



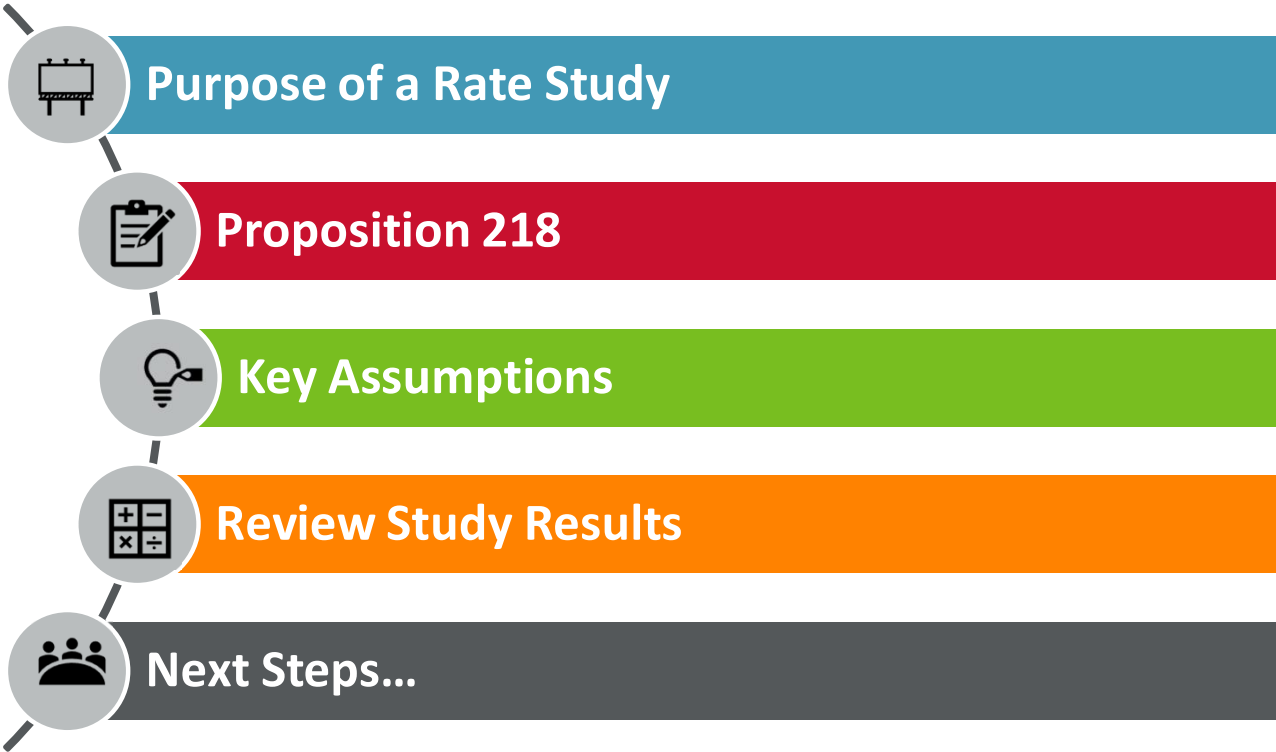
# Talmont Resort Improvement District

## Draft Rate Study Results

**May 23, 2023**

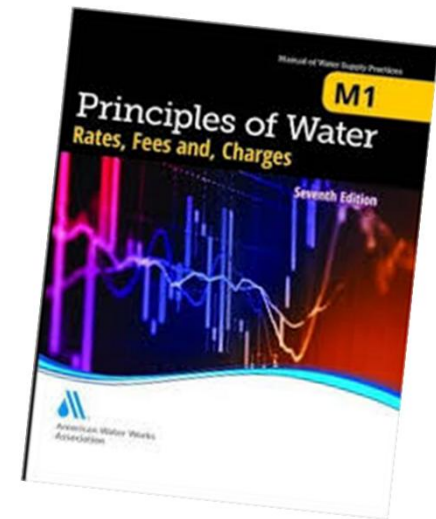


# Overview of the Presentation



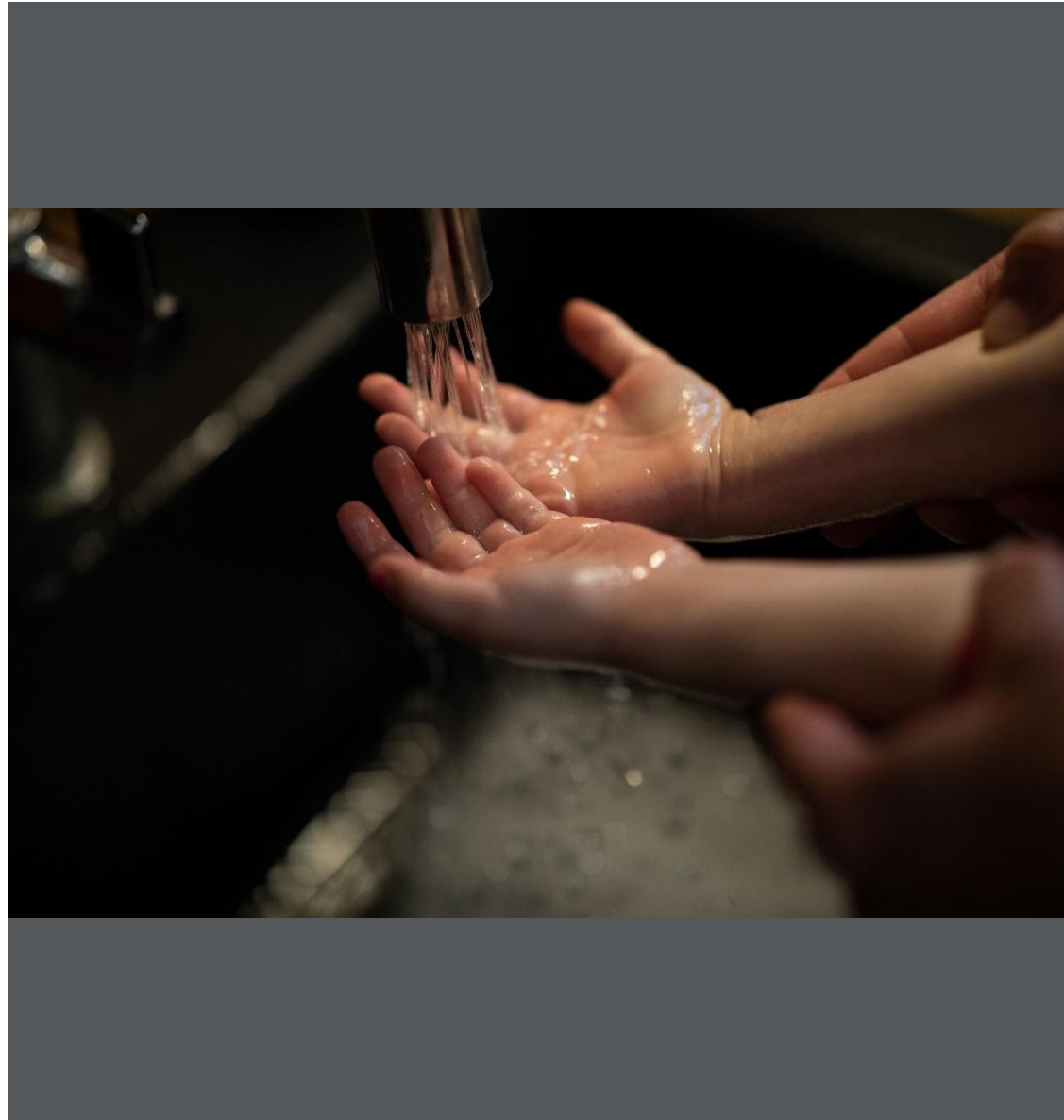
## Purpose of a Rate Study

- Provide an adequate level of rate revenue to operate and maintain the District's water utility
- Develop the rate study using generally accepted methodologies tailored to the District's water utility and unique customer characteristics
- Reflect prudent financial planning criteria
  - Maintain target debt service coverage (DSC) ratio
  - Prudent rate funding of capital
  - Meet target reserve balances
- Develop cost-based water rates
  - Meet the intent of Proposition 218



