

MEMORANDUM



To: Shelley Burgett, Manager of Finance, Alameda County Water District

From: Sanjay Gaur, Vice President / Khanh Phan, Sr. Consultant, Raftelis Financial Consultants, Inc.

Date: March 7, 2017

Re: ACWD – Supplemental 2017 Water Rate Update Memorandum

Raftelis Financial Consultants, Inc. (RFC) is pleased to provide this supplemental Water Rate Update Memorandum (Memo) for the Alameda County Water District (ACWD or District) 2017 Water Rate Update Study (Final Report dated January 23, 2017). The 2017 Water Rate Update Study proposed increases to both the service charge and consumption charge of 25% effective March 1, 2017 and 5% effective March 1, 2018. At the February 9, 2017 Public Hearing, after consideration of all public comments and objections to the proposed increases, the ACWD Board of Directors (Board) adopted a rate increase that is 5% lower than proposed by the Final Report. This memorandum summarizes the impacts of the Board’s action and how the District will address the adoption of a lower increase to service charges and consumption charges.

1 Key Changes from Board Directions during the Public Hearing

At the February 9, 2017 Public Hearing, the Board adopted rates with a revenue adjustment of 20% effective March 1, 2017 and 5% effective March 1, 2018, as shown in Table 1. To maintain fiscal solvency, the District will reduce the amounts of the advance funding of pension and OPEB liabilities each year (Table 1) and will extend the advance funding period from 15 to 20 years. The Board recognizes that there are advantages to prefunding these liabilities because the trust assets are invested in a portfolio of stocks and bonds that is expected to yield a higher rate of return than utilizing general operating funds on a pay-as-you-go basis and credit rating agencies will recognize the prefunding of these liabilities as a positive step towards fulfilling the financial obligations of the promised benefits. However, the Board decision also reflects that a 15-year period would require higher cash outlays than the 20-year period and thus, higher water rates, than the originally proposed 15-year period.

Table 1: Pension/OPEB Advance Funding and Adopted Revenue Adjustments

	Pension/OPEB Advance Funding	Effective Date	Revenue Adjustments
FY 2016/17 Adopted	\$0	March 1, 2017	20%
FY 2017/18 Adopted	\$5,182,464	March 1, 2018	5%
FY 2018/19 Estimated	\$4,935,819	February 1, 2019	5%
FY 2019/20 Estimated	\$4,642,702	February 1, 2020	5%
FY 2020/21 Estimated	\$4,781,983	February 1, 2021	5%

2 Updated Financial Plan & Adopted Rates

2.1 Updated Five-Year Financial Plan

With the updated five-year financial plan, the District will maintain debt coverage¹ of at least 200%, which will help the District to maintain its AAA credit rating as shown in Figure 1 and to meet reserve targets² as shown by the orange columns representing General Fund ending balances all being greater than the red reserve target line shown in Figure 2. The financial plan will also increase reserve funds and better prepare the District to absorb unknown costs and liabilities, including uncertainty and volatility in water demand and water supply costs.

