

Staff Report

for the Water Rates Committee Meeting of August 24, 2020

TO: Water Rates Committee

FROM: Greg Jones, Interim General Manager
Marvin Davis, MBA, CPA, Finance Manager/Treasurer

DATE: August 19, 2020

SUBJECT: Water Rates

FINANCE

RECOMMENDATION:

Advance a rate-setting recommendation to the Board of Directors as appropriate.

BACKGROUND:

During the April 24, 2019 Board Meeting, the General Manager was directed to develop a detailed COS study that includes specific cost allocations between raw and treated water customers.

As a result of this request, staff, along with consultant Bartle Wells Associates, presented the first phase of a COS report at a Board workshop held on February 26, 2020. On March 11, 2020, the Board received and filed this first phase COS report. Also at this meeting, the Board formed the ad hoc Water Rates Committee (the "WRC") to develop further phases of a COS study and, eventually, new proposed water rates based upon the reports.

The COS report filed on March 11 identifies the cost to maintain water delivery infrastructure based on an assessment of various NID water system zone costs. It is not a full "cost of service" study that would then be used as the sole justification for a Proposition 218 rate setting event. It is thus called the first phase COS study because it identifies the system operating costs associated with raw water vs. treated water systems, but it does not adequately allocate administrative costs to the District's overall cost to run, operate and manage its raw and treated water systems.

The WRC was tasked to work on a new, defensible Proposition 218 rate package, with the starting point being the 2020 first phase COS report. The WRC met on

June 30 and determined it required specific direction from the full Board on a number of budgetary assumptions and considerations.

On July 7, 2020 the WRC sought direction from the Board to direct staff and the Water Rate Committee to continue with the development of a potential Proposition 218 rate package for future consideration. At this meeting, the Board gave direction to the WRC to determine:

- An allocation basis used to allocate costs among the District's customer base – Zone / # Accounts / Hybrid
- How much cost to recover in the District's base rate and how much to recover in the District's commodity rates
- An acceptable level of Hydroelectric revenues to subsidize water operating costs
- An acceptable level, if any, of property taxes used to service debt

The WRC continued to meet on July 16, July 28 and discussed the potential to implement NID's current, legally defensible 3-year rate package which was approved in 2019 and allows NID to implement the third year of a 3-year rate package on January 1, 2021.

Today, staff will present that through 2021 budget reductions, delaying some operational expenses and the use of some property tax for debt service, that NID need not rush a new Proposition 218 process in the fall of 2020.

Based on discussions thus far, it is evident that more dialogue and consideration is needed prior to initiating a new Proposition 218 process. The Water Rates Committee, as discussed, can continue to meet as needed and at least once monthly to discuss a variety of essential rates package topics which influence customer rates, including rate package term, reserve balance growth, budget expense reduction opportunities, opportunities to increase other revenue sources, opportunities ensure continued affordability of water, including for agricultural users, and appropriate methods to incorporate administrative costs into a future rates package.

Strategic Goal

The implementation of the appropriate rate structure achieves Goal Number 1 of the District's Strategic Plan by demonstrating proactive management of our financial resources.

BUDGETARY IMPACT:

To be discussed