## Proposition 218

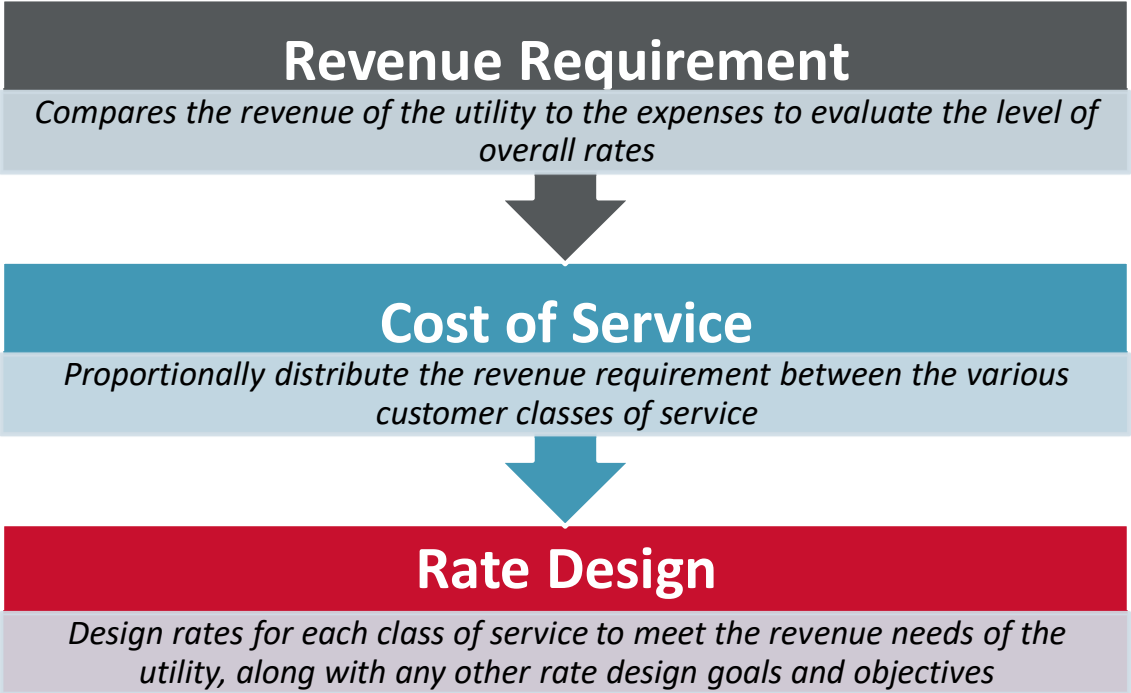
- Provides the requirement for setting and implementing property related rates and fees
  - California constitution Article XIII D
- Requires a cost basis for establishing the level of the rates
- Requires a customer notification process and protest hearing
- If no majority protest (50% + 1), the governing body may implement the proposed rates



## Key Assumptions of the Study

- Calculated annual revenues based on current rates and customer statistics
- Started with the District's FY 2023 and FY 2024 budgets (excluding snow removal costs)
  - Projected based on escalation factors for FY 2025 through FY 2028
- Utilized the District's capital improvement plan
  - Developed capital funding plan (rates, reserves, etc.)
- Cost of service test year is FY 2024 to develop proposed rates for year 1
  - 5-year transition plan (FY 2024 through FY 2028)

# Developing Cost-Based Water Rates





Revenue Requirement

# Overview of the Water Revenue Requirement

## Compares utility revenues to expenses

- Determines the level of revenue (rate) adjustment necessary

## Uses prudent financial planning criteria

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

## Reviews a specific time period

- Typically, review a five-to-ten-year period
- Rate setting is often 2 – 5 years

## Utility is analyzed on a “stand-alone basis”

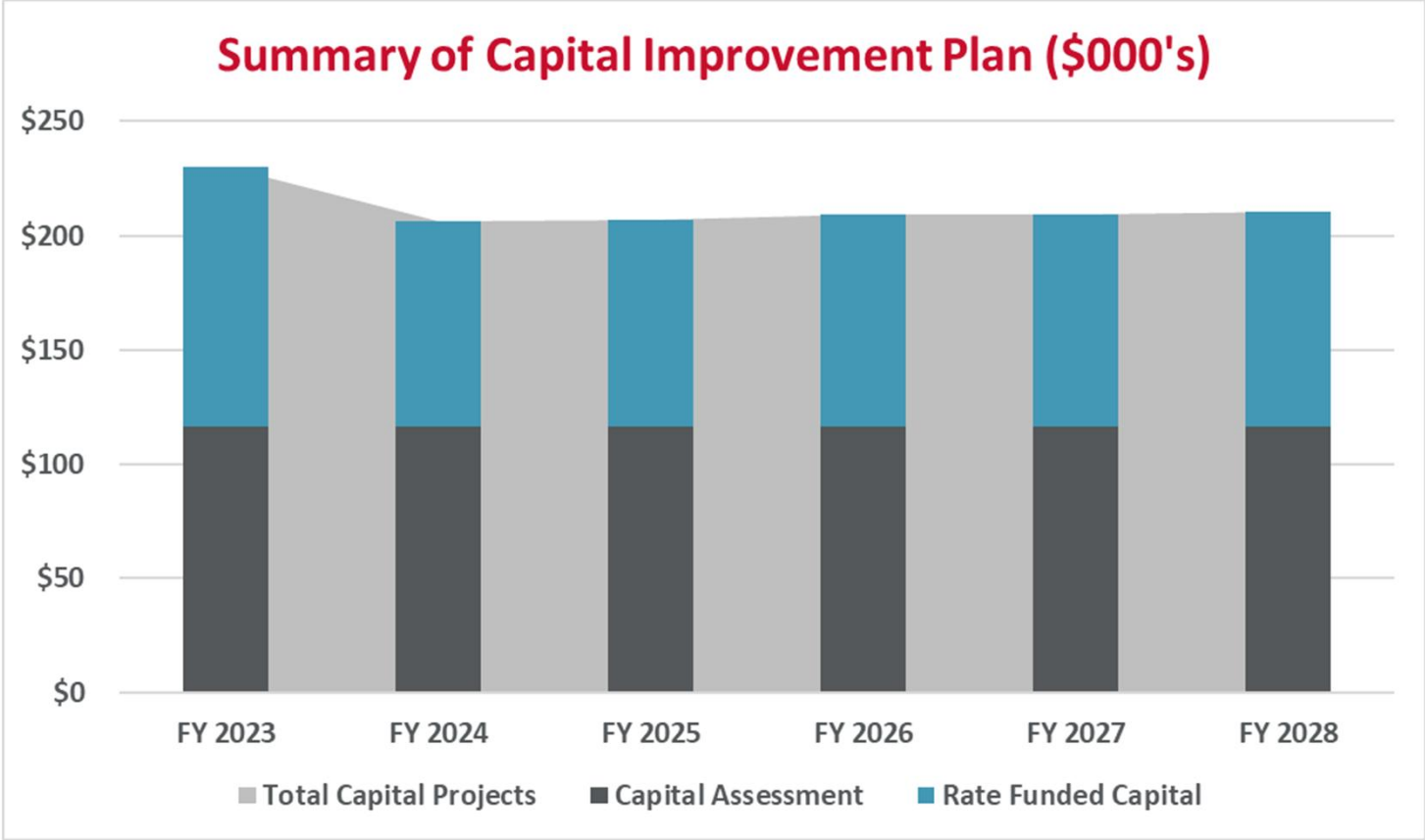
- No transfer of funds from other District funds
- Rates need to support operations and capital

