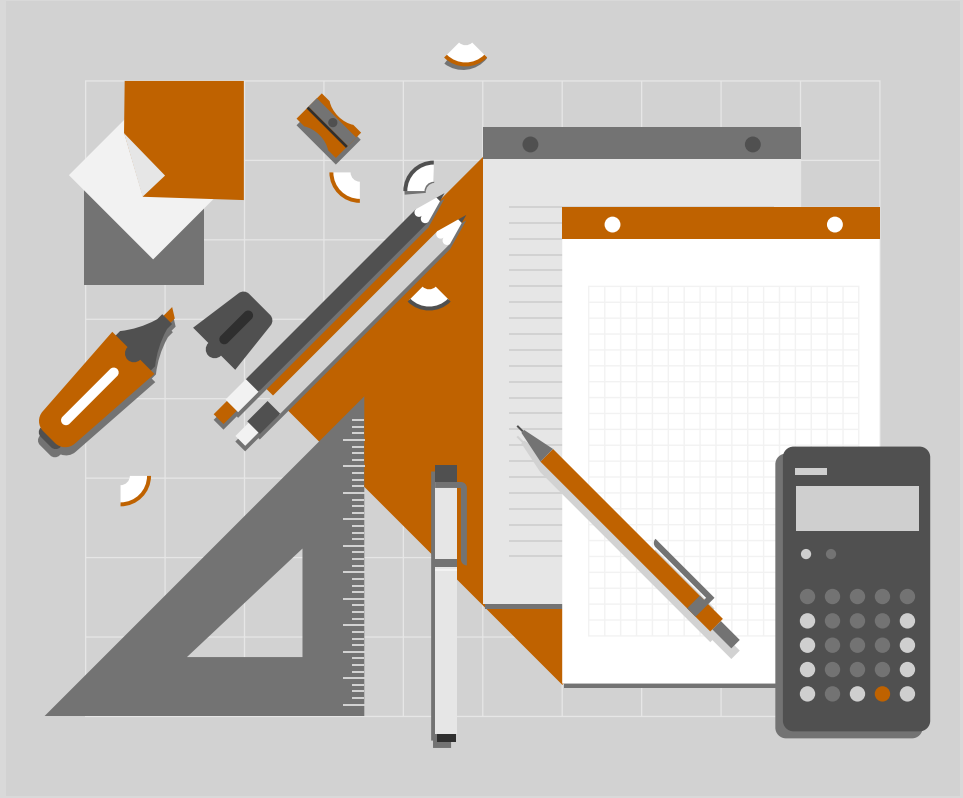
Summary of the Wastewater Revenue Requirement



Summary of the Water and Wastewater Revenue Requirement

- Rate revenue adjustments are necessary
  - ✓ Both water and wastewater utilities
- Adjustments are driven by:
  - ✓ Adequate funding for necessary capital improvements
  - ✓ Inflationary increases in operating expenses
- City is anticipating long-term borrowing for necessary capital improvements
  - ✓ $6.25 million for water in FY 25 – FY 27
  - ✓ $19 million for wastewater in FY 25 - FY 27
- Need to maintain strong financial metrics
  - ✓ Debt service coverage ratios
  - ✓ Prudent reserve fund balances

Cost of Service



Overview of the Cost of Service

What is cost of service?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service

Why cost of service

- Avoids interclass subsidies
- Revenues reflect costs
- Meet the proportionality requirements of Proposition 218

Objectives of Cost of Service

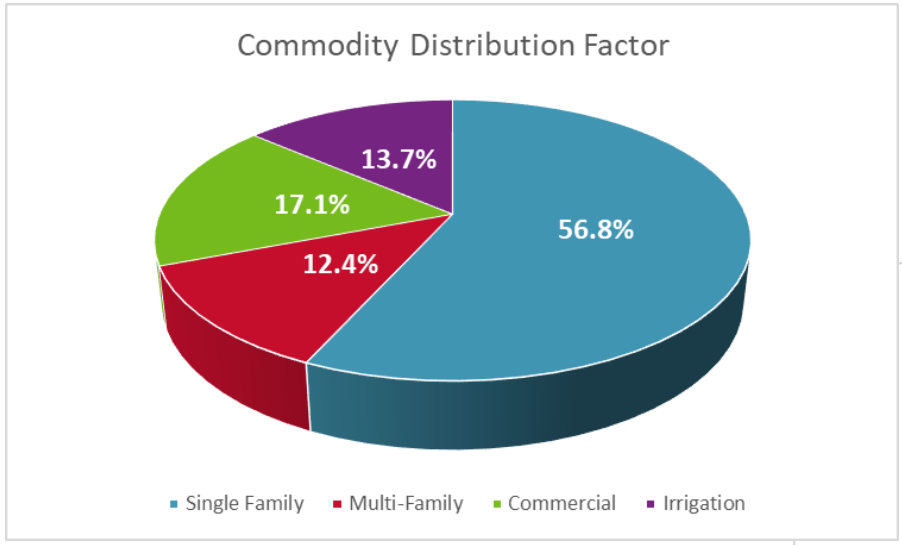
- Determine if subsidies exist
- Develop average unit costs