Figure 1: Projected Water Debt Coverage Ratios

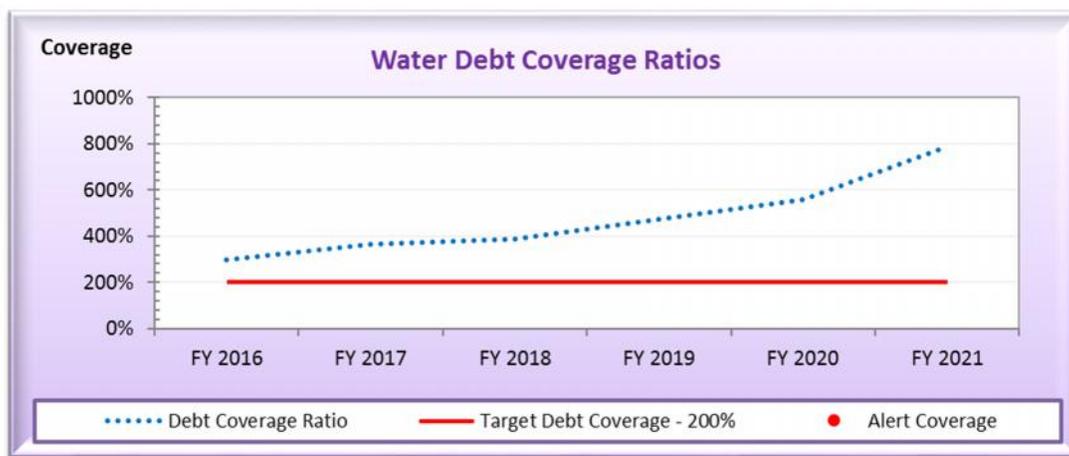
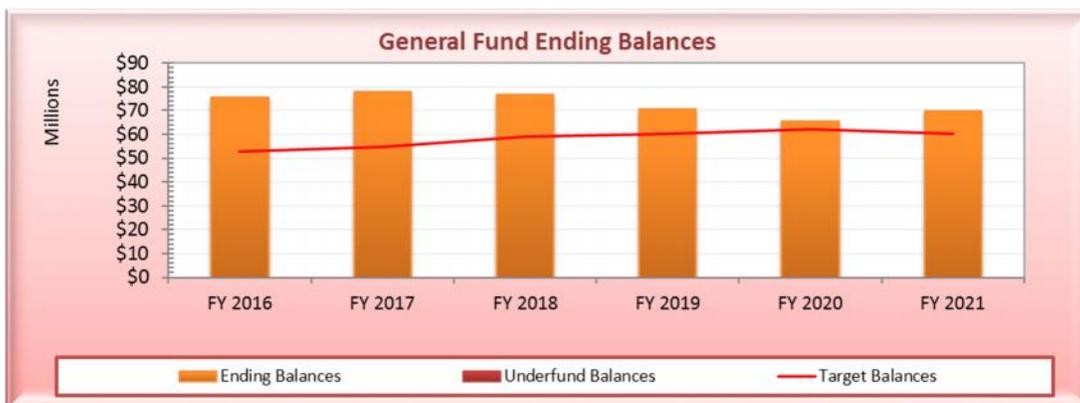


Figure 2: Projected General Fund (GF) Ending Balances



¹ Debt Coverage Ratio = (Net Revenues – Customer Jobs Revenue + Interest Revenues in FIF and RBPF)/ Total Debt Service

² Established by the District’s current financial policy

Table 2 shows numerically the updated five-year financial plan with the adopted and estimated future revenue adjustments and revised advance funding for CalPERS and OPEB as shown in Table 1.