## Utilizes the “cash basis” methodology

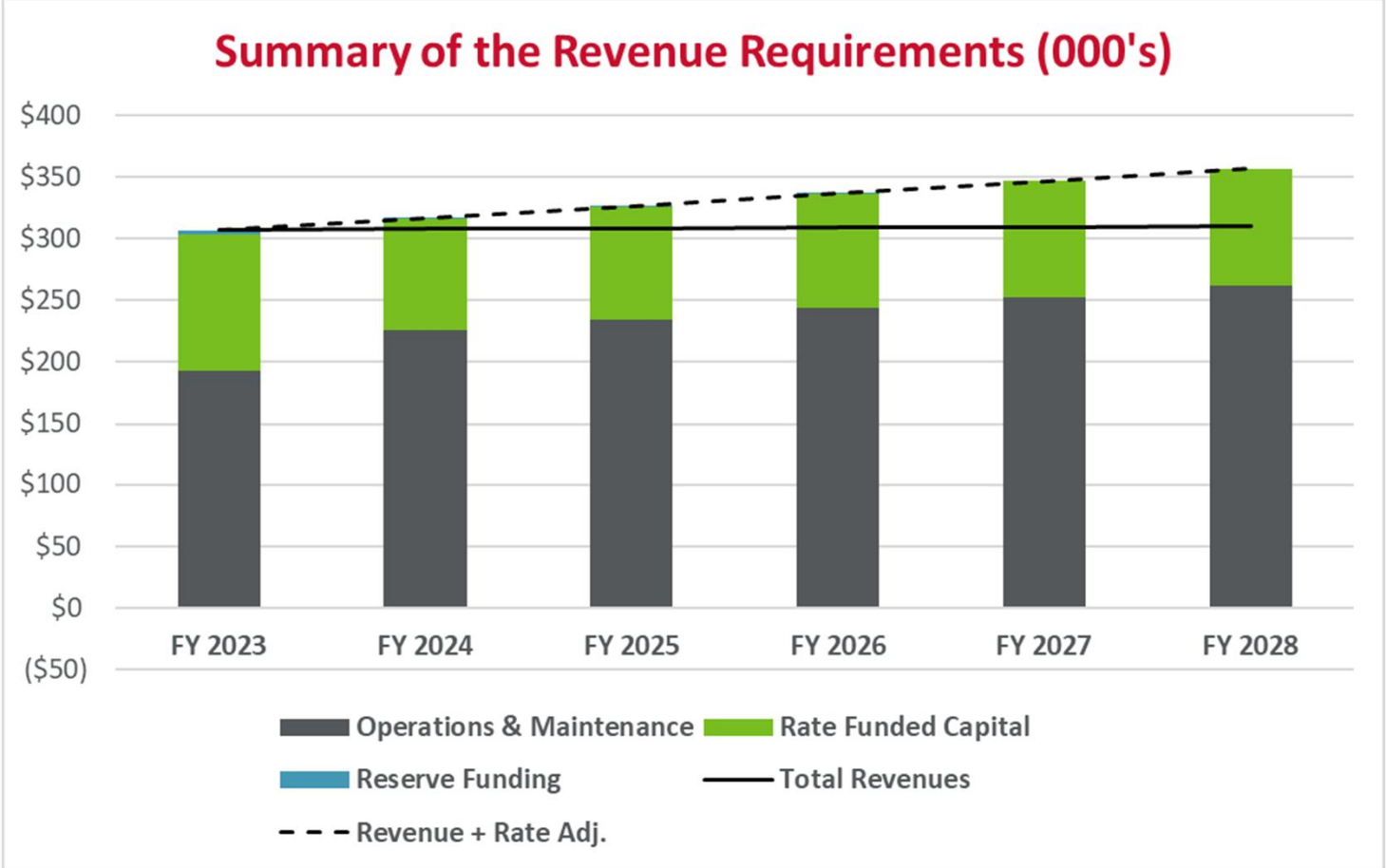
- Generally accepted method for municipal utilities