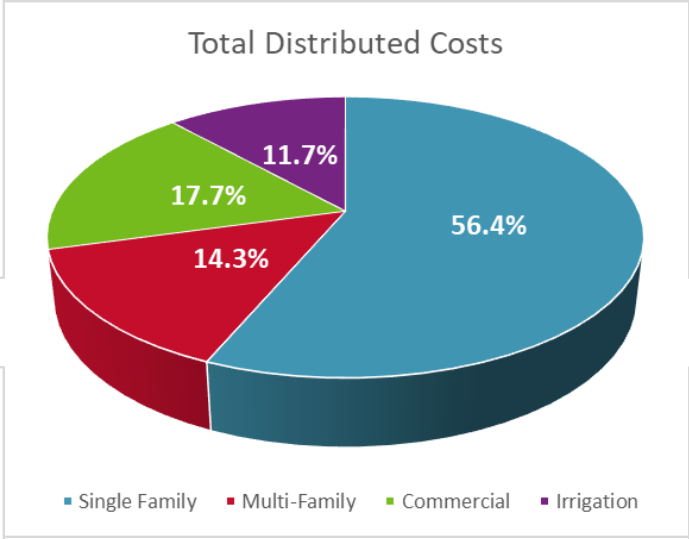
Cost of Service Key Assumptions

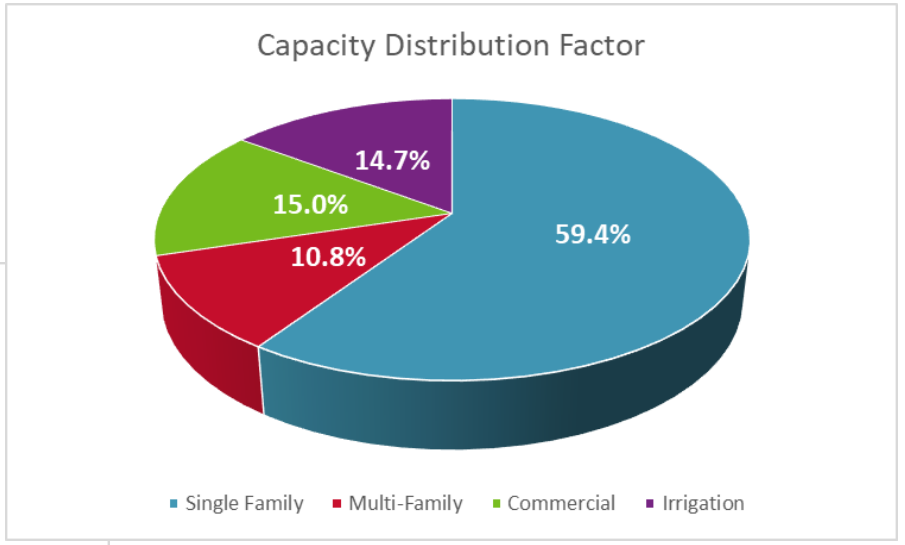
- Water Customer classes
  - Single Family
  - Multi-family
  - Commercial
  - Irrigation
- Primary cost drivers
  - Average consumption
  - Peak consumption
  - Customer (fixed) costs
- Results provide the relationship between current revenues and current costs

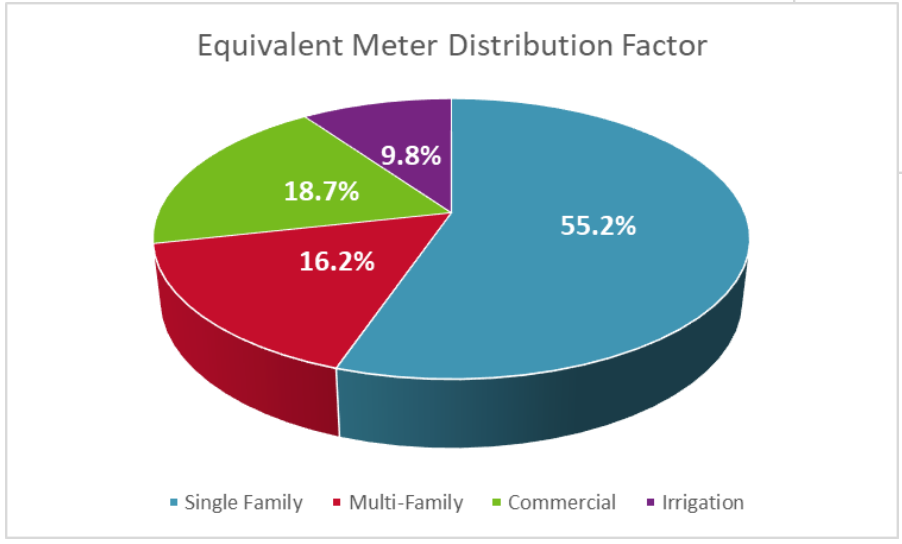
- Wastewater Customer classes
  - Single Family
  - Multi-family
  - Commercial - Low
  - Commercial - High
- Primary cost drivers
  - Total wastewater volumes
  - Strength of wastewater
  - Customer (fixed) costs
- Results provide the relationship between current revenues and current costs

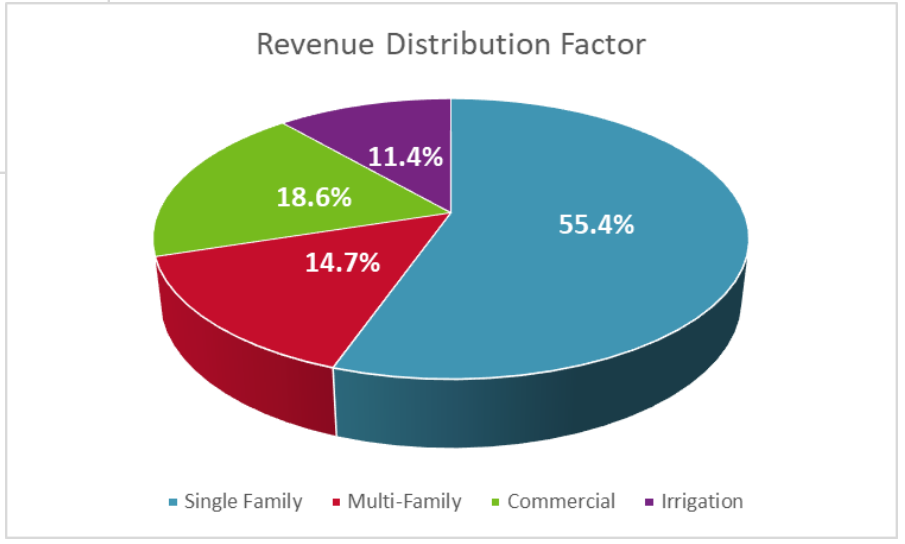
FY 22-23 Water Cost of Service Characteristics