Table 2: Updated Five Year Financial Plan

	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
	<i>Budgeted</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
REVENUES					
Revenues from Current Rates	\$81,730,586	\$84,437,558	\$87,260,149	\$90,203,710	\$93,273,841
Revenue Adjustments	\$5,448,706	\$18,576,263	\$24,978,218	\$31,622,038	\$38,996,919
GW Replenishment Rev	\$452,230	\$452,230	\$452,230	\$452,230	\$452,230
State Water Contract Tax	\$4,402,700	\$6,179,212	\$6,329,571	\$6,314,741	\$6,390,553
Ad Valorem Property Tax	\$4,518,600	\$4,518,600	\$4,518,600	\$4,518,600	\$4,518,600
Interest revenues	\$795,796	\$759,300	\$720,977	\$664,741	\$661,989
Customer Jobs Revenue	\$4,175,840	\$2,507,808	\$2,507,808	\$2,507,808	\$2,507,808
Other Revenues	\$5,510,152	\$1,328,652	\$1,328,652	\$2,249,152	\$2,249,152
TOTAL REVENUES	\$107,034,610	\$118,759,623	\$128,096,204	\$138,533,020	\$149,051,092
EXPENSES					
Water Related Supply Costs	\$30,361,147	\$34,250,260	\$36,297,078	\$39,286,040	\$39,962,337
CalPERS/OPEB Advance Funding	\$0	\$5,182,464	\$4,935,819	\$4,642,702	\$4,781,983
Other O&M Expenses	\$54,272,946	\$57,497,705	\$59,925,154	\$62,471,155	\$64,442,127
TOTAL EXPENSES	\$84,634,093	\$96,930,429	\$101,158,052	\$106,399,896	\$109,186,447
NET REVENUES	\$22,400,517	\$21,829,195	\$26,938,153	\$32,133,124	\$39,864,645
GF CIP Expenditures	\$22,156,035	\$16,613,258	\$27,074,382	\$30,495,694	\$30,145,858
PAYGO	\$17,036,947	\$16,613,258	\$27,074,382	\$30,495,694	\$30,145,858
Existing Debt Financing	\$5,119,088	\$0	\$0	\$0	\$0
New Debt Financing	\$0	\$0	\$0	\$0	\$0
DEBT SERVICE					
Existing Debt Service	\$6,386,406	\$6,373,281	\$6,370,956	\$6,377,406	\$5,529,281
New Debt Service	\$0	\$0	\$0	\$0	\$0
TOTAL DEBT SERVICE	\$6,386,406	\$6,373,281	\$6,370,956	\$6,377,406	\$5,529,281
NET GF CASH BALANCES	-\$1,022,837	-\$1,157,345	-\$6,507,186	-\$4,739,977	\$4,189,506
Beginning GF Balances	\$79,063,033	\$78,040,196	\$76,882,851	\$70,375,666	\$65,635,689
Ending GF Balances	\$78,040,196	\$76,882,851	\$70,375,666	\$65,635,689	\$69,825,195
Target GF Balances	\$54,796,076	\$58,850,742	\$60,244,732	\$61,978,841	\$60,031,528
Debt Coverage Ratio	363%	388%	473%	558%	789%
Target Debt Coverage Ratios	200%	200%	200%	200%	200%

2.2 Adopted Water Rates & Customer Impact Analysis

Adopted service charges and consumption charges effective March 1, 2017 and March 1, 2018 are shown below in Table 3.

Table 3: Adopted Water Rates³

Effective Date	Current Since May 2015	Effective March 1, 2017 20%	Effective March 1, 2018 5%
Adopted Revenue Adjustments			
Service Charges			
5/8-inch	\$41.54	\$49.84	\$52.33
3/4-inch	\$41.54	\$49.84	\$52.33
1-inch	\$64.05	\$76.86	\$80.70
1 ½-inch	\$120.32	\$144.38	\$151.59
2-inch	\$187.84	\$225.40	\$236.67
3-inch	\$401.66	\$481.99	\$506.08
4-inch	\$716.76	\$860.11	\$903.11
6-inch	\$1,808.37	\$2,170.04	\$2,278.54
8-inch	\$3,158.81	\$3,790.57	\$3,980.09
10-inch	\$4,734.31	\$5,681.17	\$5,965.22
Consumption Charges			
Inside District	\$3.373/CCF	\$4.047/CCF	\$4.249/CCF
Outside District	\$3.878/CCF	\$4.653/CCF	\$4.885/CCF

Figure 3 shows the water bills of single-family residential customers with 3/4" meter for a bimonthly billing period at various water consumption levels under current and proposed rates. Single-family residential users at all consumption levels will see a 20% increase in their bimonthly bills. Currently, average single-family residential customers consume 16 CCF per two-month billing period (approximately 200 gallons per day). Therefore, as shown in Figure 3, average residential customers will experience a \$19.08 bimonthly (\$9.54 per month) increase in costs for their water service.

³ Rates are rounded down to the nearest \$0.01 for bimonthly meter service charge and \$0.001 for consumption charge.

Figure 3: Single Family Customer Bill Impact Analysis