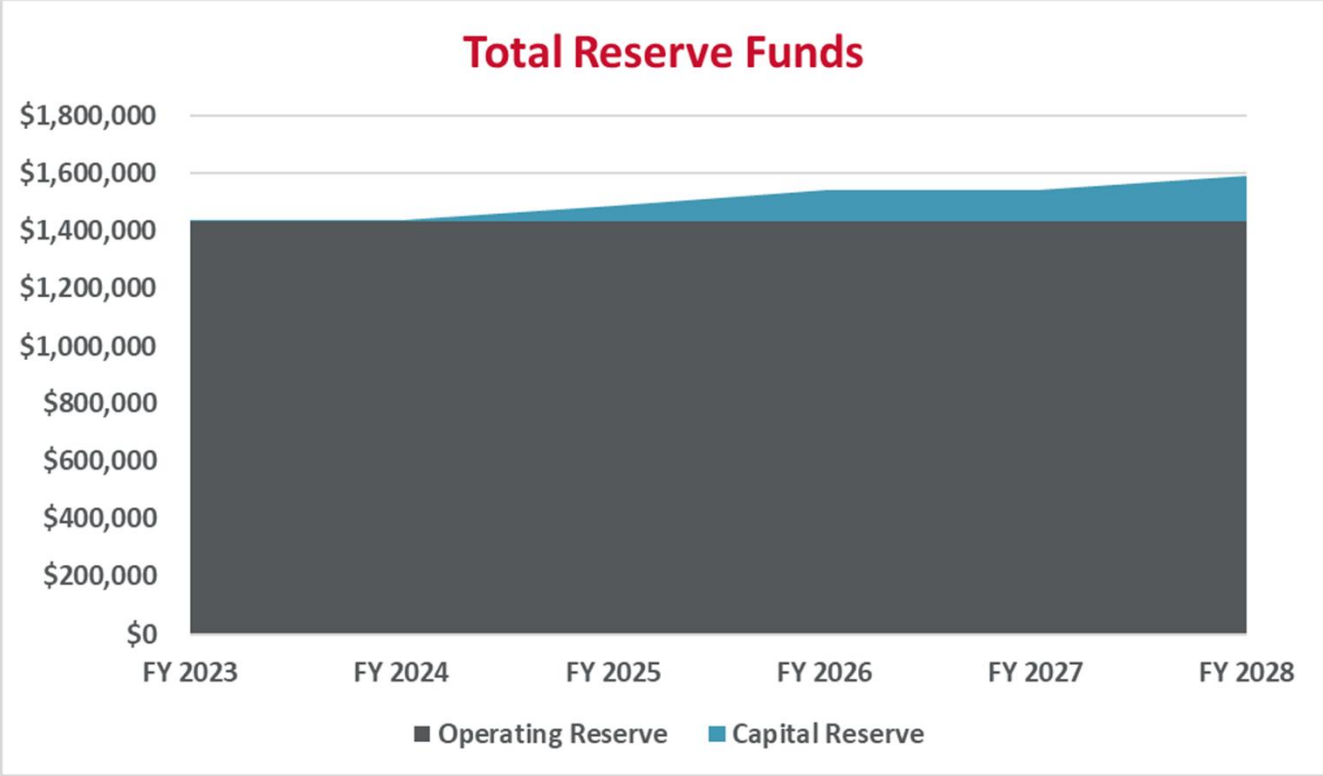
# Revenue Requirement - Capital Improvement Plan



# Revenue Requirement - Summary



# Revenue Requirement - Reserve Levels



# Revenue Requirement - Impacts

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
<i>Proposed Rate Adjustment</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.0%</i>	<i>3.0%</i>

- Rate adjustments are necessary to fully fund water utility
  - O&M expenses
  - Capital improvement funding
  - Maintain prudent reserve levels
- Multi-year rate adjustments are proposed in order to provide a smooth transition of rates