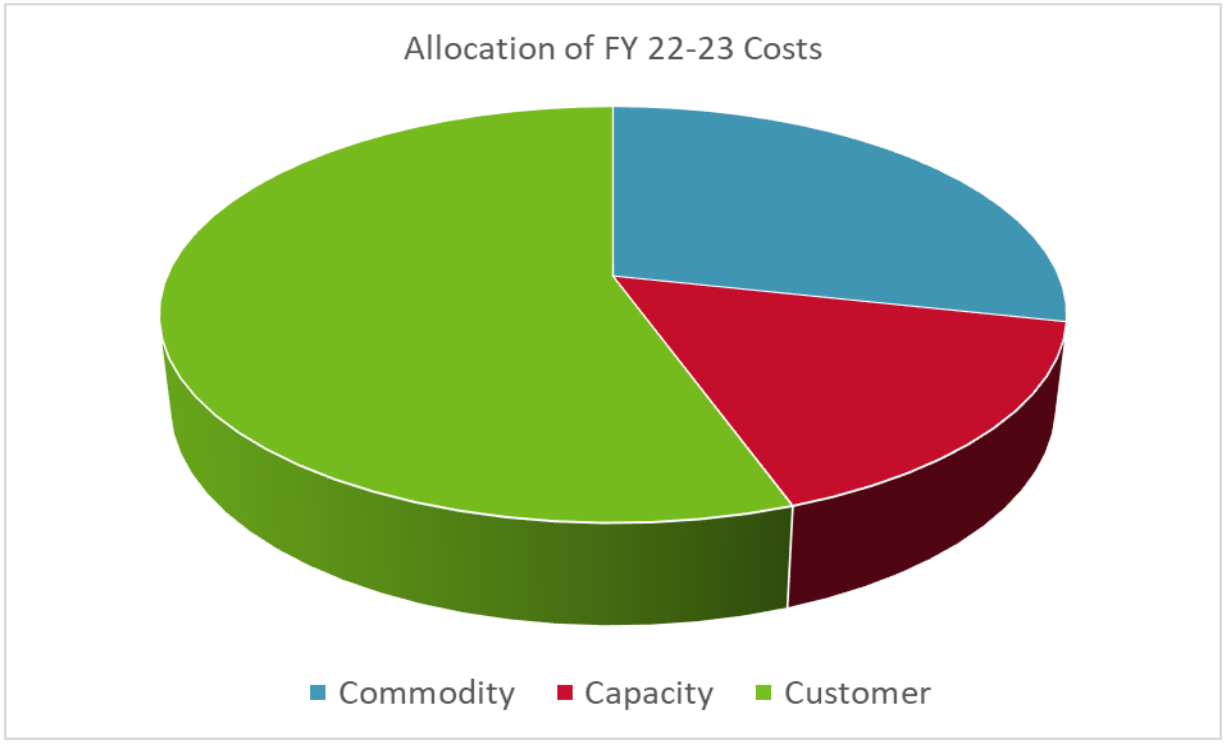


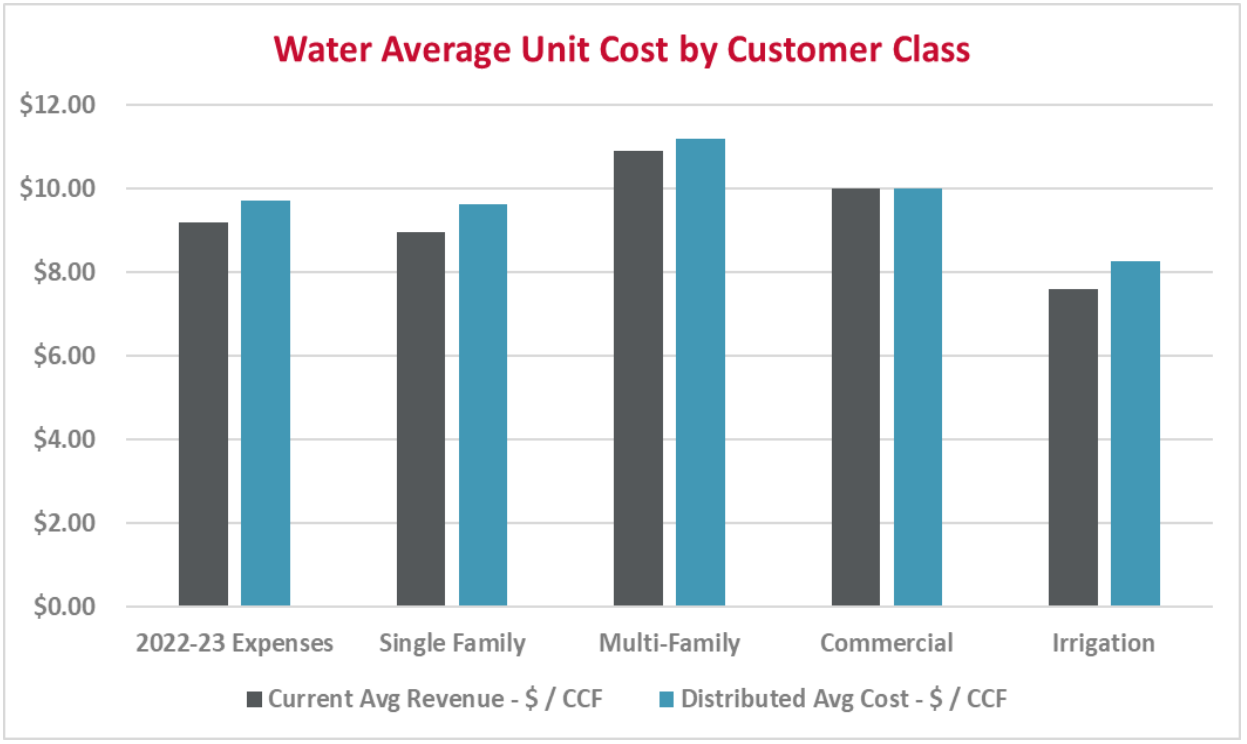






FY 22-23 Water Cost of Service Characteristics (cont'd)



