

SOUTH PLACER MUNICIPAL UTILITY DISTRICT
STAFF REPORT

To: Board of Directors

From: Herb Niederberger, General Manager

Cc: Eric Nielsen, Superintendent
Carie Huff, District Engineer
Emilie Costan, Administrative Services Manager

Subject: Cost of Service Rate Study Workshop #2

Meeting Date: February 2, 2023

Overview

In accordance with the Municipal Utility District Act of the State of California (MUD Act) and South Placer Municipal Utility District Sewer Code, the District collects a monthly service charge from property owners within its service area to fund wastewater collection and treatment services. On July 7, 2022, the Board approved Resolution 22-29, awarding a Contract for a Wastewater Rate and Participation Fee Study to IB Consulting, LLC.

The substantive requirements of Article XIII of the California State Constitution (Prop 218) require the District to comply with the following conditions:

- Revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service.
- Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
- No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question.
- No fee or charge may be imposed for general governmental services, such as police or fire services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The current rate of \$36/month has been in effect since July 1, 2019. IB Consulting has determined that the current rate does not provide sufficient revenues to fund necessary operations, maintenance, and regulatory programs, as well as capital investment and reserves to meet the utility's stated needs.

IB Consulting met with the Fee and Finance Advisory Committee on November 16, 2022, to review the cost of service and District's long-term annual revenue requirements. On January 12, 2023, the Board of Directors conducted a Long-Term Financial Plan Workshop during which IB Consulting presented an overview of the financial needs of the District, reserve needs, cost-of-service and proposed rates. The Board directed that:

- The reserve components be revised to eliminate the Revenue Stabilization Reserve and lower the Emergency Reserve from \$3 million to \$1 million; and
- Rate Scenario #3 - Rate increases every other year over a 5-year period with or without a possible debt issuance in 2033 and Scenario #4 - Rate increases every year over a 5-year period with a possible debt issuance in 2033 be further evaluated.

There was additional discussion that the model did not factor growth into the revenue projections. IB Consulting responded that the financial model ensures full cost recovery from existing active accounts, so the District does not need to rely on growth to occur to meet its annual revenue requirements. The financial plan model should be updated each year to capture new accounts that have come online which may allow the District to implement a rate slightly lower than what was noticed. Doing so provides the benefit of growth to all customers based on actual connections and not an assumed expectation. The District is substantially built out and the only time period that would assume growth is during master plan development moving through multiple phases. Please note that the process dictated by Prop 218 sets a rate ceiling. The District may always implement a lower rate within the 5-year period but cannot increase the rate without going through a full cost-of-service study and Prop. 218 noticing.

After the board meeting on January 12th, IB Consulting indicated to staff that a comparison of Scenarios #3 and #4 is not a direct comparison and therefore revised Scenario #3 to also incorporate a future debt issuance in 2023. The analysis indicates that there is no difference in the needed revenue without or without debt issuance in Scenario #3 in the early years, years 1 through 5, diverging in future years. The 5-year rate schedule for Scenario 3 is shown with or without debt.

A comparison of the rate increase scenarios is included with this report as Attachment 1. Also included in the comparison are calculations indicating the typical monthly bill for various customer groups under each rate scenario.

Recommendation

Staff recommends that the Board of Directors

- 1) Consider public comments and Board deliberation.
- 2) Indicate to staff the preferred rate scenario; and
- 3) Direct staff to incorporate the preferred rate scenario into a final Cost of Service Rate Study to be brought before the Board on March 2, 2023 for use in the Prop 218 Notice to Customers.

Strategic Plan Goal

This action is consistent with the following SPMUD Strategic Plan Priorities:

Provide exceptional value for the cost of sewer service

- 1) Maintain low service charge while meeting established service levels

Fiscal Impact

This Board action by itself does not have a financial impact. The final Cost of Service Rate Study will result in increased revenue recognized in Fund 100 – General Fund.

Attachments:

1. Proposed Rate Schedules under each scenario with typical monthly rates among various uses assuming reduction of Rate Stabilization Reserve to zero and Emergency Reserve to \$1 Million.

Attachment 1 - Proposed Rate Schedules under each scenario with typical monthly rates among various uses assuming reduction of Rate Stabilization Reserve to zero and Emergency Reserve to \$1Million

Scenario #3 - Typical monthly bill with rate Increases every other year over a 5-year period with or without a possible debt Issuance in 2033

	Date	Monthly Service charge/EDU	Single Family Residential	Restaurant	Retail Store	Medical Office	Hotel/Motel
% increase			1 EDU	2000sf at 2 4 EDU	4000sf at 1/3 1.33 EDU	4000sf at 2/3 2.67 EDU	100 units @1/2 50 EDU
13%	Current	\$ 36.00	\$ 36.00	\$144.00 /month	\$ 47.88 /month	\$ 96.12 /month	\$1,800.00 /month
	Eff 7/1/23	\$ 40.73	\$ 40.73	\$162.92 /month	\$ 54.17 /month	\$108.75 /month	\$2,036.50 /month
	Eff 7/1/24	\$ 40.73	\$ 40.73	\$162.92 /month	\$ 54.17 /month	\$108.75 /month	\$2,036.50 /month
9%	Eff 7/1/25	\$ 44.40	\$ 44.40	\$177.60 /month	\$ 59.05 /month	\$118.55 /month	\$2,220.00 /month
	Eff 7/1/26	\$ 44.40	\$ 44.40	\$177.60 /month	\$ 59.05 /month	\$118.55 /month	\$2,220.00 /month
9%	Eff 7/1/27	\$ 48.40	\$ 48.40	\$193.60 /month	\$ 64.37 /month	\$129.23 /month	\$2,420.00 /month

Scenario #4 - Typical monthly bill with rate Increases every year over a 5-year period with a possible debt Issuance in 2033

	Date	Monthly Service charge/EDU	Single Family Residential	Restaurant	Retail Store	Medical Office	Hotel/Motel
% increase			1 EDU	2000sf at 2 4 EDU	4000sf at 1/3 1.33 EDU	4000sf at 2/3 2.67 EDU	100 units @1/2 50 EDU
	Current	\$ 36.00	\$ 36.00	\$144.00 /month	\$ 47.88 /month	\$ 96.12 /month	\$1,800.00 /month
8%	Eff 7/1/23	\$ 38.87	\$ 38.87	\$155.48 /month	\$ 51.70 /month	\$103.78 /month	\$1,943.50 /month
4%	Eff 7/1/24	\$ 40.43	\$ 40.43	\$161.72 /month	\$ 53.77 /month	\$107.95 /month	\$2,021.50 /month
4%	Eff 7/1/25	\$ 42.05	\$ 42.05	\$168.20 /month	\$ 55.93 /month	\$112.27 /month	\$2,102.50 /month
5%	Eff 7/1/26	\$ 44.16	\$ 44.16	\$176.64 /month	\$ 58.73 /month	\$117.91 /month	\$2,208.00 /month
5%	Eff 7/1/27	\$ 46.37	\$ 46.37	\$185.48 /month	\$ 61.67 /month	\$123.81 /month	\$2,318.50 /month