**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

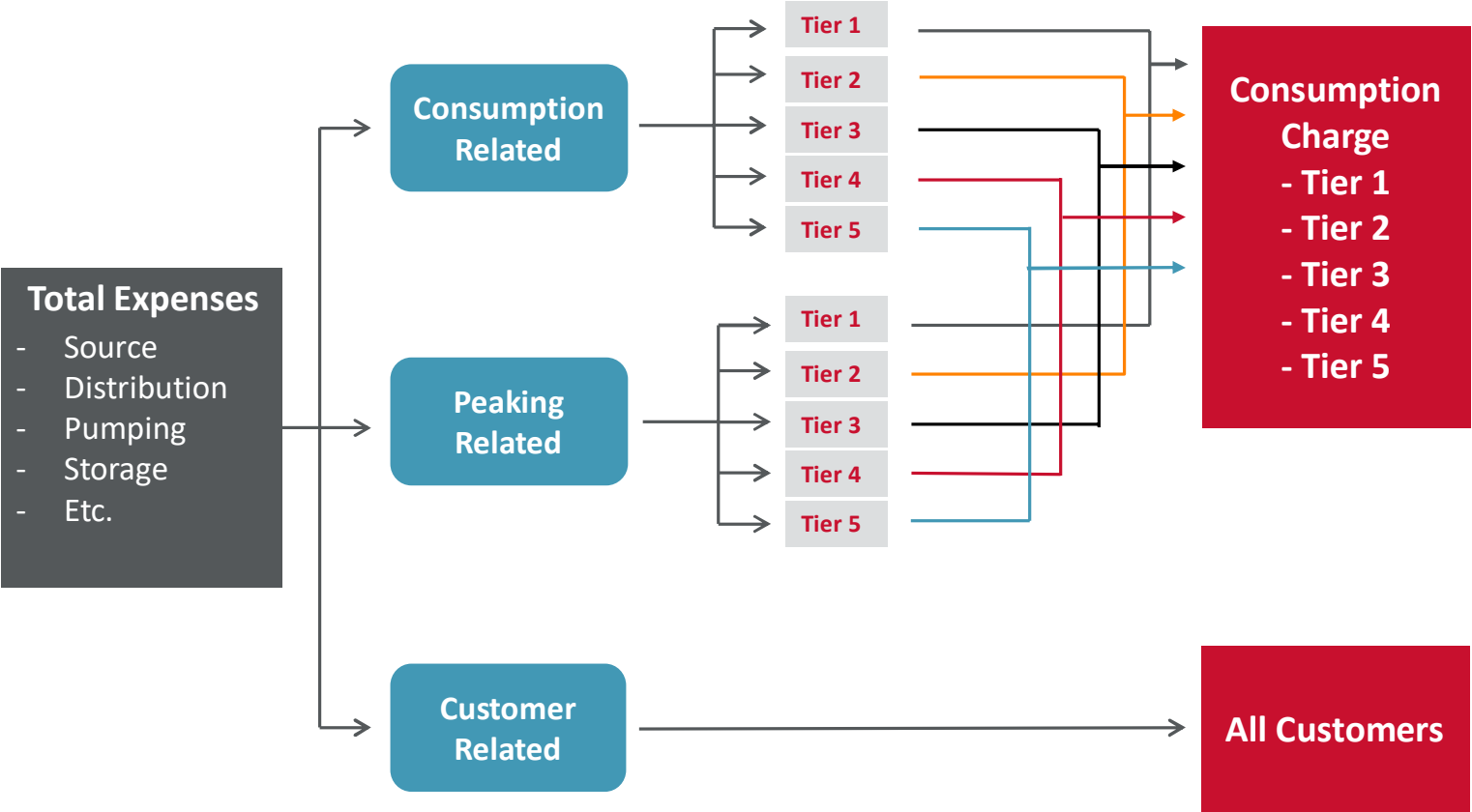
## Why cost of service

- Generally accepted as “proportional and equitable”
- Avoids subsidies
- Revenues reflect costs
- Meets the intent of Proposition 218

## Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

# Water Cost of Service Methodology



# Cost of Service Summary

- Cost of service analysis provides the basis for the proposed rates
  - Based on customer characteristics and facility requirements
- Results show the need for minor cost of service of service adjustments
  - Reflect cost of service results to meet the requirements of Prop 218