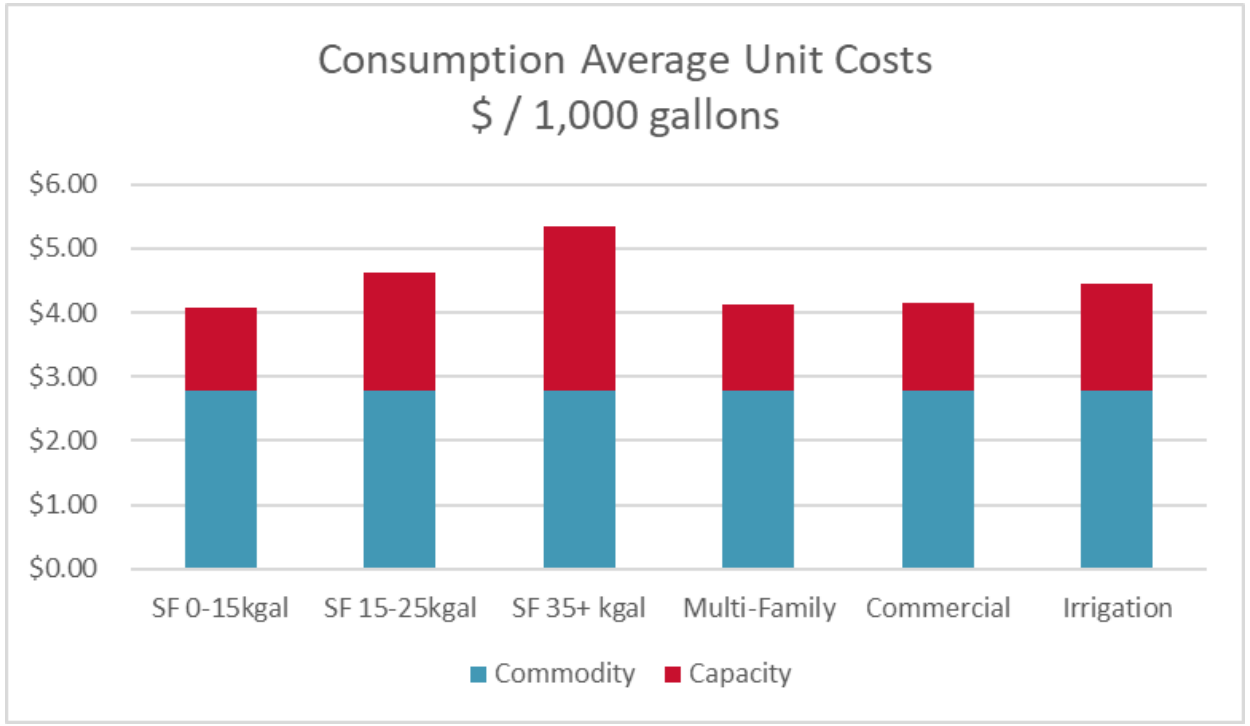


FY 22-23 Water Average Unit Costs

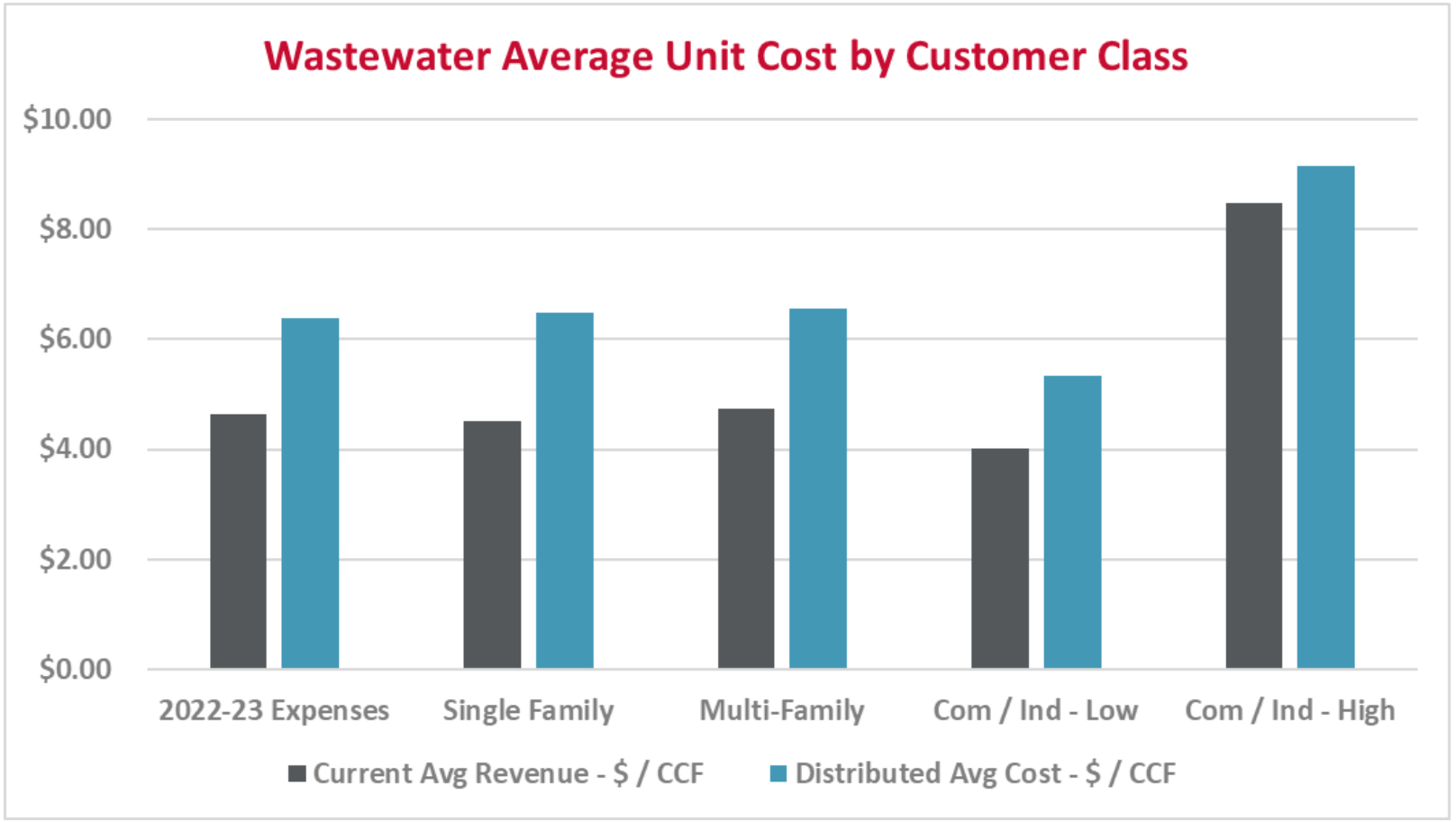
$$\boldsymbol{Fixed\ Charge} = Allocated\ Customer\ Costs \div Total\ Equivalent\ Meters \div 12\ Months$$

$$\$75.08 = \$2{,}892{,}839 \div 3{,}211 \div 12$$

$$\boldsymbol{Consumption\ Charge} = \frac{Commodity\ and\ Capacity\ Costs}{Tier\ or\ Customer\ Class\ Consumption}$$



FY 22-23 Wastewater Cost of Service Summary

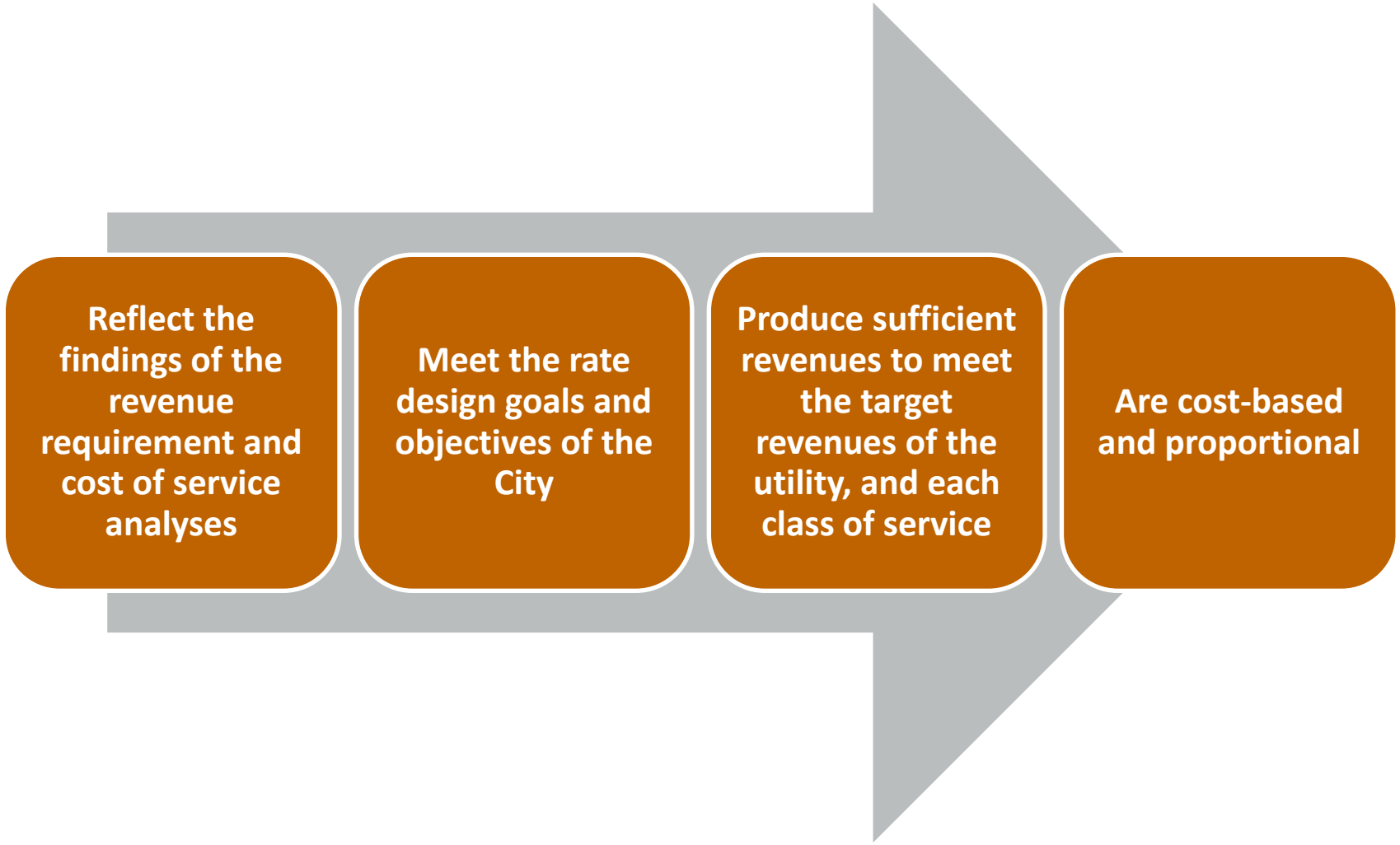


Summary of the Water and Wastewater Cost of Service

- Minor cost differences do exist
  - ✓ Both water and wastewater utilities
- First comprehensive cost of service study in some time
  - ✓ System and customer characteristics change over time
  - ✓ Need to re-evaluate periodically to revise and reflect results
- Recommend proposed water and wastewater rates reflect results of the revenue requirement and cost of service analyses
  - ✓ Meet the intent and requirement of Proposition 218
- First year of proposed rates is a “reset” year
  - ✓ Subsequent years are “across the board” based on the overall revenue needs

Rate Design

Overview of the Rate Design



Current Water Rate Structures

- Fixed Charge
  - All customers - varies by service meter size
- Consumption Charge
  - Single Family – 2-tiered increase blocks
  - All others (multi-family, commercial, irrigation) – uniform rate
  - Evaluating three tier water rate structure for Single Family

	Present Rates
Fixed Charge	
5/8"	$75.43
3/4"	113.15
1"	188.58
1 1/2"	377.17
2"	603.47
3"	1,206.94
4"	1,885.84
6"	3,771.68
8”	6,034.69
Consumption Charge	
Single Family	
0 – 16 ccf	$3.45
16 + ccf	4.05
All Others	$3.75