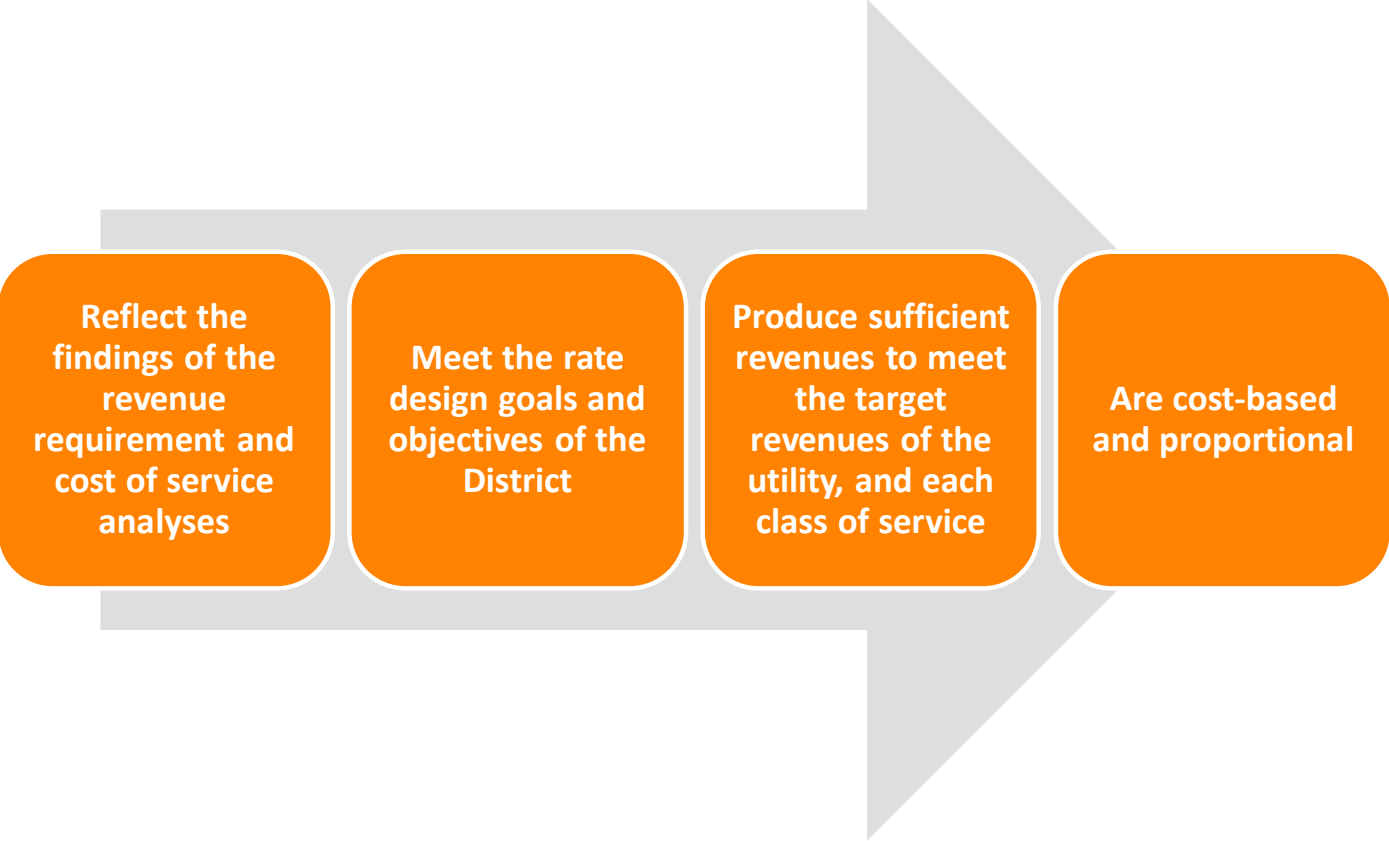
Average Unit Costs – FY 2024			
<b>Customer</b>	<i>Actual Customer</i>	<i>RR / FP / DA</i>	<i>Total</i>
Actual Customer	\$173.90	\$6.88	<b>\$180.77</b>
<b>Consumption</b>	<i>Commodity</i>	<i>Capacity</i>	<i>Total</i>
Tier 1	\$1.22	\$0.98	<b>\$2.20</b>
Tier 2	\$1.22	\$1.65	<b>\$2.86</b>
Tier 3	\$1.22	\$1.88	<b>\$3.09</b>
Tier 4	\$1.22	\$1.97	<b>\$3.19</b>
Tier 5	\$1.22	\$2.08	<b>\$3.29</b>