Proposed Water Rates – Fixed Charge

	Present Rates	Proposed Rates FY 22-23	Proposed Rates FY 23-24	Proposed Rates FY 24-25	Proposed Rates FY 25-26	Proposed Rates FY 26-27
Fixed Charge - $/Month						
5/8"	$75.43	$75.08	$79.21	$83.57	$88.17	$93.02
3/4"	113.15	112.62	118.81	125.34	132.23	139.50
1"	188.58	187.70	198.02	208.91	220.40	232.52
1 1/2"	377.17	375.42	396.07	417.85	440.83	465.08
2"	603.47	600.67	633.71	668.56	705.33	744.12
3"	1,206.94	1,201.34	1,267.41	1,337.12	1,410.66	1,488.25
4"	1,885.84	1,877.09	1,980.33	2,089.25	2,204.16	2,325.39
6"	3,771.68	3,754.18	3,960.66	4,178.50	4,408.32	4,650.78
8”	6,034.69	6,006.69	6,337.06	6,685.60	7,053.31	7,441.24

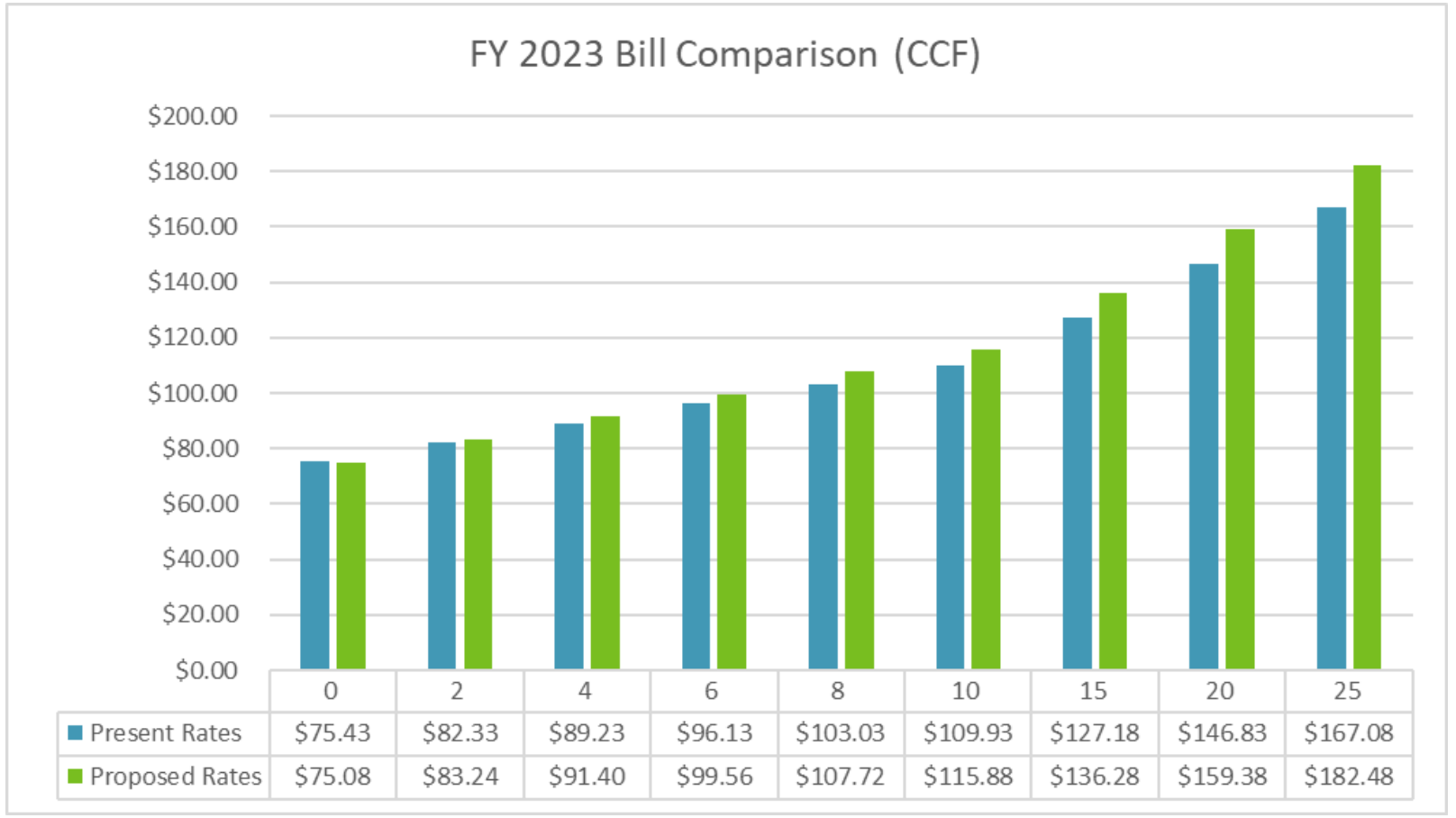
Fixed charges are based on the cost of service unit costs (customer costs ÷ equivalent meters) for FY 22-23

Proposed Water Rates – Consumption Charge

	Present Rates	Proposed Rates FY 22-23	Proposed Rates FY 23-24	Proposed Rates FY 24-25	Proposed Rates FY 25-26	Proposed Rates FY 26-27
Consumption Charge - $/CCF						
Single Family						
0 – 16 ccf	$3.45	---	---	---	---	---
16 + ccf	4.05	---	---	---	---	---
0 – 15 ccf	---	$4.08	$4.30	$4.54	$4.79	$5.05
15 – 35 ccf	---	4.62	4.87	5.14	5.42	5.72
35 + ccf	---	5.35	5.64	5.95	6.28	6.63
Multi-Family – All Consumption	$3.75	$4.13	$4.36	$4.60	$4.85	$5.12
Commercial – All Consumption	3.75	$4.14	$4.37	$4.61	$4.86	$5.13
Irrigation – All Consumption	3.75	$4.45	$4.69	$4.95	$5.22	$5.51

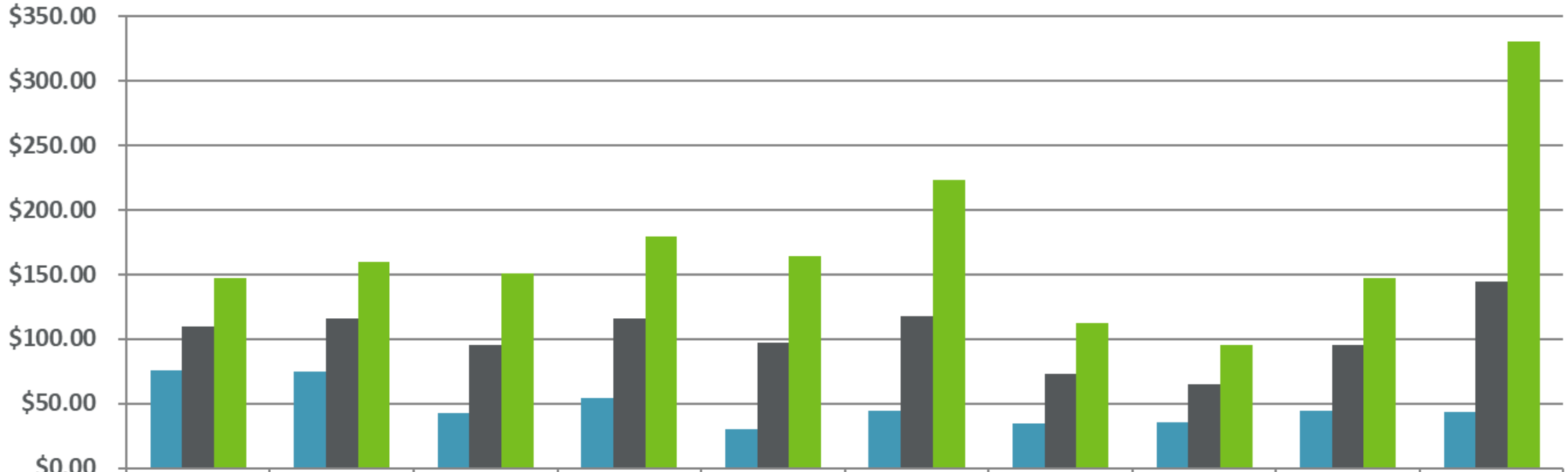
FY 22-23 consumption charges are based on the cost of service unit costs (Avg./Peak costs ÷ consumption by class/tier)

Single Family Water Bill Comparison



	0	2	4	6	8	10	15	20	25
Present Rates	$75.43	$82.33	$89.23	$96.13	$103.03	$109.93	$127.18	$146.83	$167.08
Proposed Rates	$75.08	$83.24	$91.40	$99.56	$107.72	$115.88	$136.28	$159.38	$182.48

Local and Regional Residential Water Bill Comparison



	City of Solvang - Present	City of Solvang - Proposed	City of Santa Maria (2022)	City of Lompoc (2017)	Nipomo CSD (2022)	Goleta (Current)	Los Alamos CSD (2021)	City of Buellton (2018)	Santa Ynez River WCD (2021)	City of Santa Barbara (2021)
@ 0 Units	$75.43	$75.08	$42.52	$54.22	$30.36	$44.14	$34.17	$35.51	$44.19	$43.29
@ 10 Units	$109.93	$115.88	$95.07	$115.52	$97.16	$117.40	$73.17	$65.31	$95.69	$144.39
@ 20 Units	$146.83	$159.38	$150.47	$178.97	$163.96	$223.22	$112.17	$95.11	$147.19	$330.57

Current Wastewater Rate Structure

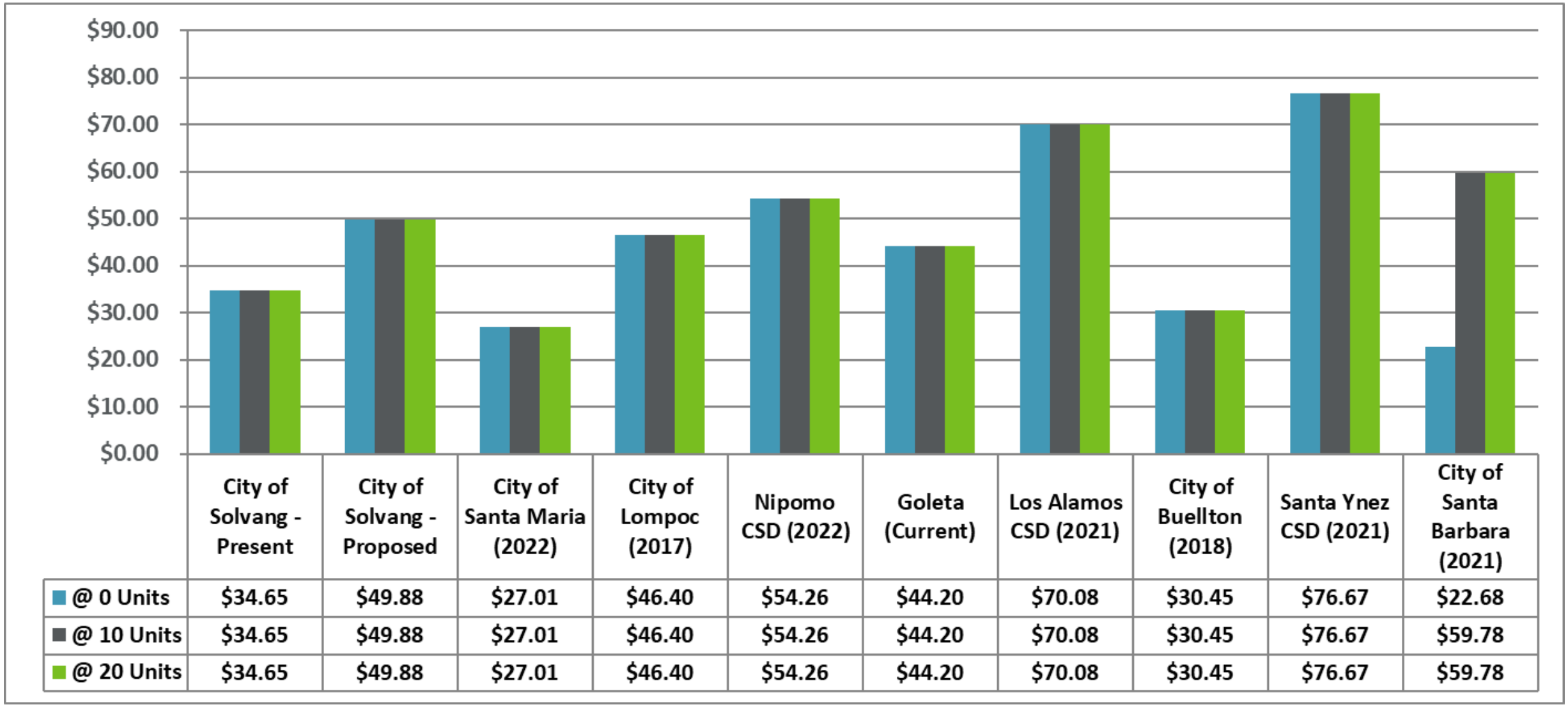
- Fixed Charge
  - All customers – flat rate
- Volumetric Charge
  - Single Family and Multi-Family – none
  - Commercial & Industrial – uniform rate
- Recommend maintaining current rate structure
  - Only the level of the rates will be revised