Rate Design

# Key Components of the Rate Design



## Rate Design Summary

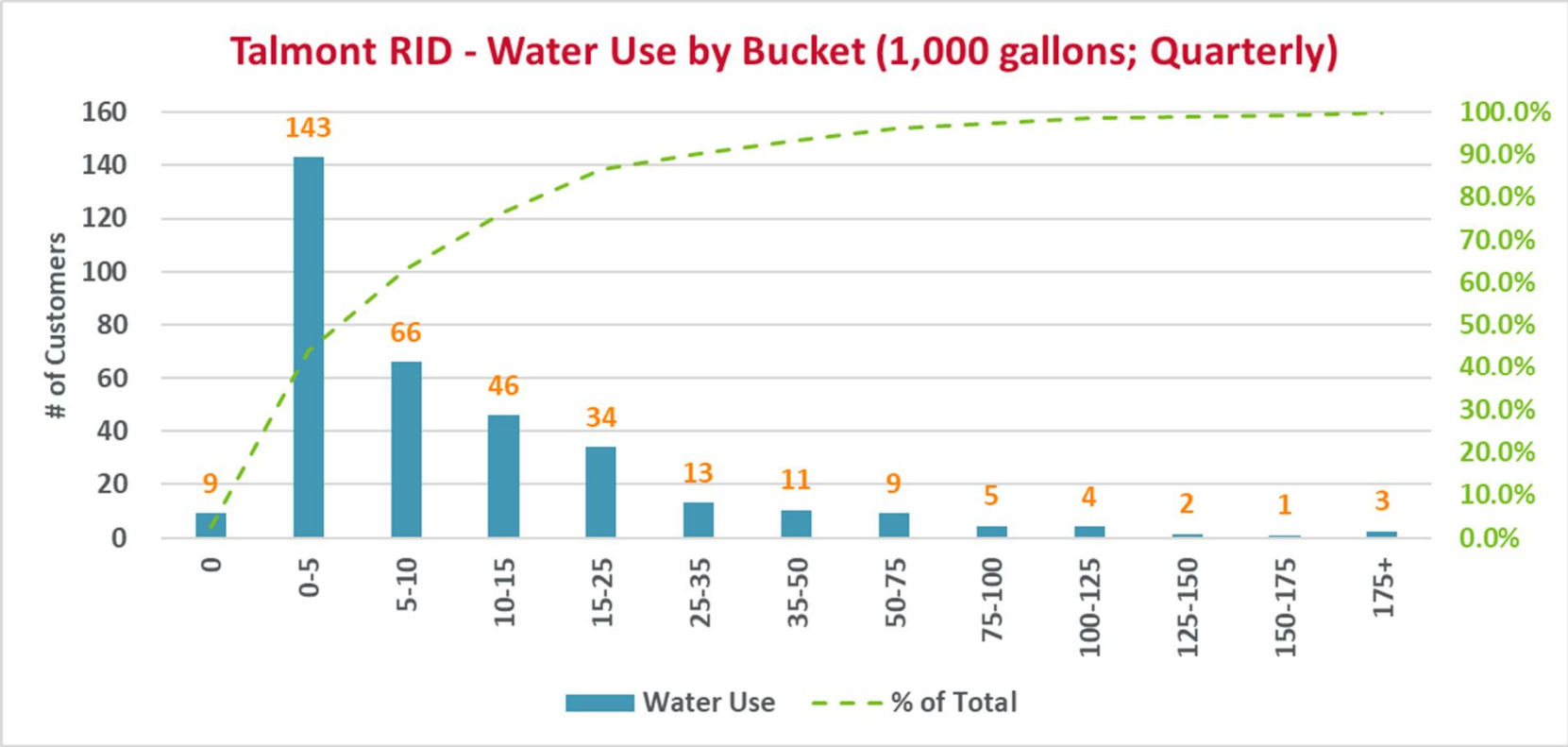
### ■ Current Rates

- Fixed quarterly charge
  - Includes first 24,000 gallons / quarter
- 5-tier consumption charge - fixed charge per tier
  - Over 150,000 gallons / quarter charged per 1,000 gallons

### ■ Proposed Rates

- Fixed quarterly charge
  - No amount included
- 5-tier consumption charged on a per 1,000 gallon basis

# Rate Design – Customer Consumption Characteristics



# Rate Design – Proposed Rates

	<i>Present</i>	<i>Proposed</i>				
	<i>Rates</i>	<i>FY 2024</i>	<i>FY 2025</i>	<i>FY 2026</i>	<i>FY 2027</i>	<i>FY 2028</i>
<b>Service Charge</b>	<b>\$ / Acct. / Qtr</b>					
All	\$193.98	\$180.77	\$186.19	\$191.78	\$197.53	\$203.46
<b>Water Use</b>						
<i>Count of Customers</i>	<b>\$ / Per</b>					
0 - 24,000	\$0.00	--	--	--	--	--
24,000 - 42,000	54.71	--	--	--	--	--
42,000 - 96,000	104.45	--	--	--	--	--
96,000 - 150,000	203.93	--	--	--	--	--
150,000 +	593.21	--	--	--	--	--
<i>Sum of Gallons</i>	<b>\$ / 1,000 gal</b>					
0 - 24,000	\$0.00	\$2.20	\$2.26	\$2.33	\$2.40	\$2.47
24,000 - 42,000	0.00	2.86	2.95	3.04	3.13	3.22
42,000 - 96,000	0.00	3.09	3.19	3.29	3.39	3.49
96,000 - 150,000	0.00	3.19	3.28	3.38	3.48	3.58
150,000 +	2.16	3.29	3.39	3.49	3.59	3.70

# Next Steps

- Public Hearing (today)
  - Board can move forward with adopting the proposed rates, if no major protest (50% + 1)
- Finalize the rate study
- Implement adopted rates (July 1, 2023)

**Thank you for your input!**