	Present Rates
Fixed Charge	
All Customers	$34.65
Volumetric Charge	*$ / CCF*
Com & Ind	$2.85
Com & Ind – High	7.42

Proposed Wastewater Rates

	Present Rates	Proposed Rates FY 22-23	Proposed Rates FY 23-24	Proposed Rates FY 24-25	Proposed Rates FY 25-26	Proposed Rates FY 26-27
Fixed Charge - $/Month						
Single Family	$34.65	$49.88	$58.61	$68.87	$79.54	$91.87
Multi-Family	34.65	47.90	56.28	66.13	76.38	88.22
Com & Ind	34.65	39.43	46.33	54.44	62.88	72.63
Com & Ind – High	34.65	42.14	49.51	58.17	67.19	77.60
Volumetric Charge - $/CCF						
Single Family	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Multi-Family	0.00	0.00	0.00	0.00	0.00	0.00
Com & Ind	2.85	4.06	4.77	5.60	6.47	7.47
Com & Ind – High	7.42	7.89	9.27	10.89	12.58	14.53

Local and Regional Residential Sewer Bill Comparison



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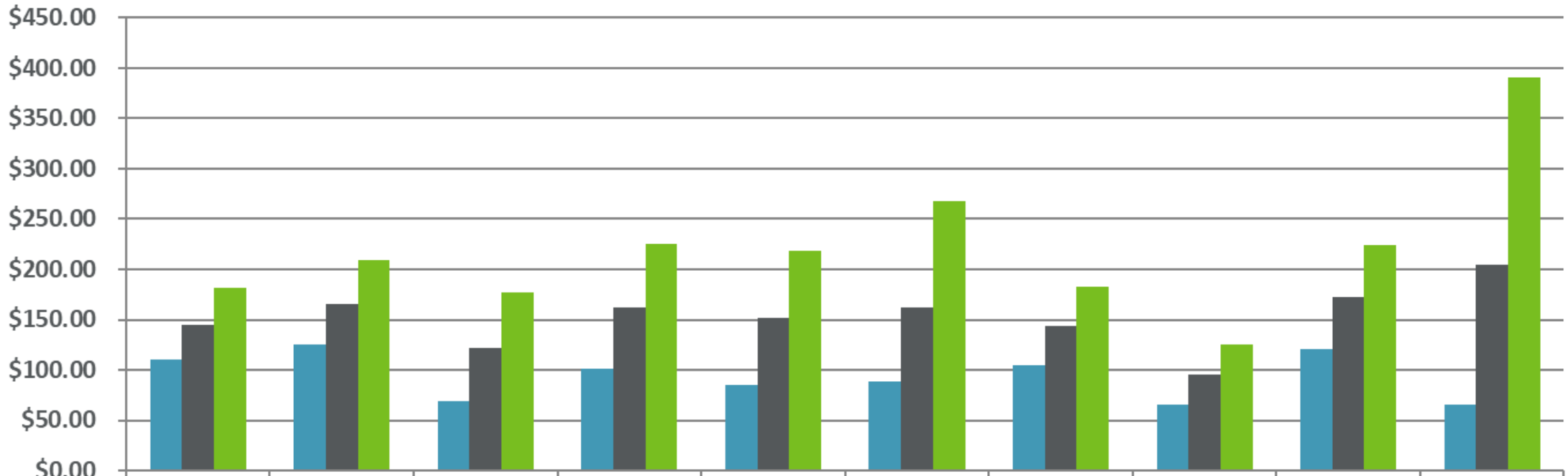
@ 0 Units	$34.65	$49.88	$27.01	$46.40	$54.26	$44.20	$70.08	$30.45	$76.67	$22.68
@ 10 Units	$34.65	$49.88	$27.01	$46.40	$54.26	$44.20	$70.08	$30.45	$76.67	$59.78
@ 20 Units	$34.65	$49.88	$27.01	$46.40	$54.26	$44.20	$70.08	$30.45	$76.67	$59.78

Local and Regional Residential Combined Bill Comparison



	City of Solvang - Present	City of Solvang - Proposed	City of Santa Maria (2022)	City of Lompoc (2017)	Nipomo CSD (2022)	Goleta (Current)	Los Alamos CSD (2021)	City of Buellton (2018)	Santa Ynez WCD/CSD (2021)	City of Santa Barbara (2021)
@ 0 Units	$110.08	$124.96	$69.53	$100.62	$84.62	$88.34	$104.25	$65.96	$120.86	$65.97
@ 10 Units	$144.58	$165.76	$122.08	$161.92	$151.42	$161.60	$143.25	$95.76	$172.36	$204.17
@ 20 Units	$181.48	$209.26	$177.48	$225.37	$218.22	$267.42	$182.25	$125.56	$223.86	$390.35

Next Steps and Schedule

Next Steps

- Gain final feedback and input from the City Council
- Set public hearing for June 13, 2022
- Complete connection charge analysis
- Present findings and proposed rates and charges at Public Hearing

Schedule

- March 2022: Council review final study recommendations and set Prop. 218 hearing
- June 13, 2022:Prop 218 hearing and rate adoption
- July 1, 2022: rate implementation

Questions and Discussion